REGISTERED NUMBER: 00045618

MISSOURI TOPCO LIMITED

DIRECTORS’ REPORT AND FINANCIAL STATEMENTS

53 WEEKS ENDED 29 February 2020

MISSOURI TOPCO LIMITED

CONTENTS

MISSOURI TOPCO LIMITED

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MISSOURI TOPCO LIMITED

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020

The directors present their annual strategic report and the audited financial statements for the 53 weeks ended 29 February 2020.

Overview

The 53 weeks to 29 February 2020 was a challenging one overall, with Brexit uncertainty and weak consumer confidence impacting on customer spending habits. The Group achieved Earnings before interest, tax, depreciation and amortisation ("EBITDA") before exceptional items of £183.0m (2019: £102.4m). See note 8 to the financial statements for EBITDA reconciliation to the statutory results. The implementation of the IFRS 16 accounting standard during the period increases EBITDA, and so the comparable IAS 17 figure would have been £80.3m (2019: £102.4m). See note 8 for a reconciliation of IFRS 16 EBITDA to IAS 17 EBITDA.

It should be noted that the year to 29 February 2020 incorporates 53 weeks compared to 52 weeks in the prior year. The overall effect of this is to increase both sales and expenses. Consequently the business review below compares a 53 week year in 2020 to a 52 week year in 2019.

Business Review

Revenue for the 53 weeks ended 29 February 2020 was £1,129.4m (2019: £1,103.9m), with sales growth being driven by the additional trading week and strong online growth, offset slightly by a modest reduction in store sales. Online growth continued strongly at 24.3% growth as we continued to improve the customer journey, introduce mobile shopping and grow our online customer base.

Gross profit before exceptional items was £129.8m (2019: £128.4m). Gross profit including exceptional items was £128.8m (2019: £128.4m) The impact of currency was largely neutral year on year, however we incurred significant levels of additional discounting in the year as a result of a very challenging retail market and some specific ranging issues. We continued to improve our cost productivity within both selling and distribution costs despite ongoing wage rate inflation.

Administrative expenses, before exceptional items, were £58.9m (2019: £59.5m). Administrative expenses, including exceptional items, were £59.5m (2019: £61.0). During the year savings were delivered within staff costs as we continued to invest in improvements to our systems and ways of working.

Exceptional items included in operating profit total £1.0m of costs of sales and £0.6m of administrative expenses (2019: £1.5m of administrative expenses). Refer to note 29 to the financial statements for more details.

Operating profit, before exceptional items, was £70.9m (2019: £68.9m). Operating profit including exceptional items was £69.3m (2019: £67.4m).

Net finance costs were £87.6m (2019: £37.3m), the increase driven by first time inclusion of IFRS 16 related interest charges. Refer to note 5 to the financial statements for more details.

The statutory loss after tax under IFRS 16 was £16.8m (2019: £23.5m profit under IAS 17).

Additions to property, plant and equipment of £29.5m (2019: £33.8m) and intangible assets of £20.1m (2019: £18.1m) during the period include investment in ongoing store refurbishment, warehouse management and trading system upgrades, supply chain reconfiguration and the mobile app.

Development and performance of the business

Matalan’s ambition is to be the go to value brand at the heart of family life. We aim to develop and grow the business by maintaining a clear focus on the following strategic areas:

1) Deepening our connection with new and existing customers
2) Increasing product choice
3) Delivering seamless experiences to make shopping easy
4) Driving efficiency and responsiveness in our sourcing and supply
5) Working in the right way for our communities and the environment
6) Enhancing how colleagues work together to be their best.

Deepening our connection with new and existing customers

We have a well established relationship with over 10 million active customers and have continued to invest in technology to further enhance our ability to personalise and better automate both communications and rewards via our mature loyalty scheme. An improved mobile app is planned to become the new digital home for the loyalty scheme, aiding engagement, frequency and customer value.

We have a frequent and mass market reach across multiple marketing channels including TV, social media and printed editorial content. However, we believe there is an opportunity to help potential customers to better understand our proposition. In Spring 2020 we have re-launched our brand via a disruptive “Real Life Ready” campaign across all marketing channels, in our stores, and via all digital customer touch points. This will engage new and existing customers alike.

Increasing product choice

We offer a clear range and sub-brand architecture from value lines within “Good” through “Better” and “Best”, whilst maintaining iconic opening price points to anchor the value proposition and overall brand positioning.

Our ongoing refurbishment programme improves space efficiency within our stores, enabling us to provide additional choice, either within existing or new and adjacent categories. We enter new categories either by developing our own ranges, or by partnering with established retailers via concessions. In addition, we also offer exclusive product options via our online channel to provide further choice to our customers.

We are currently developing a direct delivery capability which will allow us to offer additional third party products online that are delivered directly to customers without passing through our supply chain.

Delivering seamless experiences to make shopping easy

We continue to invest in our store estate, both new and existing, as well as our website in order to make our proposition easier and more convenient to shop. We have opened five new stores in the current financial year, including some smaller and more central formats that will help us further penetrate customer catchments. We have also enabled out stores to become collection points for third party parcels, including those from Amazon, creating more value and convenience for customers. During the year we have conducted a successful trial of assisted check outs in our stores. This offers customers added speed and convenience whilst improving our cost productivity. We intend to roll this across the store estate in the coming year.

We have an established international presence via operations with our franchise partners and continue to open stores in existing regions, in addition to signing up new territories which in the current year have included Egypt, Morocco, and Georgia.

Development and performance of the business (continued)

Delivering seamless experiences to make shopping easy (continued)

The functionality of our website and mobile app continues to be an area of focus and investment with further improvements made to search, payment, and navigation flows. This focus will continue as we acquire more customers into the online channel and foster shopping patterns across multiple channels to optimise customer value.

Driving efficiency and responsiveness in our sourcing and supply

During the year we have invested in an upgraded Warehouse Management System (WMS) which has become operational in Spring 2020. This provides added operational resilience, supports greater efficiency within our warehouse network, and enables a greater number of online fulfilment options for customers. We have also begun testing the ability of RFID (radio frequency identification) to enable us to fulfil online orders from store inventory. This would significantly increase our online capacity and reduce the fulfilment costs of the online channel.

We have a clear sourcing strategy focussed on continuing to work with our suppliers to enable greater flexibly and shorter lead times. This strategy involves new technologies, collaboration with strategic partners, alternative shipping methods, ‘open to buy’ management and the on-boarding of alternative suppliers and sourcing territories.

Working in the right way for our communities and the environment

Matalan remains proud of its family values which define it as a business and the way in which it operates as an ethically and environmentally responsible and sustainable retailer. We are proud of being a responsible and caring employer, with the wellbeing of our colleagues at the heart of everything we do. In addition, each year we raise significant sums for charity through our local and national partnerships.

Enhancing how colleagues work together to be their best

The Group continues to focus on managing costs and driving efficiencies across the business by optimising its organisational structure and evolving its operating model. During the year we have established a continuous improvement function covering the areas of retail, supply chain and trading to support and drive opportunities for the identification and execution of potential improvements to processes, systems, and ways of working across the business.

In the current year we have invested in replacing and upgrading our trading systems to enhance our ability to be agile in our decision making and optimise the outcomes from our trading activities. These systemic investments also support us in evolving our organisational structure to a leaner, more efficient model.

Principal risks and uncertainties

The responsibility of monitoring financial risk management and treasury responsibilities and procedures lie with the board of directors. The policies set by the board of directors are implemented by the Group’s finance department.

The risks below are the principal risks that may impact the Group in achieving its strategic objectives.

COVID-19

At the time of writing the global spread of COVID-19 has caused widespread consumer and economic disruption. Within the UK all stores selling items deemed to be non-essential were required to close on 24th March 2020 with English and Northern Irish stores gradually reopening from 18 May 2020, a closure period of 8 weeks. Our Scottish stores commenced reopening, also ahead of the wider unlocking of retail in Scotland on 12 June 2020. The online channel was able, following appropriate precautions being taken, to trade through the store closure period. The Board took immediate action to mitigate the impacts of the store closures as far as possible which included reducing stock commitments, costs and capital expenditure, and accessing all available Government support including business rates relief, the Coronavirus Job Retention Scheme and Coronavirus Large Business Interruption Loan Scheme.

COVID-19 could potentially cause risks to materialise, or come closer to materialising in any of the following risk areas.

Economic Conditions - the Group operates in a highly competitive industry. The outlook for the UK and global economy, consumer confidence and spending patterns may impact our ability to deliver growth.

The board of directors reviews performance and ensures that management is focussed on key priorities and cost control to mitigate this risk.

Brand & Reputation - failure to meet our customer and/or stakeholder expectations impacts the Matalan brand, customer loyalty and market share.

The Group has an ethical sourcing policy and works closely with customers, performing frequent surveys and feedback sessions, to understand how to best meet their needs.

Suppliers or Third Parties - failure of a key supplier or third party would impact the service that the Group can provide to its customers. Sustained supplier cost price increases as a result of rising raw material costs, labour costs and transport costs would place pressure on margins.

The Group manages its exposure by working closely with its suppliers and third parties to ensure it can offer the best value to its customers. The Group monitors the stability of its supply base closely and works with suppliers and third parties to identify any issues on a timely basis.

Supply Chain – operational issues within the supply chain would impact the service that the Group can provide to its customers.

The Group manages its exposure by having an experienced management team, monitoring performance of all aspects of the supply chain and working in line with industry best practice.

Liquidity Risk - any impact on available cash and liquidity could have a material effect on the business and its result.

The Group actively maintains a mixture of long-term and short-term debt finance, which is designed to ensure that the Group has access to sufficient available funds for ongoing working capital needs as well as planned capital investment and expansion. The amount of debt finance required is monitored and reviewed at least annually by the board of directors.

Foreign Exchange Risk - The Group is exposed to risk of fluctuating foreign exchange rates as a result of its overseas purchases. The principal currency with which this exposure lies is US dollar.

The exchange rates between the US dollar and other world currencies have fluctuated significantly in recent years and may continue to do so in the future. Following the UK referendum in June 2016, favouring Brexit, the pound sterling significantly weakened against the US dollar. Until the transition phase is concluded, and the UK's future trading arrangements with the EU is decided, further volatility is possible.

The Group uses forward foreign exchange contracts in order to manage its exposure to foreign exchange risk and wherever possible these are hedge accounted under IAS 39. The Group has a treasury policy in place which limits how much can be purchased on a rolling 30 month basis. In accordance with this policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

Interest Rate Risk - fluctuating interest rates could have an impact on cash flows and profit.

The Group has long term interest bearing debt liabilities which are subject to fixed rates of interest. This fixed rate debt structure has significantly lowered interest rate risk faced by the Group.

Commodity Risk - As the Group's principal activity is the purchase and sale of clothes, it is exposed to a cost base which is heavily influenced by the market price of cotton.

The Group monitors trends in the cotton market to manage this risk and, by agreeing purchase contracts with suppliers six to nine months in advance, provides a degree of advance knowledge of the cost base.

Key Performance Indicators

The directors consider pre-IFRS 16 EBITDA before exceptional items to be the main financial KPI for the business. Pre-IFRS 16 EBITDA before exceptional items is £80.3m (2019: £102.4m), see note 8 to the financial statements for a reconciliation to the statutory results.

By order of the board

S Hill
Director
24 June 2020

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020

The directors present their report for the 53 weeks ended 29 February 2020.

Directors

The Company's directors who served during the period up to the date of signing the financial statements are noted on page 1.

Principal activities

The principal activities of the Group are the sale of clothing and homewares through out-of-town retail outlets, primarily through the Matalan fascia, and online. The group also operates a franchise model, with several international stores based throughout Europe and the Middle East.

Directors' indemnities

During the period and up to the date of signing the financial statements, the Company maintained third party indemnity insurance for its directors and officers as defined by Section 157 of the Companies (Guernsey) Law, 2008.

Going concern

As a result of the impact of COVID-19 on the Group's post year end trading, the Group has recently raised additional finance to provide further liquidity. This exercise involved extensive due diligence on the Group's three-year forecasts which encompassed a range of trading scenarios. As a result of this the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements. Further details regarding the borrowings held by the Group and the RCF available but not drawn upon at year end are provided in note 17.

The Group statement of financial position shows a net liability position as a result of the requirement to apply merger accounting to reflect the change in ownership of Matalan, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. As at 29 February 2020, the Group has adequate liquid resources to pay its liabilities as they fall due. The accounts of Matalan Retail Limited, the principal subsidiary of the Group, show the balance sheet strength of the trading group.

Based on the new funding in place and the Group's three-year forecasts, the directors have concluded that the Group and the Company has and will continue to have sufficient headroom to meet its liabilities in full over the next 12 months. As such the directors have concluded that it remains appropriate to adopt the going concern basis in the preparation of these financial statements.

Further details regarding the going concern status of the Group and the Company are included in note 2.3. This note also considers the potential impact of varying levels of further disruption during the winter of 2020, including a severe but plausible downside trading scenario arising from the COVID-19 pandemic whereby Matalan's entire store estate is forced to close for the duration of November and December 2020.

Employees

Information on matters of concern to employees is given through information bulletins and reports. Monthly meetings are held with head office employees which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

The Group is proud of its diverse workforce and we are committed to ensuring that all employees are treated fairly, both in terms of pay and the opportunities available to them regardless of disability or gender. Our policy is to recruit disabled workers for those vacancies they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Political donations
During the period the Group made political donations of £nil (2019: £nil).

Dividends
No dividend has been paid by the Company in the period (2019: £nil).

Creditor payment policy
UK suppliers are paid at the end of the month following invoice or to the specific terms agreed with the supplier. Foreign suppliers are paid within an agreed number of days from either shipment date or document date.

It is the Group's policy to ensure the suppliers are aware of the Company's terms of payment and that terms of payment are agreed at the commencement of business with each supplier. Payments are made in accordance with the payment terms and conditions agreed. Trade creditor days at 29 February 2020 were 64 days (2019: 54 days) based on average daily purchases.

Disclosure of information to the auditor
For all persons who are directors at the time of the approval of the directors' report and financial statements:

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
b) each director has taken all the steps necessary as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditor
In accordance with Companies (Guernsey) Law 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

S Hill
Director
24 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

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 judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which 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 (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSOURI TOPCO LIMITED

Our opinion is unmodified

We have audited the consolidated financial statements (the "Consolidated Financial Statements") of Missouri Topco Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the Group and parent company Statements of Financial Position as at 29 February 2020, the Group and parent company Income statements, the Group and parent company Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group and parent company Statement of Changes in Shareholders' Equity for the period ended 29 February 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company and Group as at 29 February 2020, and of the Group's financial performance and the Group's cash flows for the period then ended;
- are prepared in accordance with International Financial Reporting Standards as adopted by the EU and
- comply with the Companies (Guernsey) Law, 2008

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2.3 to the consolidated financial statements which indicates that the ability of the Group and parent Company to continue as a going concern is dependent on the external lender not calling in the debt owing to it in the event of the Group and parent Company, in a severe but plausible downside scenario, breaching its covenant. These events and conditions, along with the other matters explained in note 2.3, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.

Our audit opinion is not modified in this respect.

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include Consolidated Financial Statements and our auditor's report thereon. Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
Our responsibility is to read the other information and, in doing so, consider whether, the other information is materially inconsistent with the Consolidated Financial Statements or our audit knowledge obtained in the audit, or otherwise appears to be materially misstated. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSOURI TOPCO LIMITED (CONTINUED)

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the Consolidated Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the Consolidated Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Consolidated Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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.

Andrew Reddington
For and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor

1 St Peter's Square
Manchester
M2 3AE

24 June 2020

MISSOURI TOPCO LIMITED

INCOME STATEMENT

	Note	Group		Company	
		53 weeks ended 29 February 2020	52 weeks ended 23 February 2019	**53 weeks ended 29 February 2020**	52 weeks ended 23 February 2019
		£'m	£'m	**£'m**	£'m
Revenue	4	**1,129.4**	1,103.9	**60.3**	-
Cost of sales (including exceptional items)	4	**(1,000.6)**	(975.5)	**-**	-
Gross profit (including exceptional items)	4	**128.8**	128.4	**60.3**	-
Administrative expenses (including exceptional items)	4	**(59.5)**	(61.0)	**-**	-
Dividends receivable from group undertakings		**-**	-	**-**	-
Operating profit (including exceptional items)	4	**69.3**	67.4	**60.3**	-
Operating profit (pre exceptional items)		**70.9**	68.9	**-**	-
Exceptional items – cost of sales	29	**(1.0)**	-	**-**	-
Exceptional items - administrative expenses	29	**(0.6)**	(1.5)	**-**	-
Operating profit		**69.3**	67.4	**60.3**	-
Finance costs	5	**(88.1)**	(38.0)	**-**	-
Finance income	5	**0.5**	0.7	**-**	-
Net finance costs		**(87.6)**	(37.3)	**-**	-
(Loss)/ profit before income tax and exceptional items	9	**(16.7)**	31.6	**60.3**	-
Total exceptional items		**(1.6)**	(1.5)	**-**	-
(Loss)/ profit before income tax		**(18.3)**	30.1	**60.3**	-
Income tax credit/ (expense)	10	**1.5**	(6.6)	**-**	-
(Loss)/ profit for the period		**(16.8)**	23.5	**60.3**	-

STATEMENT OF COMPREHENSIVE INCOME

	Group	
	53 weeks ended 29 February 2020 £'m	52 weeks ended 23 February 2019 £'m
(Loss)/ Profit for the period	**(16.8)**	23.5
Other comprehensive income/(expenditure) :		
Cash flow hedges	**8.1**	50.7
Tax element of cash flow hedges	**(1.2)**	(9.6)
Other comprehensive income/(expenditure) for the period, net of tax	**6.9**	41.1
Total comprehensive income/(expenditure) for the period	**(9.9)**	64.6

The Company has no other comprehensive income (2019: income) for the period.

STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2020

		Group		Company	
	Note	**2020**	2019	**2020**	2019
		£'m	£'m	**£'m**	£'m
Assets					
Property, plant and equipment	11	**220.0**	217.7	**-**	-
Right-of-use assets	25	**460.1**	-	**-**	-
Intangible assets	12	**50.5**	40.5	**-**	-
Investments	13	**-**	-	**458.6**	458.2
Financial assets - derivative financial instruments	20	**4.6**	3.6	**-**	-
Total non-current assets		**735.2**	261.8	**458.6**	458.2
Inventories - goods for resale	14	**133.0**	133.9	**-**	-
Trade and other receivables	15	**23.6**	29.7	**30.1**	30.1
Financial assets - derivative financial instruments	20	**15.7**	5.6	**-**	-
Cash and cash equivalents	16	**61.2**	72.5	**-**	-
Total current assets		**233.5**	241.7	**30.1**	30.1
Total assets		**968.7**	503.5	**488.7**	488.3
Liabilities					
Financial liabilities – derivative financial instruments	20	**(1.1)**	(1.4)	**-**	-
Short-term lease liabilities	25	**(61.0)**	-	**-**	-
Trade and other payables	18	**(171.3)**	(174.3)	**(0.3)**	(60.3)
Current income tax liabilities		**(0.1)**	(2.7)	**-**	-
Provisions for other liabilities and charges	21	**-**	(0.5)	**-**	-
Total current liabilities		**(233.5)**	(178.9)	**(0.3)**	(60.3)
Financial liabilities – borrowings	17	**(476.3)**	(475.0)	**-**	-
Long-term lease liabilities	25	**(461.4)**	-	**-**	-
Financial liabilities – derivative financial instruments	20	**-**	(0.4)	**-**	-
Trade and other payables	19	**-**	(41.1)	**-**	-
Deferred income tax liabilities	10	**(4.5)**	(4.6)	**-**	-
Provisions for other liabilities and charges	21	**-**	(0.7)	**-**	-
Total non-current liabilities		**(942.2)**	(521.8)	**-**	-
Total liabilities		**(1,175.7)**	(700.7)	**(0.3)**	(60.3)
Net (liabilities)/ assets		**(207.0)**	(197.2)	**488.4**	428.0
Shareholders' (deficit)/ equity					
Share capital	22	**17.3**	17.3	**17.3**	17.3
Share premium		**385.6**	385.6	**385.6**	385.6
Hedge reserve		**12.0**	5.1	**-**	-
Merger reserve		**(774.3)**	(774.3)	**-**	-
Warrant reserve		**3.1**	3.1	**-**	-
Capital redemption reserve		**5.7**	5.7	**4.6**	4.6
Retained earnings		**143.6**	160.3	**80.9**	20.5
Total shareholders' (deficit)/ equity		**(207.0)**	(197.2)	**488.4**	428.0

The financial statements on pages 12 to 56 were approved by the Board of Directors on 24 June 2020 and signed on its behalf by:

G Pateras
Director

S Hill
Director

Missouri Topco Limited
Registered number: 00045618

MISSOURI TOPCO LIMITED

STATEMENT OF CASH FLOWS

	Note	Group 2020 £'m	Group 2019 £'m
Cash flows from operating activities			
Cash generated from operations	23	**183.7**	103.7
Interest paid		**(86.0)**	(37.2)
Tax paid		**(2.5)**	(5.4)
Net cash generated from operating activities		**95.2**	61.1
Cash flows from investing activities			
Purchases of property, plant and equipment		**(32.1)**	(33.8)
Purchases of intangible assets		**(19.7)**	(17.7)
Interest received		**0.5**	0.7
Net cash used in investing activities		**(51.3)**	(50.8)
Cash flows from financing activities			
Repayment of lease liabilities		**(54.9)**	-
Repurchase of shares		**(0.3)**	-
Net cash used in financing activities		**(55.2)**	-
Net increase/(decrease) in cash and cash equivalents		**(11.3)**	10.3
Cash and cash equivalents at the beginning of the period		**72.5**	62.2
Cash and cash equivalents at the end of the period	16	**61.2**	72.5

The Company had no cash flows in 2020 (2019: none).

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Retained earnings £'m	Total equity £'m
As at 25 February 2018	17.3	385.6	(774.3)	(36.0)	5.7	3.1	137.4	**(261.2)**
Comprehensive expenditure								
Profit for the period	-	-	-	-	-	-	23.5	**23.5**
Total profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**23.5**	**23.5**
Other comprehensive expenditure								
Cash flow hedges								
- fair value gain in the period	-	-	-	52.2	-	-	-	**52.2**
- transfers to inventory	-	-	-	(1.5)	-	-	-	**(1.5)**
- tax element of cash flow hedges	-	-	-	(9.6)	-	-	-	**(9.6)**
Total cash flow hedges, net of tax	**-**	**-**	**-**	**41.1**	**-**	**-**	**-**	**41.1**
Total other comprehensive income, net of tax	**-**	**-**	**-**	**41.1**	**-**	**-**	**-**	**41.1**
Transactions with owners								
Fair value credit for subscription for 'B' shares	-	-	-	-	-	-	(0.6)	**(0.6)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(0.6)**	**(0.6)**
Non-controlling interest	-	-	-	-	-	-	-	**-**
As at 23 February 2019	**17.3**	**385.6**	**(774.3)**	**5.1**	**5.7**	**3.1**	**160.3**	**(197.2)**

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Retained earnings £'m	Total equity £'m
As at 24 February 2019	17.3	385.6	(774.3)	5.1	5.7	3.1	160.3	(197.2)
Comprehensive expenditure								
Loss for the period	-	-	-	-	-	-	(16.8)	**(16.8)**
Total loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(16.8)**	**(16.8)**
Other comprehensive expenditure								
Cash flow hedges								
- fair value gain in the period	-	-	-	11.7	-	-	-	**11.7**
- transfers to inventory	-	-	-	(3.6)	-	-	-	**(3.6)**
- tax element of cash flow hedges	-	-	-	(1.2)	-	-	-	**(1.2)**
Total cash flow hedges, net of tax	**-**	**-**	**-**	**6.9**	**-**	**-**	**-**	**6.9**
Total other comprehensive income, net of tax	**-**	**-**	**-**	**6.9**	**-**	**-**	**-**	**6.9**
Transactions with owners								
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	0.4	**0.4**
Repurchase of shares	-	-	-	-	-	-	(0.3)	**(0.3)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
As at 29 February 2020	**17.3**	**385.6**	**(774.3)**	**12.0**	**5.7**	**3.1**	**143.6**	**(207.0)**

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Company	**Share capital**	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Total equity**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
As at 25 February 2018	**17.3**	**385.6**	**4.6**	**21.1**	**428.6**
Comprehensive expenditure					
Loss for the period	-	-	-	-	**-**
Total comprehensive expenditure	-	-	-	-	**-**
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	(0.6)	(0.6)
Total transactions with owners	-	-	-	(0.6)	(0.6)
As at 23 February 2019	**17.3**	**385.6**	**4.6**	**20.5**	**428.0**
As at 24 February 2019	**17.3**	**385.6**	**4.6**	**20.5**	**428.0**
Comprehensive expenditure					
Profit for the period	-	-	-	60.3	**60.3**
Total comprehensive expenditure	-	-	-	60.3	**60.3**
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	0.4	**0.4**
Repurchase of shares	-	-	-	(0.3)	(0.3)
Total transactions with owners	-	-	-	0.1	0.1
As at 29 February 2020	**17.3**	**385.6**	**4.6**	**80.9**	**488.4**

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The Company is incorporated and domiciled in Guernsey. All subsidiary companies are incorporated and domiciled in the UK. The Company is limited by shares. The financial statements are presented in sterling, which is the Group's functional and presentational currency. The Group's principal place of business is Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations. The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The auditor has reported on these accounts; the audit report is (i) unqualified, in both the current and prior year comparative, (ii) contains, in respect of FY20 only, an emphasis of matter regarding a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) In both years, did not contain any reporting statements under Companies (Guernsey) Law 2008.

2.2 New standards, amendments to standards or interpretations

The Group has initially adopted IFRS 16 Leases from 24 February 2019. Amendments to IAS 12 are also effective from 24th February 2019 however this does not have a material impact on the Group's financial statements.

IFRS 16 'Leases' impact

The group has applied IFRS 16 using the modified B approach. Accordingly, the comparative information presented for the period ended 23 February 2019 has not been restated. The details of the changes in accounting policies are disclosed below.

Lessee and lessor treatment

The Group leases many assets including retail stores, distribution centres, vehicles, and other equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The Group sub-leases some of its properties. Under IFRS 16 the sub-lease contracts are classified as gross investments within debtors.

2. Summary of significant accounting policies (continued)

Transition and significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. Right-of-use assets are depreciated on a straight line basis over the course of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate adjusted for market related data. As at 29 February 2020 the Group's weighted average discount rate was 9.63%.

On transition the Group's operating lease obligations were discounted to the present value of future payments, resulting in a lease liability of £561.5m, as seen below.

Operating lease obligations as at 24 February 2019	**815.1**
Discounted at the average discount rate at 24 February 2019	**(253.6)**
Lease liabilities recognised at 24 February 2019	**561.5**

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future leases payments arising from a change in the expectation on whether a termination option will be exercised. The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of -use assets are impaired.

IFRS 16 offers a number of practical expedients upon transition. Of these, the Group have chosen to apply a single discount rate for similar leases where an asset specific discount rate is not readily available, such as motor vehicles, telephone equipment and trucks and trailers.

Further details regarding IFRS 16 can be found in note 25.

2. Summary of significant accounting policies (continued)

Income Statement – Impact for the period

As a result of applying IFRS 16, during the year, the group recognised £74.8m of depreciation on right-of-use assets and £49.3m of interest on lease liabilities. Under historic accounting standards (IAS 17) the group would have recognised operating lease rental charges of £102.7m.

	53 weeks to 29 February 2020 under IFRS 16	IAS 17 Rent charge	IFRS 16 depreciation	IFRS 16 interest charge	53 weeks to 29 February 2020 under IAS 17
	£'m	£'m	£'m	£'m	£'m
Total Revenue	**1,129.4**	-	-	-	**1,129.4**
Cost of goods sold - pre exceptional items	**(620.7)**	-	-	-	(620.7)
Selling expenses - pre exceptional items	**(330.4)**	(97.6)	70.4	-	(357.6)
Distribution expenses – pre exceptional items	**(48.5)**	(4.8)	4.1	-	(49.2)
Exceptional items – distribution expenses	**(1.0)**	-	-	-	(1.0)
Total cost of sales	**(1,000.6)**	**(102.4)**	**74.5**	-	**(1,028.5)**
Gross profit – including exceptional items	**128.8**	**(102.4)**	**74.5**	-	**100.9**
Administrative expenses - pre exceptional items	(58.9)	(0.3)	0.3	-	(58.9)
Exceptional items - administrative expenses	(0.6)	-	-	-	(0.6)
Administrative expenses	**(59.5)**	**(0.3)**	**0.3**	-	**(59.5)**
Operating profit	**69.3**	**(102.7)**	**74.8**	-	**41.4**
Finance costs	(88.1)	-	-	49.3	(38.8)
Finance income	0.5	-	-	-	0.5
Net finance costs	**(87.6)**	-	-	**49.3**	**(38.3)**
(Loss)/ profit before tax and exceptional items	(16.7)	(102.7)	74.8	49.3	4.7
Total exceptional items	(1.6)	-	-	-	(1.6)
(Loss)/ profit before income tax	**(18.3)**	**(102.7)**	**74.8**	**49.3**	**3.1**
Tax (credit)/ charge	1.5	19.5	(14.2)	(9.4)	(2.6)
(Loss)/ profit after tax	**(16.8)**	**(83.2)**	**60.6**	**39.9**	**0.5**

2. Summary of accounting policies and new standards (continued)

Balance Sheet – Impact for the period

The balance sheet under IFRS 16 as at 29 February 2020 includes right-of-use assets of £460.1m and lease liabilities of £522.4m. The impact that would have been created by continuing to recognise the balance sheet under the historic accounting conventions (IAS 17) is reflected below. Transitional balances relate to prepaid and accrued rent, onerous lease provision, and unrealised rent free and reverse premium incentives. The opening right-of-use asset and lease liability were £519.1m and £561.5m respectively.

	IFRS 16 29 February 2020 £'m	Transitional balances £'m	Impact in Period £'m	IAS 17 29 February 2020 £'m
Assets				
Right-of-use assets	**460.1**	(519.1)	59.0	**-**
Other non-current assets	**275.1**	-	-	**275.1**
Total non-current assets	**735.2**	**(519.1)**	**59.0**	**275.1**
Trade and other receivables	**23.6**	5.3	(0.2)	**28.7**
Other current assets	**209.9**	-	1.2	**211.1**
Total current assets	**233.5**	**5.3**	**1.0**	**239.8**
Total assets	**968.7**	**(513.8)**	**60.0**	**514.9**
Liabilities				
Trade and other payables	**(171.3)**	(6.6)	1.8	**(176.1)**
Lease liabilities	**(61.0)**	-	61.0	**-**
Other current liabilities	**(1.2)**	-	(4.0)	**(5.2)**
Total current liabilities	**(233.5)**	**(6.6)**	**58.8**	**(181.3)**
Lease liabilities	**(461.4)**	561.5	(100.1)	**-**
Other non-current liabilities	**(480.8)**	(41.1)	(1.4)	**(523.3)**
Total non-current liabilities	**(942.2)**	**520.4**	**(101.5)**	**(523.3)**
Total liabilities	**(1,175.7)**	**513.8**	**(42.7)**	**(704.6)**
Net liabilities	**(207.0)**	**-**	**17.3**	**(189.7)**
Shareholders' deficit				
Total shareholders' deficit	**(207.0)**	**-**	**17.3**	**(189.7)**

2. Summary of accounting policies and new standards (continued)

Cash flow statement – impact for the period

Although the underlying cash balance is unchanged under IFRS 16 the impact from changing the classification of lease costs significantly increases cash flows from operating activities, offsetting this change with an increase in cash outflows from financing activities.

	53 weeks to 29 February 2020 Under IFRS 16 £'m	**Impact of lease classification** £'m	**53 weeks to 29 February 2020 Under IAS 17 £'m**
Cash generated from operations			
Operating profit	**69.3**	(27.8)	**41.5**
Adjustments for:			
Depreciation	**102.0**	(74.8)	**27.2**
Amortisation of intangibles	**10.1**	-	**10.1**
Share based compensation charge	**0.4**	-	**0.4**
Hedge accounting	**-**	-	**-**
Operating cash flows before movements in working capital	**181.8**	**(102.6)**	**79.2**
Movements in working capital:			
Decrease/(increase) in inventories	**(1.3)**	(1.2)	**(2.5)**
(Increase)/ decrease in trade and other receivables	**(4.5)**	0.2	**(4.3)**
(Decrease)/increase in trade and other payables	**7.7**	(0.6)	**7.1**
Net cash flows from operating activities	**183.7**	**(104.2)**	**79.5**
Interest paid	**(86.0)**	49.3	**(36.7)**
Income tax paid	**(2.5)**	-	**(2.5)**
Net cash generated from/(used in) operating activities	**95.2**	**(54.9)**	**40.3**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(32.1)**	-	**(32.1)**
Purchases of intangible assets	**(19.7)**	-	**(19.7)**
Interest received	**0.5**	-	**0.5**
Net cash used in investing activities	**(51.3)**	**-**	**(51.3)**
Cash flows from financing activities			
Repayment of lease liabilities	**(54.9)**	54.9	**-**
Repurchase of own shares	**(0.3)**	-	**(0.3)**
Net cash used in financing activities	**(55.2)**	**54.9**	**(0.3)**
Net decrease in cash and cash equivalents	**(11.3)**	-	**(11.3)**
Cash and cash equivalents at the beginning of the period	**72.5**	-	**72.5**
Cash and cash equivalents at the end of the period	**61.2**	**-**	**61.2**

2. Summary of accounting policies and new standards (continued)

2.3 Going concern

UK government rules regarding the COVID-19 pandemic prompted the complete closure of the Matalan UK store estate on 24 March 2020 with English and Northern Irish stores gradually reopening from 18 May 2020, a closure period of 8 weeks. Our Scottish stores commenced reopening, also ahead of the wider unlocking of retail in Scotland on 12 June 2020. Whilst online continued to trade throughout, Matalan has lost significant sums of revenue during this time. Consequently we took decisive action in implementing a number of significant cost reduction and cash preserving actions throughout the business, including sizeable deferrals of stock intake; renegotiation of supplier payment terms; and participation in the government's business rates holiday; Job Retention Scheme; and time to pay arrangements.

Despite this action, in light of the immediacy and severity of the impact caused by the store portfolio shutdown, the directors concluded that it would be necessary to raise additional capital to safeguard our ability to meet our existing and new liabilities over the next 12 months. Following an extensive process involving a number of potential funding sources, Matalan secured the following: £38m additional drawdown of its existing revolving credit facility; £25m under the Coronavirus Large Business Interruption Loan Scheme (CLBILS); and £25m additional bond funding from existing bondholders. The RCF drawdown was secured in April 2020 and the CLBILS and bond funding in early June 2020. Attached to the new debt structure is the existing leverage covenant, which is not reinstated, at appropriate levels, until August 2021 plus a new minimum liquidity covenant test. The group also agreed a covenant waiver with its lenders in respect of the May 2020 quarterly covenant test.

As part of this process, the Group prepared financial forecasts for the three year period to February 2023. Our modelling also allows for the potential of further disruption of varying levels during the winter of 2020. However, were such a disruption to materialise, we would anticipate that, based on current government guidance confirming homeware as an essential category of retail in England, Northern Ireland and more latterly Scotland, there would be no requirement for Matalan to close the majority of its stores.

The Group has also considered a severe but plausible downside that Matalan's entire store estate is forced to close for the duration of November and December 2020, with a further period of depressed trading immediately following. It should be noted that this scenario is considered highly unlikely in that it both covers the peak annual trading period and would also require a significant change in current government guidance. In such an extreme scenario, whilst the forecasts show the group would have sufficient funds to continue to trade, there is a risk that in this event the Group could breach the new minimum liquidity covenant test. In such a scenario, the Group would seek to agree a waiver or further variation of terms with the banking facility lenders, who have been consistently supportive of the business throughout this period. In these circumstances we would need the banks approval to this request and, despite the collaborative support provided to date the Board can not automatically presume the lenders' agreement.

The directors have assessed the Group forecasts in order to inform the board's conclusions as to the ability of the Group and the Company to have sufficient headroom to meet its liabilities, and to ensure it can operate as a going concern over the next 12 months. Having done this, the board has concluded that the Group and the Company has now secured the additional liquidity it requires and will continue to have sufficient headroom to meet its liabilities in full over the next 12 months.

As such the directors have concluded that it remains appropriate to adopt the going concern basis in the preparation of these financial statements. The board, however, notes that the material uncertainty caused in the event of an extreme and prolonged lockdown during the peak trading period could cast doubt on the Group and Company's ability to continue as a going concern. The Board therefore wishes to emphasise that this arises solely due to the unprecedented public health and economic challenge posed by the COVID-19 pandemic.

2. Summary of accounting policies and new standards (continued)

2.4 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions concerning the future that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements, estimates and assumptions are based on historical experience and management's best knowledge at the time. Actual results may differ from these estimates.

Critical accounting estimates and judgements relate to the following:

(a) Carrying value of inventories

Inventories include provisions for obsolescence, markdowns and shrinkage based on historical experience and management estimates of future events.

(b) Provisions

Provisions have been made for dilapidations and onerous property leases. Information relating to provisions is disclosed in note 21. The provisions are based on historical experience and management's best knowledge and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

(c) Depreciation of property, plant and equipment and amortisation of computer software costs

Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as disclosed in note 2.10. The selection of these residual values and estimated lives requires the exercise of management judgement.

2.5 Basis of consolidation

Missouri Topco Limited, the ultimate parent company of Matalan Group Limited is 100% owned by the Hargreaves family. A group reconstruction, which took place in 2007, was accounted for using merger accounting principles as the controlling interests of the Company has remained unchanged.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

2. Summary of accounting policies and new standards (continued)

2.6 Revenue

Revenue, which excludes value added tax and trade discounts, represents the value of goods sold through retail shops and online. The goods sold comprise of clothing and homewares.

Retail revenue, which is net of returns, is recognised in the financial statements when control of the goods sold are transferred to the customer at the point of sale. Sale of goods online are recognised when goods are despatched and title has passed. International revenue is recognised on ex works basis, in line with our franchise contracts.

2.7 Finance income and expenditure

Financing expenses include interest payable, finance charges on lease liabilities (prior to 24 February 2019 finance charges on the finance leases under IAS 17) recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

2.8 Intangible assets

(a) Computer software

Software and associated costs are capitalised as intangible assets where it is not an integral part of the related hardware at purchase cost and amortised in the income statement over its estimated useful life which is generally 3 to 10 years. Amortisation is charged to cost of sales or administrative expenses depending on the nature and purpose of the asset.

(b) Brands

Purchased brands are capitalised at historical cost as intangible assets and amortised over its estimated useful life which is generally 5 years.

2.9 Impairment of non-financial assets

Non financial assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of accounting policies and new standards (continued)

2.10 Property, plant and equipment

Items of property, plant and equipment are stated at purchase cost or deemed purchase cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Alterations to leasehold premises	shorter of remaining life and 25 years
Fixtures, fittings and IT hardware	3 – 10 years
Motor vehicles	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised net in the income statement.

Depreciation of property, plant and equipment is charged to cost of sales and administrative expenses in the income statement.

2.11 Assets under construction

Assets that are not yet in use are classified as 'assets under construction'. When the related asset is brought into use the asset will be transferred out of this classification and depreciation or amortisation will commence based on the estimated useful life as defined by the accounting policies specified above.

2.12 Investments

Investments in subsidiaries are stated at cost, where cost is the aggregate nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The net book value of investments in subsidiaries is increased by the fair value of employee services for those employees of those subsidiaries receiving share based payments granted by this company, in accordance with IFRS 2 "Share based payments" with a corresponding credit to equity.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on purchase cost on a first in, first out basis and includes appropriate overheads and direct expenditure incurred in the normal course of business in bringing them to their present location and condition. Net realisable value is the price at which inventories can be sold in the normal course of business after deducting costs of realisation. Provisions are made as appropriate for obsolescence, markdown and shrinkage. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to the purchase of goods for resale. It is assumed that control of stock purchased from overseas passes once the goods are received into the UK port and inventories are recognised at this point.

2. Summary of accounting policies and new standards (continued)

2.14 Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Foreign exchange differences arising on translation are dealt with in the income statement except when deferred in equity as qualifying cash flow hedges.

2.15 Operating leases

Prior to the 53 weeks ended 29 February 2020 payments made under operating leases were recognised in the income statement on a straight line basis over the life of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 24 February 2019. Please see note 2, "IFRS 16 Leases" for more information.

2.16 Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2.17 Deferred income tax

Deferred income tax is provided in full using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply when the related deferred tax liability is settled or asset is realised.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred income tax is charged or credited to the income statement when the liability is settled or the asset is realised. Deferred income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

2.18 Derivative financial instruments

The Group uses forward foreign currency contracts to manage its exposure to fluctuating interest and foreign exchange rates. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes. These instruments are initially recognised and measured at fair value on the date the contracts are entered into and subsequently re-measured at their fair value at the balance sheet date. The fair value is calculated using mathematical models and is based upon the duration of the derivative instrument together with quoted market data including foreign exchange rates at the balance sheet date.

2. Summary of significant accounting policies (continued)

2.18 Derivative financial instruments (continued)

The method of recognising the resulting gain or loss is dependent upon whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Group accounts for those derivative financial instruments used to manage its exposure to foreign exchange risk on highly probable foreign currency stock purchases as cashflow hedges under IFRS 9. At inception of a contract the Group documents the relationship between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment of the effectiveness at inception and on an ongoing basis to ensure that the instrument remains an effective hedge of the transaction.

The effective portion of the changes in fair value of cashflow hedges is recognised in equity. On completion of the forecast purchase transaction, the effective part of any gain or loss previously deferred in equity is recognised as part of the carrying amount of the underlying non-financial asset. The effective gain or loss is recognised in cost of sales in the income statement in the same period during which the underlying asset affects the income statement.

If the hedge transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in the income statement. The gain or loss relating to the ineffective portion of all hedges is recognised immediately in the income statement. Cumulative gains or losses remain in equity and are then recognised when transactions are ultimately recognised in the income statement.

Derivatives are deemed to be current unless the financial instrument is due to mature more than 12 months after the balance sheet date then they are deemed to be non-current.

2.19 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2.20 Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable issue costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement within finance costs over the period of the borrowings on an effective interest basis. The fair values of trade and other receivables, loans and overdrafts and trade and other payables with a maturity of less than one year are assumed to approximate to their book values. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.21 Dividends

Final dividends payable to the Group's shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

2.22 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to the termination of the employment of current employees according to a detailed formal plan without possibility of withdrawal. These benefits are disclosed in the financial statements where material.

2. Summary of significant accounting policies (continued)

2.23 Exceptional items

Items that are material in size and/or non-recurring in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, gains or losses on the disposal or impairment of assets and other significant non recurring gains or losses.

2.23 Warrants

Warrants issued to subscribe for 'A' ordinary shares in the Company are valued at fair value at the date of grant. Fair value is calculated using a Black Scholes model. Where warrants are issued in conjunction with debt financing, they are treated as an attributable transaction cost of the related debt, accordingly their cost is treated as a deduction in borrowings and is amortised in the income statement as a finance cost over the term of borrowings.

2.24 Share capital policy

Ordinary shares are classified as equity.

2.25 Share based payments

At the date of acquisition Missouri Topco Limited, the Group's ultimate parent, entered into agreements with selected individuals which enabled them to subscribe for 300,000 of the B shares in that company. These agreements were considered to be within the scope of IFRS 2 "Share Based Payments".

The agreements provide that B shareholders would participate in the increase in fair value of the Group from the date of merger with Matalan plc and until either a specified exit event or liquidation occurs. The agreements were treated as a share based payment transaction in accordance with IFRS 2. The fair value of the subscription agreement was valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, reviewed at each balance sheet date. The resulting charge or credit is accounted for as an employee expense or income with a corresponding increase or decrease in equity. The shares covered by the subscription agreements have all now been fully paid up and issued.

2.26 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any expected credit loss. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement within selling and administration costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and administration costs in the income statement.

2.27 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current and non-current deferred income arises from rent free period and reverse premium incentives received on property leases which are held on the statement of financial position and released to the income statement over the lease term.

2. Summary of significant accounting policies (continued)

2.28 Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Financial risk management

3.1 Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group treasury department under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks.

(a) Market risk

(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro.

Group policy requires all group companies to manage their foreign exchange risk against their functional currency. The functional currency of all group companies is sterling. The group companies are required to substantially hedge their foreign exchange risk exposure with group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group hedges future seasons' purchases denominated in US dollars. The Group treasury's risk management policy is to hedge forecast purchases up to two and a half years in advance of anticipated cash flows in respect of the purchase of inventory. 100% (2019: 100%) of projected purchases in US dollars qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 29 February 2020, if sterling had strengthened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £2.3m higher (2019: £3.2m higher), mainly as a result of foreign exchange gains on translation of US dollar trade payable amounts compensated by foreign exchange losses on translation of US dollar denominated cash and trade receivable US dollar amounts.

At 29 February 2020, if sterling had weakened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £2.8m lower (2019: £3.2m lower), mainly as a result of foreign exchange losses on translation of US dollar trade payable amounts compensated by foreign exchange gains on translation of US dollar denominated cash and trade receivable US dollar amounts.

3. Financial risk management (Continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk
As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The effective rate of interest applicable to the Group's cash balances in the year is 0.75% (2019: 0.75%).

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's long-term borrowings are all fixed rate instruments which significantly reduces the Group's exposure to interest rate risk.

The impact on profit or loss of a 10 basis-point shift in LIBOR with all other variables held constant would be a maximum increase/decrease of £nil (2019: £nil).

During 2020 and 2019, the Group's borrowings at fixed rates were denominated in sterling.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Banks and financial institutions are approved by the Board on a case by case basis, taking into account credit rating and investment criteria.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Management monitors the utilisation of credit limits regularly.

Sales to retail customers are settled in cash or using major credit cards (it is company policy not to accept cheques).

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by counterparties. The main counterparties dealt with in the period include Lloyds Bank plc and Barclays Bank plc.

The ageing of receivables has not been disclosed as receivables are not deemed to be material to the Group.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Due to the dynamic nature of the underlying businesses, group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

3. Financial risk management (Continued)

(c) Liquidity risk (continued)

Management monitors rolling forecasts of the Group's liquidity reserve comprising borrowing facilities (note 17) and cash and cash equivalents (note 16) on the basis of expected cash flow. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities before issue costs into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £'m	**Between 1 and 2 years £'m**	**Between 2 and 5 years £'m**	**Over 5 years £'m**
At 23 February 2019				
Borrowings (before deduction of £5.0m issue costs) including interest payable	(36.0)	(36.0)	(564.4)	-
Derivative financial instruments	(1.4)	(0.4)	-	-
Trade and other payables	(176.9)	(5.7)	(15.7)	(19.8)
Provisions for other liabilities and charges	(0.5)	(0.4)	(0.3)	-
	(214.8)	**(42.5)**	**(580.4)**	**(19.8)**
At 29 February 2020				
Borrowings (before deduction of £3.7m issue costs) including interest payable	(36.0)	(36.0)	(528.3)	-
Derivative financial instruments	(1.1)	-	-	-
Trade and other payables	(171.4)	-	-	-
Lease liabilities	(107.9)	(101.9)	(273.6)	(273.3)
	(316.4)	**(137.9)**	**(801.9)**	**(277.3)**

The table below analyses the value of the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the contractual maturity date as at the balance sheet date. Inflows from gains and outflows from losses on these instruments are presented separately.

	Less than 1 year £'m	**Between 1 and 2 years £'m**	**Between 2 and 5 years £'m**	**Over 5 years £'m**
At 23 February 2019				
Cash flow hedges:				
Inflows	5.6	3.6	-	-
Outflows	(1.4)	(0.4)	-	-
	4.2	**3.2**	-	-
At 29 February 2020				
Cash flow hedges:				
Inflows	15.7	4.6	-	-
Outflows	(1.1)	-	-	-
	14.6	**4.6**	-	-

3. Financial risk management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by adjusted total capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Adjusted total capital is calculated as 'equity' as shown in the consolidated statement of financial position and excluding the merger reserve.

Group net debt

	Note	**2020 £'m**	2019 £'m
Total borrowings (net of issue costs)	17	**476.3**	475.0
Less: Cash and cash equivalents	16	**(61.2)**	(72.5)
Net debt		**415.1**	402.5
Adjusted total capital		**567.3**	577.1
Gearing ratio		**73%**	70%

The gearing ratio excludes the creation of a merger reserve and the Group considers this a more appropriate measure to be used as it takes account of underlying assets and equity generated in the course of business. The Group was required to meet specific bank covenants including debt cover during the year. The Group has complied with bank covenants throughout the year.

3. Financial risk management (Continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs)

The following represents the Group's assets and liabilities that are measured at fair value at 29 February 2020:

	Level 1	Level 2	Level 3	Total
	£'m	£'m	£'m	£'m
Assets				
Cash flow hedges	-	20.3	-	20.3
Total assets	**-**	**20.3**	**-**	**20.3**
Liabilities				
Cash flow hedges	-	(1.1)	-	(1.1)
Total liabilities	**-**	**(1.1)**	**-**	**(1.1)**

The following represents the Group's assets and liabilities that are measured at fair value at 23 February 2019:

	Level 1	Level 2	Level 3	Total
	£'m	£'m	£'m	£'m
Assets				
Cash flow hedges	-	9.2	-	**9.2**
Total assets	**-**	**9.2**	**-**	**9.2**
Liabilities				
Cash flow hedges	-	(1.8)	-	**(1.8)**
Total liabilities	**-**	**(1.8)**	**-**	**(1.8)**

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date by reference to contract rate and the market forward exchange rates at the balance sheet date.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Operating profit

	Group	
	2020	2019
	£'m	£'m
Revenue	**1,129.4**	1,103.9
Total Revenue	**1,129.4**	1,103.9
Cost of goods sold	**(620.7)**	(576.1)
Selling expenses	**(330.4)**	(352.3)
Distribution expenses – pre exceptional items	**(48.5)**	(47.1)
Exceptional items – distribution expenses	**(1.0)**	-
Total cost of sales	**(1,000.6)**	(975.5)
Gross profit	**128.8**	128.4
Administrative expenses - pre exceptional items	**(58.9)**	(59.5)
Exceptional items - administrative expenses	**(0.6)**	(1.5)
Administrative expenses	**(59.5)**	(61.0)
Operating profit	**69.3**	67.4

Further details of exceptional items above are included in note 29.

5. Net finance costs

	Group	
	2020	2019
	£'m	£'m
Finance costs and similar charges:		
Interest payable on notes	**(36.6)**	(35.7)
Amortisation of finance costs:		
Notes costs	**(1.2)**	(1.2)
Other interest payable	**(1.0)**	(1.0)
Unwinding of discounts on provision	**-**	(0.1)
IFRS 16 interest charge	**(49.3)**	-
Finance costs	**(88.1)**	(38.0)
Finance income:		
Interest receivable on short term cash deposits	**0.5**	0.7
Finance income	**0.5**	0.7
Net finance costs	**(87.6)**	(37.3)

Unwinding of discounts on provision arises on the onerous lease provision under IAS 17. Under IFRS 16 there are no onerous lease provisions.

6. Directors' emoluments

The remuneration paid or payable to the directors of Missouri Topco Limited, as part of their service contract with Matalan Retail Limited, was:

	2020	2019
	£'m	£'m
Aggregate emoluments and fees (including benefits in kind)	**1.7**	1.7
Performance bonuses and other emoluments	**-**	0.9
	1.7	2.6

No directors have benefits accruing under defined benefit or defined contribution pension schemes. Under arrangements for selected individuals to subscribe for equity settled "B" shares, a debit has been made to the income statement of £0.4m (2019: £0.6m credit) in respect of directors within administrative expenses.

Amounts paid to the highest paid director:

	2020	2019
	£'m	£'m
Aggregate emoluments	**0.6**	0.6
Performance bonuses and other emoluments	**-**	0.4
	0.6	1.0

7. Employee information

The average number of persons (including executive directors) employed during the period was:

	Group	
	2020	2019
	Number	Number
By function		
Selling and distribution	**12,106**	12,658
Administration	**747**	720
	12,853	13,378

	2020	2019
	£'m	£'m
Staff costs (for the above persons)		
Wages and salaries	**150.3**	151.9
Social security costs	**8.3**	8.5
Other pension costs	**0.7**	1.0
Share based compensation charge/ (credit)	**0.4**	(0.6)
Termination payments	**0.6**	1.5
	160.3	162.3

The Company does not have any employees (2019: none).

8. Segment reporting

IFRS 8 Operating Segments requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision-maker. The Group adopts this policy and the chief operating decision-maker has been identified as the Board of Directors. The Directors consider there to be one operating and reportable segment, being that of the sale of clothing and homewares through out of town retail outlets and online, primarily through the Matalan fascia, in the United Kingdom, and online.

Internal reports reviewed regularly by the Board provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the Group as a whole and does not identify individual segments.

The chief operating decision maker relies primarily on EBITDA before exceptional items to assess the performance of the Group and make decisions about resources to be allocated to the segment. Pre IFRS 16 EBITDA before exceptional items for the period was £80.3m (2019: £102.4m). This can be reconciled to statutory operating profit as follows:

	Group	
	2020 (under IFRS 16) £'m	2019 (under IAS 17) £'m
Operating profit	**69.3**	67.4
Depreciation and amortisation	**112.1**	33.5
Exceptional items	**1.6**	1.5
EBITDA before exceptional items	**183.0**	102.4

Reconciliation to IAS 17 EBITDA

EBITDA pre exceptionals under IFRS 16	**183.0**	
Increase in cost of sales	**(102.4)**	
Increase in administrative expenses	**(0.3)**	
EBITDA pre exceptionals under IAS 17	**80.3**	102.4

The revenue analysis by geographic area for the 53 weeks ended 29 February 2020 is as follows:

United Kingdom: £1,099.0m
Rest of the word: £30.4m

The performance of the Group is subject to seasonal peaks. The Group traditionally performs well during the late spring, early summer and over the Christmas season.

Whilst the e-commerce business represents a significant opportunity for future growth within the Group, it does not yet represent a significant portion of the operating results of the Group. E-commerce is therefore not reported as a separate operating segment by the Group for internal or external reporting purposes.

9. Profit before income tax

	Group	
	2020	2019
	£'m	£'m
Profit on ordinary activities before tax is stated after charging / (crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	**636.8**	581.6
Depreciation charge for the period on property, plant and equipment and right-of-use assets	**102.0**	23.9
Amortisation of intangible assets	**10.1**	9.6
Fair value charge for subscription for 'B' shares	**0.4**	(0.6)
Exceptional items (note 29)	**1.6**	1.5
Net foreign exchange gains	**(16.1)**	(5.5)
Fees payable to the Group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies	**0.2**	0.2
for taxation advisory services	**-**	0.1
Operating lease rentals payable	**-**	99.9
Restructuring costs	**0.6**	1.5

The audit fee for the Company amounting to £2,000 (2019: £2,000) is borne by a fellow group company. The total group audit fee is £0.2m (2019: £0.2m). Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately as the information is required instead to be disclosed on a consolidated basis.

10. Income tax expense

Analysis of expense

	Group	
	2020	2019
	£'m	£'m
Current income tax		
UK corporation tax – current year	**-**	6.4
UK corporation tax – prior year	**(0.1)**	(0.8)
	(0.1)	5.6
Deferred income tax		
Deferred income tax relating to the origination and reversal of temporary differences	**(1.8)**	0.4
Effect of change in income tax rates	**-**	-
Adjustment in respect of prior periods	**0.4**	0.6
	(1.4)	1.0
Total income tax (credit)/ expense	**(1.5)**	6.6

The Group income tax credit for the period is lower (2019: charge is higher) than the rate of corporation tax of 19% (2019: 19.0%). The rate of corporation tax is based on a weighted average rate. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2018) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The reduction to 17% was withdrawn following publication of the Finance Bill on 19 March 2020. The deferred tax assets and liabilities at 29 February 2020 have been calculated based on the previously enacted rate of 17%.

The differences are explained below:

	Group	
	2020	2019
	£'m	£'m
Profit on ordinary activities before income tax	**(18.3)**	30.1
Profit on ordinary activities multiplied by the rate of corporation tax of 19% (2019: 19.0%)	**(3.5)**	5.7
Effects of:		
Non deductible expenses	**1.1**	0.7
Adjustments to income tax in respect of prior periods	**0.4**	(0.2)
Deferred income tax not recognised	**0.3**	0.4
Change in the rate of tax	**0.2**	-
Total income tax (credit)/ expense in the period	**(1.5)**	6.6

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expense (continued)

Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 17% (2019: 17%) except for financial derivatives where deferred tax has been calculated using a tax rate of 19%.

The movement on the deferred income tax account is shown below:

	Group	
	2020	2019
	£'m	£'m
At the beginning of the period	**(4.6)**	6.2
Taken to equity:		
- hedge reserve	**(1.2)**	(9.6)
Taken to income statement:		
- prior year movement	**(0.4)**	(0.6)
- depreciation in advance of capital allowances	**0.1**	(0.6)
- temporary timing differences	**1.6**	-
At the end of the period	**(4.5)**	(4.6)

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	**2020**	2019	**2020**	2019
	£'m	£'m	**£'m**	£'m	**£'m**	£'m
Property, plant and equipment	**-**	-	**(3.4)**	(3.3)	**(3.4)**	(3.3)
Rolled over capital gain	**-**	-	**(0.6)**	(0.6)	**(0.6)**	(0.6)
Short-term temporary differences	**1.9**	0.4	**-**	-	**1.9**	0.4
Financial derivatives	**-**	-	**(2.4)**	(1.1)	**(2.4)**	(1.1)
Net deferred income tax assets/ (liabilities)	**1.9**	0.4	**(6.4)**	(5.0)	**(4.5)**	(4.6)

A deferred income tax asset of £3.3m (2019: £3.0m) in relation to losses has not been recognised on the basis that there is uncertainty regarding its future recoverability.

10. Income tax expense (continued)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Financial derivatives £'m	Short term temporary differences £'m	Total £'m
At 25 February 2018	8.5	0.6	9.1
Credited to the income statement	-	(0.2)	(0.2)
Taken directly to equity	(8.5)	-	(8.5)
At 23 February 2019	-	0.4	0.4
At 24 February 2019	-	0.4	0.4
Credited to the income statement	-	1.5	1.5
Taken directly to equity	-	-	-
At 29 February 2020	**-**	**1.9**	**1.9**

The Directors consider it probable that there will be sufficient taxable profits in the future such as to recognise the deferred income tax asset.

Deferred income tax liabilities

	Accelerated tax depreciation £'m	Rolled over capital gain £'m	Financial derivatives £'m	Total £'m
At 26 February 2018	(2.3)	(0.6)	-	(2.9)
(Charged)/credited to the income statement	(1.0)	-	-	(1.0)
Taken directly to equity	-	-	(1.1)	(1.1)
At 23 February 2019	(3.3)	(0.6)	(1.1)	(5.0)
At 24 February 2019	(3.3)	(0.6)	(1.1)	(5.0)
(Charged)/credited to the income statement	(0.1)	-	-	(0.1)
Taken directly to equity	-	-	(1.3)	(1.3)
At 23 February 2020	**(3.4)**	**(0.6)**	**(2.4)**	**(6.4)**

11. Property, plant and equipment

Group

	Alterations to leasehold premises £'m	Motor Vehicles £'m	Fixtures, fittings and IT hardware £'m	Assets under construction £'m	Total £'m
Cost					
At 25 February 2018	253.3	-	276.0	-	529.3
Additions	13.8	0.1	19.9	-	33.8
At 23 February 2019	267.1	0.1	295.9	-	563.1
At 24 February 2019	267.1	0.1	295.9	-	563.1
Additions	12.1	-	12.9	4.5	29.5
At 29 February 2020	**279.2**	**0.1**	**308.8**	**4.5**	**592.6**
Accumulated depreciation					
At 25 February 2018	105.4	-	216.1	-	321.5
Charge for the period	11.2	-	12.7	-	23.9
At 23 February 2019	116.6	-	228.8	-	345.4
At 24 February 2019	116.6	-	228.8	-	345.4
Charge for the period	13.4	-	13.8	-	27.2
At 29 February 2020	**130.0**	**-**	**242.6**	**-**	**372.6**
Net book value					
At 29 February 2020	**149.2**	**0.1**	**66.2**	**4.5**	**220.0**
Net book value					
As at 23 February 2019	150.5	0.1	67.1	-	217.7

Depreciation of property, plant and equipment is charged to cost of sales and administrative expenses in the income statement.

The Company has no property, plant and equipment.

12. Intangible assets

Group

	Brands £'m	Computer software and associated costs £'m	Assets under construction £'m	Goodwill £'m	Total £'m
Cost					
At 25 February 2018	1.7	109.1	14.5	0.9	126.2
Additions	3.0	6.8	8.3	-	18.1
Transfers	-	17.8	(17.8)	-	-
At 23 February 2019	4.7	133.7	5.0	0.9	144.3
At 24 February 2019	4.7	133.7	5.0	0.9	144.3
Additions	-	10.1	10.0	-	20.1
Transfers	-	5.0	(5.0)	-	-
At 29 February 2020	**4.7**	**148.8**	**10.0**	**0.9**	**164.4**
Aggregate amortisation					
At 25 February 2018	1.7	91.6	-	0.9	94.2
Charge for the period	0.3	9.3	-	-	9.6
At 23 February 2019	2.0	100.9	-	0.9	103.8
At 24 February 2019	2.0	100.9	-	0.9	103.8
Charge for the period	0.6	9.5	-	-	10.1
At 29 February 2020	**2.6**	**110.4**	**-**	**0.9**	**113.9**
Net book value					
At 29 February 2020	**2.1**	**38.4**	**10.0**	**-**	**50.5**
Net book value					
At 23 February 2019	2.7	32.8	5.0	-	40.5

Amortisation in respect of online platform development costs is charged to cost of sales in the income statement. Amortisation of all other intangible assets is charged to administrative expenses.

The Company has no intangible assets.

13. Investments

Company

	Investment in subsidiaries £'m
Cost and net book value	
At 25 February 2018	458.8
Fair value charge to group undertakings for subscription for 'B' shares	(0.6)
At 23 February 2019	458.2
At 24 February 2019	458.2
Fair value credit to group undertakings for subscription for 'B' shares	0.4
At 29 February 2020	**458.6**

A list of principal subsidiary undertakings is given in note 30.

The Directors believe that the book value of investments is supported by their underlying net assets and the future discounted cash flows of the trading subsidiaries of the investment.

The investment is wholly owned and has a coterminous period end with the Company.

14. Inventories

	Group	
	2020	2019
	£'m	£'m
Finished goods	**133.0**	133.9

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £636.8m (2019: £581.6m). During the period the Group has written off and provided against £16.9m (2019: £14.1m) of inventories.

The Company has no inventories.

15. Trade and other receivables - current

	Group	
	2020	2019
	£'m	£'m
Trade receivables	**10.2**	10.3
Prepayments and accrued income	**13.4**	19.4
	23.6	29.7

The Company is owed £30.1m by group undertakings at the period end (2019: £30.1m).

16. Cash and cash equivalents

	Group	
	2020	2019
	£'m	£'m
Cash at bank and in hand	**61.2**	72.5

The Company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.75% (2019: 0.75%) and these deposits have an average maturity period of 1 day (2019: 1 day). All short-term deposits had matured at 29 February 2020 (2019: all). The Group's cash and cash equivalents are denominated in sterling, US dollars and Euros.

17. Financial liabilities – borrowings

	Group	
	2020	2019
	£'m	£'m
Non current		
6.75% First Lien Secured Notes (net of £2.6m issue costs (2019: £3.6m)) maturity date 2023	**(347.4)**	(346.4)
9.5% Second Lien Secured Notes (net of £1.1m issue costs (2019: £1.4m)) maturity date 2024	**(128.9)**	(128.6)
	(476.3)	(475.0)

The Company has no borrowings.

Borrowings are all denominated in sterling at 29 February 2020. The Group had no short-term borrowings during the period (2019: £nil).

A proportion of the Second Lien Secured Notes are held by shareholders of the Company.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

17. Financial liabilities – borrowings (continued)

Maturity of Secured Notes

	Group	
	2020	2019
	£'m	£'m
Less than one year	**-**	-
One to five years	**480.0**	350.0
Five to ten years	**-**	130.0
	480.0	480.0
Unamortised issue costs	**(3.7)**	(5.0)
	476.3	475.0
Current	**-**	-
Non current	**476.3**	475.0
	476.3	475.0

Borrowing facilities

At 29 February 2020 the table below reflects the usage of the RCF (revolving credit facility). These facilities are subject to an annual review and incur fees at market rates.

	Group	
	2020	2019
	£'m	£'m
Letters of credit	**1.7**	2.3
Guarantees	**8.3**	8.6
Unused	**40.0**	39.1
	50.0	50.0

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank facilities are secured by fixed and floating charges on the assets of the guarantor group. Notes in issue are guaranteed by the assets of the guarantor group.

18. Trade and other payables - current

	Group	
	2020	2019
	£'m	£'m
Trade payables	**(124.9)**	(106.0)
Other tax and social security payables	**(11.7)**	(15.4)
Other creditors	**(3.5)**	(10.1)
Accruals	**(30.8)**	(36.9)
Deferred income	**(0.1)**	(5.6)
Dividends payable	**(0.3)**	(0.3)
	(171.3)	(174.3)

The Company owes group undertakings £0.3m at the period end (2019: £60.3m). Amounts owed to group undertakings are repayable on demand and therefore presented as current.

19. Trade and other payables – non-current

	Group	
	2020	2019
	£'m	£'m
Accruals and deferred income	**-**	(41.1)

The Company has no non-current trade and other payables.

20. Derivative financial instruments

Group	**2020**		2019	
	Assets	**Liabilities**	Assets	Liabilities
	£'m	**£'m**	£'m	£'m
Forward foreign exchange contracts	**20.3**	**(1.1)**	9.2	(1.8)
Total	**20.3**	**(1.1)**	9.2	(1.8)
Less non-current portion:				
Forward foreign exchange contracts	**4.6**	**-**	3.6	(0.4)
Non-current portion	**4.6**	**-**	3.6	(0.4)
Current portion	**15.7**	**(1.1)**	5.6	(1.4)

The Company has no derivative financial instruments.

The amount that was recognised in the Statement of Comprehensive Income during the period net of tax was £6.9m (2019: £41.1m). The amount that was transferred from equity to profit and loss in the period was £nil (2019: £0.3m). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2019: £nil).

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 29 February 2020 was £550.3m (2019: £508.2m).

The total principal value of forward foreign exchange contracts is due to mature as follows:

Group	**2020**	2019
	£'m	£'m
Maturing within one year	**349.2**	373.7
Maturing between one to two years	**201.1**	134.5
	550.3	508.2

The net fair value of gains as at 29 February 2020 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £19.2m (2019: £7.5m). These are transferred at their current fair value as an inventory based adjustment on receipt of the underlying inventory.

20. Derivative financial instruments (continued)

The fair value of open forward foreign exchange contracts is due to mature as follows:

Group	2020 £'m	2019 £'m
Maturing within one year	**14.6**	4.3
Maturing between one to two years	**4.6**	3.2
Maturing between two and five years	**-**	-
	19.2	7.5

21. Provisions for other liabilities and charges

Group

	Onerous contracts £m	Total £'m
At 23 February 2019	**(1.2)**	(1.2)
Removed due to IFRS 16	**0.6**	0.6
Transferred to accruals	**0.6**	0.6
At 29 February 2020	**-**	-

	2020 £'m	2019 £'m
Analysis of total provisions:		
Non-current	**-**	(0.7)
Current	**-**	(0.5)
	-	(1.2)

During the previous periods, provisions for onerous leases were recognised. These provisions were treated as exceptional and were being released over the remaining life of the lease. A lease previously assigned to another retailer was returned to the Company in 2009 on privity of contract after they entered administration. A provision was created at that time to recognise that the lease was onerous and this was treated as exceptional in nature.

22. Share capital and reserves

Ordinary share capital

Group and Company

	10p 'A' ordinary shares Number	Total value £'m	10 p 'B' ordinary shares Number	Total value £'m	5p 'B1' ordinary shares Number	Total value £'m	5p 'B2' ordinary shares Number	Total value £'m
Issued and fully paid								
At 24 February 2018	172,763,695	17.3	164,000	-	136,000	-	136,000	-
At 23 February 2019	172,763,695	17.3	164,000	-	136,000	-	136,000	-
At 29 February 2020	172,763,695	17.3	164,000	-	136,000	-	136,000	-

On 4th April 2019, 96,000 of Missouri Topco Limited's 'B1' Ordinary Shares were acquired on behalf of the Matalan Retail Limited Employee Benefit Trust for £250,000 from a previous employee. This figure is reflected within retained earnings.

As at 29 February 2020, the Matalan Employee Benefit Trust held the following shares:

10p 'B' ordinary shares – 60,000
5p 'B1' ordinary shares – 96,000
5p 'B2' ordinary shares – 136,000

Reserves

Merger reserve
In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to Matalan Finance plc created the merger reserve at the time of issue.

Hedge reserve
The hedge reserve gain of £12.0m (2019: £5.1m gain) comprises the effective portion of the cumulative net change in fair value of qualifying cash flow hedging instruments relating to hedged transactions, which have not yet occurred.

Capital redemption reserve
The capital redemption reserve of £5.7m (2019: £5.7m) comprises the cost over the nominal value of the Company's ordinary 10p shares purchased at market value and then cancelled in 2011 (£1.1m) and the value of the 'A' shares repurchased in 2011 (£4.6m).

Warrant reserve
Warrants to subscribe for 0.75% of the issued 'A' ordinary shares in the Company were granted on 22 December 2006. The warrants have an exercise price of 10p per share. The warrants are exercisable on the earlier of a change in control of the Group, repayment of the PIK debt and liquidation. The fair value of the warrants was valued at the date of grant using a Black Scholes model and spread across the expected term, with the resulting charge accounted for as a finance cost. The key inputs into the valuation were: fair value at grant date of £2, expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and a risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of the total number of warrants was calculated at £3.1m. The remaining unamortised charge was accelerated when the PIK debt was repaid on 30 March 2010. £1.1m was charged to exceptional refinancing costs during 2011. The warrants have not yet been exercised.

22. Share capital and reserves (continued)

B share subscription agreement

Agreements to subscribe for 300,000 B shares in the Company were agreed with selected individuals at the date of acquisition. The agreements provide that B shareholders will participate in the increase in fair value of the Group from the date of merger with Matalan Limited (formerly Matalan plc) and until either a specified exit event or liquidation occurs. The agreements have been treated as a share based payment transaction in accordance with IFRS 2. The fair value of the subscription agreement was valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, reviewed at each Balance Sheet date, with the resulting charge/(credit) accounted for as an employee expense. The key inputs into the original valuation were: expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of each subscription was calculated at £38.45 per share.

The charge in the period was £0.4m (2019: £0.6m credit).

The full disclosures required under IFRS 2 have not been included as the value of these employee benefits is not deemed to be material to the Group.

Rights, preferences and restrictions

The A Shares have voting rights whereas the B Shares do not. The majority consent of the holders of the A Shares is required to distribute a dividend. If the holders of the A Shares consent to a dividend payment, the holders of the B shares may be entitled to a proportion of that dividend, subject to the application of a formula set forth in the Articles of Association (the holders of the A Shares receive the balance of profits available for distribution). This formula provides that the B Shares are entitled to a proportion of the dividend only where, after multiplying the previous year's EBIT by 12.5 and subtracting total borrowings, the resulting figure exceeds the equity value at the time of the Take Private Transaction. On a return of capital, the surplus assets and retained profits are distributed according to a similar formula whereby the relative entitlement of the B Shares as a class (including the B1 and B2 shares referred to below) represents 10% of the growth in the value of the A Shares since the Take Private Transaction. This formula is reflected in the entitlement of holders of the B Shares to share in the proceeds of a sale of the company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Cash flows from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group	
	2020	2019
	£'m	£'m
Cash generated from continuing operations		
(Loss)/ Profit for the year	**(16.8)**	23.5
Adjustments for:		
Tax	**(1.5)**	6.6
Interest	**87.6**	37.3
Depreciation	**102.0**	23.9
Amortisation of intangibles	**10.1**	9.6
Non cash exceptional items	**-**	(0.1)
Share based compensation charge	**0.4**	(0.6)
Hedge accounting	**-**	0.1
Operating cash flows before movements in working capital	**181.8**	100.3
Movements in working capital		
Increase in inventories	**(1.3)**	(11.8)
(Increase)/ decrease in trade and other receivables	**(4.5)**	1.8
Increase in trade and other payables	**7.7**	13.4
Net cash flows from operating activities	**183.7**	103.7

24. Reconciliation of net debt

Net debt incorporates borrowings (together with related fair value movements of derivatives on the debt), less cash and cash equivalents.

Group

	Net debt at 23 February 2019	Cashflows	Non cash movements	**Net debt at 29 February 2020**
	£'m	£'m	£'m	**£'m**
Cash and cash equivalents	72.5	(11.3)	-	**61.2**
Debt due after 1 year	(475.0)	-	(1.3)	**(476.3)**
	(402.5)	(11.3)	(1.3)	**(415.1)**

25. Leases

a. Right of use assets

	Stores	**Warehouse and Other**	**Total**
	£'m	**£'m**	**£'m**
Cost			
At 24 February 2019	-	-	-
Right-of-use asset creation	478.1	41.0	519.1
Additions	19.1	-	19.1
Disposals	(4.1)	-	(4.1)
At 29 February 2020	**493.1**	**41.0**	**534.1**
Accumulated depreciation			
At 24 February 2019	-	-	-
Charge for the period	70.3	4.5	74.8
Eliminated from disposals	(0.8)	-	(0.8)
At 29 February 2020	**69.5**	**4.5**	**74.0**
Net book value			
At 29 February 2020	**423.6**	**36.5**	**460.1**
Net book value			
As at 23 February 2019	-	-	-

25. Leases (continued)

b. Lease liabilities

Year ended 29 February 2020 - Leases under IFRS 16	**2020**
The following amounts have been recognised in profit or loss for which the group is a lessee	**£’m**
Interest on lease liabilities	49.8
Income from sub-leasing right-of-use assets presented within interest	(0.5)

Year ended 23 February 2019 - operating leases under IAS 17

	2019 **£’m**
Lease expense	**99.9**

c. Amounts recognised in statement of cash flows

	2020 **£’m**
Interest paid in respect of lease liabilities	**49.3**
Repayment of lease liabilities	**54.9**

d. Maturity analysis of leases

The following are the remaining contractual maturities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

2020 Operating Leases under IFRS 16

	2020 **£’m**
Within one year	**107.9**
Between one and two years	**101.9**
Between two to five years	**273.6**
Over five years	**273.3**
Total	**756.7**

2019 Operating leases under IAS 17

	2019 **£’m**
Within one year	**109.3**
Between two and five years inclusive	**387.0**
Over five years	**318.8**
Total	**815.1**

26. Capital commitments

The capital expenditure for the Group that has been contracted for but not provided at 29 February 2020 was £1.3m (2019: £1.8m). The Company has no capital commitments at 29 February 2020 (2019: £nil).

27. Contingent liabilities

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank loans and overdrafts as disclosed in note 17 are secured by fixed and floating charges on all the assets of the Group.

28. Related party transactions

The Company has a related party relationship with other group undertakings and with its directors and executive officers.

The Company is party to a group cash pooling arrangement with other group companies. The Company does not settle transactions in cash, instead amounts are settled by other group companies on its behalf with a corresponding adjustment to intercompany receivables/ payables. £nil was settled on its behalf in the period (2019: £nil). The balance of the related transactions outstanding at 29 February 2020 is £29.9m (2019: £29.9m).

The Company considers the Hargreaves family to be the ultimate controlling party. Key management is the directors of the Company. The compensation paid or payable to key management for employee services is included in note 6.

Ongoing related parties and transactions:

The Group purchased and provided IT services with a company that is associated with the Hargreaves family. The expenditure incurred in the period was £3.2m (2019: £2.8m) of which £0.3m was outstanding at 29 February 2020 (2019: £0.2m). The services provided to the company in the period totalled £nil (2019: £nil) of which £nil was outstanding at 29 February 2020 (2019: £nil).

The Group purchased clothing for resale from companies associated with the Hargreaves family. Purchases in the period totalled £2.1m (2019: £4.0m) of which £nil was outstanding at 29 February 2020 (2019: £0.5m).

The Group used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred in the period was £0.4m (2019: £0.8m) of which £nil was outstanding at 29 February 2020 (2019: £0.1m).

The Group incurred costs relating to the Hargreaves family and associated companies in the period of £0.7m, of which £nil was outstanding at 29 February 2020 (2019: £0.5m of which £0.1m was outstanding at 23 February 2019).

During the period a member of the Hargreaves family was paid £0.1m for consultancy services provided to the Group (2019: £0.2m).

During the period the group repurchased shares on behalf of the employee benefit trust. Further details can be found in note 22.

28. Related party transactions (Continued)

During the year the Group undertook an exercise to adjust its intercompany loan structure. As part of this process Matalan Group Limited reduced its share capital by £60.3m and declared a dividend to its parent company, Missouri Topco Limited. This dividend was in turn settled by the novation of Missouri Topco's £60.3m intercompany loan liability over to Matalan Group Limited. As a result of this exercise the intercompany loan liability in Missouri Topco Limited in relation to Matalan Retail Limited was settled.

29. Exceptional items

Exceptional items are comprised as follows:

	Group	
	2020	2019
	£'m	£'m
Industrial action costs	**(1.0)**	-
Exceptional items – cost of sales	**(1.0)**	-
Restructuring costs	**(0.6)**	(1.5)
Exceptional items - administrative expenses	**(0.6)**	(1.5)
Total exceptional items	**(1.6)**	(1.5)

Industrial action costs
As a result of the strike action which occurred in the Knowsley Distribution centre, industrial action costs of £1.0m were incurred during the year.

Restructuring costs
Following a number of employment contracts being terminated in the period and incentives offered to new employees, restructuring costs of £0.6m (2019: £1.5m) have been incurred in the year

30. Principal subsidiary companies and ultimate controlling party

	Principal activity	**Ownership**	**Country of incorporation**
UK companies			
Matalan Finance Plc	Holding company	100%	England and Wales
Matalan Group Limited	Holding company	100%	England and Wales
Matalan Limited	Holding company	100%	England and Wales
Matalan Retail Limited	Retail	100%	England and Wales
Jonmar Limited	Property	100%	England and Wales
Matalan Holding Company Limited	Holding company	100%	England and Wales
Matalan Investments Limited	Holding company	100%	England and Wales
Matalan Travel Limited	Travel services	100%	England and Wales
HP01 Nominees Limited	Distribution	100%	England and Wales
Matalan Direct Limited	Retail	100%	England and Wales

Except for Matalan Group Limited, which is a wholly owned subsidiary of Missouri Topco Limited, all other companies are held via subsidiary undertakings.

The Directors regard the Hargreaves family as the ultimate controlling party throughout the period.