REGISTERED NUMBER: 00045618

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

52 WEEKS ENDED 27 FEBRUARY 2021

MISSOURI TOPCO LIMITED

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MISSOURI TOPCO LIMITED

DIRECTORS AND ADVISORS

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S M Hill
J R Brown (appointed 14 September 2020)
S R Johnson (appointed 15 July 2020)
J N Mills (resigned 31 July 2020)
J J Hargreaves (resigned 14 September 2020)
G V Pateras (resigned 31 July 2020)

Company Secretary
J N Mills (resigned 31 July 2020)
W G Lodder (appointed 21 September 2020)

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MISSOURI TOPCO LIMITED

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

The directors present their annual strategic report and the audited financial statements for the 52 weeks ended 27 February 2021.

Overview

The 52 weeks to 27 February 2021 represented an unprecedented challenge, with store closures effected by UK government legislation. The Group achieved Earnings before interest, tax, depreciation and amortisation ("EBITDA") before exceptional items of £80.5m (2020: £183.0m). See note 8 to the financial statements for EBITDA reconciliation to the statutory results.

It should be noted that the year to 29 February 2020 incorporates 53 weeks compared to 52 weeks in the current year. The overall effect of this is to decrease both sales and expenses. Consequently, the business review below compares a 52 week year in 2021 to a 53 week year in 2020.

Business Review

Revenue for the 52 weeks ended 27 February 2021 was £744.1m (2020: £1,129.4m – 53 weeks), with sales decline being driven by store closures as a result of UK government COVID-19 legislation. Online continued to perform strongly reaching significant year on year growth facilitated by our roll out of fulfil from store which further increased our online order capacity.

Gross profit before exceptional items was £30.5m (2020: £129.8m). Gross profit including exceptional items was £30.5m (2020: £128.8m). We incurred significant levels of additional discounting in the year due to the need to liquidate stock during the limited period of store openings and have increased our terminal stock provisions in light of the stock package that we are carrying into FY22. This was offset by utilisation of the Coronavirus Job Retention Scheme and government issued business rates relief. We continued to improve our cost productivity and made necessary costs mitigations in light of the pressure of COVID-19.

Administrative expenses, before exceptional items, were £58.1m (2020: £58.9m). Administrative expenses, including exceptional items, were £69.8m (2020: £59.5m). During the year savings were delivered within staff costs due to furlough relief alongside cost reduction exercises performed across the business. This was offset by additional rent costs in the final quarter due to the successful sale and leaseback of the Group headquarters.

Exceptional items included in operating profit total £nil of costs of sales and £11.7m of administrative expenses (2020: £1.0m cost of sales and £0.6m of administrative expenses). Of the £11.7m exceptional costs, £4.6m relates to the loss on disposal of the Group's head office, which was undertaken to raise additional liquidity to repay a portion of the RCF and CLBILS loan. Refer to note 30 in the financial statements for more details.

Operating loss, before exceptional items, was £27.6m (2020: £70.9m profit). Operating loss including exceptional items was £39.3m (2020: £69.3m profit).

Net finance costs were £92.2m (2020: £87.6m), the increase driven by the additional debt financing obtained during the 52 weeks. Refer to note 5 to the financial statements for more details.

The statutory loss after tax was £115.7m (2020: £16.8m loss).

Additions to property, plant and equipment of £15.9m (2020: £29.5m) and intangible assets of £10.2m (2020: £20.1m) during the period include investment in ecommerce to allow orders to be fulfilled from store, warehouse management and supply chain reconfiguration, as well as investment to create a COVID-safe environment for customers and colleagues in our warehouses, offices and stores.

Development and performance of the business

Matalan is proud to be trusted to make everyday living brighter and better value for our customers. Our strategy aims to develop and grow Matalan into a truly omni-channel business and focuses on the following key areas;

1. Drive delivery in the core business
2. Further build and develop our capabilities
3. Unlock new growth opportunities

Drive delivery in the core business

The 2020 COVID-19 pandemic will have long lasting effects on customer behaviour, what they buy as well as where and how they want to shop. It is therefore crucial that now more than ever we continue to listen to our customers and evolve the way we operate. We will do this whilst being acutely aware of the role that we play in our customers' lives. At our core, we provide the range and value that enable our customers to dress themselves, their families and their homes with style and quality. In doing so 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.

The safety and wellbeing of our colleagues and customers is always our priority and this year we invested significantly in our warehouses, stores and offices to ensure that the environments were as safe as possible. We were one of the first large employers in the UK, working with Public Health England, to introduce mass lateral flow testing at our Knowsley warehouse site, subsequently acting as a case study for others to follow. We will continue to put the welfare of our customers and colleagues at the forefront of how we operate our business.

Strong and consistent execution of our core offer will remain paramount and as such so will our focus on maintaining deep and enduring relationships with our suppliers, the development of compelling ranges that offer outstanding value, and making those ranges available to our customers when and how they want to buy them. In doing so we will continue to exploit the benefits of RFID inventory tracking now fully implemented across our clothing ranges and planned to rollout to homeware ranges in 2021. We believe that this will enable the delivery of enhanced availability to customers, as well as a leaner and more efficient management of working capital.

Whilst we have significantly enhanced our online capacity over the past year during periods in which our stores were closed, we remain as committed as ever to our store business. We have a high-quality footprint in predominantly large format and convenient out of town locations. We see these as a real asset and their performance has proved resilient when permitted to open. We paused our store refurbishment programme in 2020 and 2021 to support short term liquidity but intend to re-commence the programme in 2022 given the strong response we have seen from customers prior to the disruption of the last year. Store property costs also represent a significant proportion of our cost base, and whilst out of town space is not as over rented in the current market as the High Street, we will continue to seek to re-base rent costs where appropriate as lease maturities approach.

Drive delivery in the core business (continued)

Critical to the value that we offer to our customers is our ability to operate cost effectively. We continuously challenge ourselves to improve our processes, minimize waste and execute right first time. During the year we successfully rolled out assisted checkouts in our stores, adding speed and convenience for customers whilst also improving our own cost productivity. In the year ahead we intend to add further automation within our supply chain network, further driving the efficiency of our core processes. In addition, the prolonged period of lockdown has enabled us to adopt new ways of working in our head office which, as well as promoting safe working as mentioned already, will create opportunities to rebalance resource to focus on areas of future growth.

Further build and develop our capabilities

With the pace of change in customer behaviour having been accelerated by the COVID-19 pandemic, we must continuously enhance our ability to respond and operate effectively. In many areas this will involve capitalising on investments already made as well as investing in new technology, process automation and digitalisation.

Our ambition to become a truly omni-channel business extends to many of our operational processes where we are confident greater agility across channels can offer benefits to both customers and our own efficiency and performance. During the last year our stores suffered six months of enforced closures due to COVID-19 lockdown restrictions. In order to significantly enhance our online capacity, we accelerated the development of a capability to fulfil online demand from store inventory, known as "fulfil from store". The already launched RFID inventory tracking was a key enabler to this process, although we focussed during the spring 2020 lockdown on rapidly operationalising back end systems and the in-store processes. As a result, by the autumn stores were successfully fulfilling up to 40% of online demand enabling a growth rate of over 200% compared to prior year.

Whilst such rapid development has been an undoubted success, there remains a need for more refinement of customer communications and order tracking post purchase. In addition, in the coming year we plan to create visibility of store stocks on our website independent of warehouse availability and to introduce the ability to split and fulfil orders from multiple locations where appropriate. These further enhancements will add yet more agility to how we manage availability and full price product sell through from a more efficient inventory position.

The ability to use our stores to fulfil online demand will remain a key element within our supply chain operation. However, we recognise that fulfilling online demand from our Knowsley warehouse will always be the most cost-effective fulfilment route. We are therefore investing in the introduction of significant additional online picking and despatch capacity in Knowsley, to come on stream towards the end of 2021. Via the installation of both batch picking and pocket sorting automation, capacity, efficiency and service levels will be significantly enhanced enabling the warehouse to continue to fulfil the majority of online orders in a channel that we forecast to continue to grow strongly.

2020 has seen unprecedented levels of COVID-19 driven trading volatility and the business has demonstrated a heightened level of agility. We had already begun expanding our supply base to provide a more agile mix of near and far east suppliers to better enable us to embed greater flexibility into our buy plan and operate a leaner inventory model. We will continue to develop our supply base to further enhance this capability over the coming year as well as utilising advancing technology to shorten critical paths with longstanding supply partners via digitalising processes.

Further build and develop our capabilities (continued)

Further digitalisation is also underway in the areas of customer relationship management, with our rapidly growing level of online penetration providing rich data opportunities to more effectively communicate with and influence the shopping behaviour of customers. Over the coming year this will also include further development of our App, adding functionality and increasingly making it the home of the loyalty programme. In addition, we are progressing the adoption of CGI and AI within our Marketing production processes, enhancing agility and cost effectiveness.

Matalan is acutely aware that our customers, colleagues and wider stakeholders are increasingly focussed on the approach businesses are taking to incorporate environmental, social and governance (ESG) concerns into their ways of working. ESG forms a key leg of our strategy with our initial focus on building on our already strong position on ethical sourcing with our suppliers along with our very active support of charities in our local communities. Over the coming year we intend to develop the next stage of our ESG strategy and will communicate this in due course.

Unlock new growth

Research tells us that the breadth of our customer base, wide brand appeal, and existing scale of presence in both the physical and digital retail space, presents several material opportunities to accelerate and unlock new and existing routes to growth.

Our online channel has grown rapidly in the last year, in part due to the enforced closures of the stores but also fuelled by an improved customer journey, investment in customer acquisition, and greater fulfilment capacity. We believe there remains significant further growth opportunity to migrate loyal store customers into a multi-channel shopping pattern, increasing shopping frequency and customer value. We will continue to capitalise on increased operational headroom in the year ahead and further improve the customer journey to continue the progress already underway.

In late 2020 we completed the necessary development of our website to launch our first direct delivered range extensions via branded partners. These ranges are retailed on our website but delivered to customers directly from the 3rd party vendor without needing to pass it through our supply chain. The initial categories included curtains, furniture, art and lighting and have proved extremely popular. We intend to continue to further develop customer awareness of the expanded online ranges and add significantly to those currently available, capitalising on our breadth of reach and volume of online traffic.

To support the addition of the new 3rd party fulfilled branded ranges online, many of which retail at higher price points than our core clothing and homeware range, we are developing the capability to provide pay later options to our customers via a 3rd party partner.

Within our store estate, we have already successfully expanded customer choice via the introduction of several concessions with respected category specialists. These have complemented our own ranges and utilised surplus space created by the adoption of more efficient merchandising techniques. We will continue to explore further opportunities in this regard where they will provide incremental choice, convenience and value for customers. We also believe there are a number of adjacent product categories which offer range expansion opportunities for the Matalan brand in store and on-line and in many cases where our customers are already asking us to provide an offer. We will test a number of these over the coming year.

Unlock new growth (continued)

The current store footprint operates across 230 stores across the UK. Whilst the migration of customers to online during the COVID-19 pandemic is clear for all to see, we believe that quality retail space, in convenient locations, retailing a compelling offer, and operated at appropriate property economics remains attractive. We will therefore continue to assess opportunities to open new space in a cautious and considered manner.

Internationally, we have a successful franchise network and currently trade via 48 stores in 14 countries operated by a highly skilled partner base of experienced retail operators. This network has continued to expand during the last year and we see significant further growth potential via this model. In addition, we are exploring commercial models to support digital market entry into both the existing franchise territories, as well as unlocking new markets.

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

The COVID-19 pandemic and the UK government restrictions in response prompted three separate National lockdowns in the financial period ending 27th February 2021. During these lockdown periods all stores selling items deemed to be non-essential were mandated to close, prompting the closure of the entire Matalan store estate each time. These lockdowns were also interspersed by more localised and time-limited periods of restrictions as a result of the tiering systems adopted by the different UK nations. Our online offering has been able to trade throughout the period, with a level of the lost store revenues mitigated by significant growth in our e-commerce business. Nevertheless, during the financial period, Matalan has lost significant sums of revenue as a direct result of these Covid-19 restrictions.

As a result, the Board has taken and continues to take decisive actions to mitigate the risk and to manage the impact of Covid-19 on the Matalan business. These actions were implemented to significantly reduce costs and to enhance liquidity and included reductions in stock commitment, renegotiation of supplier payment terms, negotiated rent deferrals with our store landlords, and participation in the government's business rates holiday, Job Retention Scheme, and HMRC time to pay arrangements. The group also managed to successfully access additional funding through the issuance of new bond notes and new banking facilities via the CLBILS scheme.

At the time of writing, the entire Matalan store estate is now fully open following the unlocking of non-essential retail as part of the UK Government's roadmap out of lockdown.

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.

Principal risks and uncertainties (continued)

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.

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.

Principal risks and uncertainties (continued)

Brexit - We welcome the clarity and certainty provided by the successful resolution of Brexit and the negotiation of a free trade agreement with the EU. However, the impact on the Matalan Group is limited.

Over 97% of group revenue is generated in the UK with most of our International sales realised in countries outside of the EU. The vast majority of our supply base are located in non-EU Countries, with whom the trading terms and tariffs are substantively unchanged as a result of Brexit.

Following the agreement of the UK-EU Free Trade Agreement in December 2020, the pound sterling has strengthened against the dollar, but there remains the potential for further volatility in exchange rates.

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 a loss of £21.5m (2020: £80.3m profit), see note 8 to the financial statements for a reconciliation to the statutory results.

By order of the board

S Hill
Director
8 June 2021

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

The directors present their report for the 52 weeks ended 27 February 2021.

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 trading, the Group 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 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 27 February 2021, 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 funding in place and the Group's forecasts to 2023, 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 2021, 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 2021 and January 2022.

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 (2020: £nil).

Dividends
No dividend has been paid by the Company in the period (2020: £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 27 February 2021 were 94 days (2020: 64 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
8 June 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Group and the parent 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 they have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- assess the Group and the parent Company's 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 Group or the parent 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 Group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the Group and parent Company financial statements of Missouri Topco Limited ("the Company") for the 52 week period ended 27 February 2021 which comprise the Group and parent Company Income Statements, the Group and parent Company Statements of Comprehensive Income, the Group and parent Company Statements of Financial Position, the Group and parent Company Statements of Cash Flows, the Group and parent Company Statements of Changes in Shareholders' Equity and the related notes, including the accounting policies in note 2.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 27 February 2021 and of the Group's loss and the parent Company's result for the 52 week 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 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 financial statements which indicates that the ability of the Group and parent Company to continue as a going concern is dependent upon a successful refinancing which itself is dependent on no further extended period of business disruption as a result of COVID-19 having a material negative impact on the ability of the business to trade from its stores estate during the remainder of FY22. 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 opinion is not modified in this respect.

Going concern

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors and other management as to the Group's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, and taking into account possible incentives or pressures to misstate performance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, and the risk that management may be in a position to make inappropriate accounting entries. We did not identify any additional fraud risks.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition the risk that Group and component management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We also performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation;
- incorporating an element of unpredictability in our audit procedures;
- identifying specific revenue journal entries and other adjustments to revenue to test based on risk criteria and comparing any identified entries to supporting documentation; and
- evaluating the business purpose of significant unusual transactions.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information together with the financial statements. The other information comprises the Directors' and advisors, the Strategic report, the Directors' report and the Statement of directors' responsibilities. Our opinion on the financial statements does not cover the other information and, accordingly, 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, based on our financial statements audit work, the other information therein is materially inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- the parent Company has not kept proper accounting records; or
- the parent Company 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and the parent 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 parent 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 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 financial statements.

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

The purpose of our audit work and to whom we owe our responsibilities

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.

KPMG LLP

KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

8 June 2021

MISSOURI TOPCO LIMITED

INCOME STATEMENT

	Note	Group 52 weeks ended 27 February 2021 £'m	Group 53 weeks ended 29 February 2020 £'m	Company 52 weeks ended 27 February 2021 £'m	Company 53 weeks ended 29 February 2020 £'m
Revenue	4	**744.1**	1,129.4	-	60.3
Cost of sales (including exceptional items)	4	**(713.6)**	(1,000.6)	-	-
Gross profit (including exceptional items)	4	**30.5**	128.8	-	60.3
Administrative expenses (including exceptional items)	4	**(69.8)**	(59.5)	-	-
Operating (loss)/ profit (including exceptional items)	4	**(39.3)**	69.3	-	60.3
Operating (loss)/ profit (pre-exceptional items)		**(27.6)**	70.9	-	60.3
Exceptional items – cost of sales	30	-	(1.0)	-	-
Exceptional items - administrative expenses	30	**(11.7)**	(0.6)	-	-
Operating (loss)/ profit		**(39.3)**	69.3	-	60.3
Finance costs	5	**(95.9)**	(88.1)	-	-
Finance income	5	**4.9**	0.5	-	-
Exceptional items – finance costs	30	**(1.2)**	-	-	-
Net finance costs		**(92.2)**	(87.6)	-	-
(Loss)/ profit before income tax and exceptional items	9	**(118.6)**	(16.7)	-	60.3
Total exceptional items		**(12.9)**	(1.6)	-	-
(Loss)/ profit before income tax		**(131.5)**	(18.3)	-	60.3
Income tax credit	10	**15.8**	1.5	-	-
(Loss)/ profit for the period		**(115.7)**	(16.8)	-	60.3

STATEMENT OF COMPREHENSIVE INCOME

	Group	
	52 weeks ended 27 February 2021 £'m	53 weeks ended 29 February 2020 £'m
Loss for the period	**(115.7)**	(16.8)
Other comprehensive (expenditure)/ income:		
Items that are or may be reclassified subsequently to profit or loss		
Cash flow hedges		
Fair value (loss)/ gain in the period	**(32.1)**	11.7
Tax element of cash flow hedges	**4.1**	(1.2)
Other comprehensive (expenditure)/ income for the period, net of tax	**(28.0)**	10.5
Total comprehensive expenditure for the period	**(143.7)**	(6.3)
Hedging gains and losses transferred to inventory	**9.0**	(3.6)*

The Company has no other comprehensive income in the current or prior period.

*An adjustment has now been made to present hedging gains and losses transferred to inventory outside of other comprehensive income.

MISSOURI TOPCO LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 27 FEBRUARY 2021

	Note	Group 2021 £'m	Group 2020 £'m	Company 2021 £'m	Company 2020 £'m
Assets					
Property, plant and equipment	11	**179.5**	220.0	-	-
Right-of-use assets	24	**417.8**	460.1	-	-
Intangible assets	12	**49.8**	50.5	-	-
Investments	13	-	-	**459.0**	458.6
Deferred tax asset	10	**15.0**	-	-	-
Trade and other receivables	15	-	-	**30.1**	-
Financial assets - derivative financial instruments	19	-	4.6	-	-
Total non-current assets		**662.1**	735.2	**489.1**	458.6
Inventories - goods for resale	14	**131.8**	133.0	-	-
Trade and other receivables	15	**20.5**	23.6	-	30.1
Financial assets - derivative financial instruments	19	-	15.7	-	-
Current tax asset		**0.3**	-	-	-
Cash and cash equivalents	16	**110.0**	61.2	-	-
Total current assets		**262.6**	233.5	-	30.1
Total assets		**924.7**	968.7	**489.1**	488.7
Liabilities					
Overdraft	16	**(17.1)**	-	-	-
Financial liabilities – derivative financial instruments	19	**(25.9)**	(1.1)	-	-
Short-term lease liabilities	24	**(84.6)**	(61.0)	-	-
Trade and other payables	18	**(163.0)**	(171.3)	**(0.3)**	(0.3)
Current income tax liabilities		-	(0.1)	-	-
Provisions for other liabilities and charges	20	**(0.5)**	-	-	-
Total current liabilities		**(291.1)**	(233.5)	**(0.3)**	(0.3)
Financial liabilities – borrowings	17	**(526.5)**	(476.3)	-	-
Long-term lease liabilities	24	**(446.2)**	(461.4)	-	-
Financial liabilities – derivative financial instruments	19	**(0.8)**	-	-	-
Deferred income tax liabilities	10	-	(4.5)	-	-
Provisions for other liabilities and charges	20	**(1.4)**	-	-	-
Total non-current liabilities		**(974.9)**	(942.2)	-	-
Total liabilities		**(1,266.0)**	(1,175.7)	**(0.3)**	(0.3)
Net (liabilities)/ assets		**(341.3)**	(207.0)	**488.8**	488.4
Shareholders' (deficit)/ equity					
Share capital	21	**17.3**	17.3	**17.3**	17.3
Share premium		**385.6**	385.6	**385.6**	385.6
Hedge reserve		**(7.0)**	12.0	-	-
Merger reserve		**(770.1)**	(774.3)	-	-
Warrant reserve		-	3.1	-	-
Capital redemption reserve		**4.6**	5.7	**4.6**	4.6
Retained earnings		**28.3**	143.6	**81.3**	80.9
Total shareholders' (deficit)/ equity		**(341.3)**	(207.0)	**488.8**	488.4

The financial statements on pages 15 to 60 were approved by the Board of Directors on 8 June 2021 and signed on its behalf by:

S Johnson
Director

S Hill
Director

MISSOURI TOPCO LIMITED

STATEMENT OF CASH FLOWS

	Note	Group		Company	
		2021	2020	**2021**	2020
		£'m	£'m	**£'m**	£'m
Cash flows from operating activities					
Cash generated from operations	22	**80.8**	183.7	-	-
Interest paid		**(76.2)**	(86.0)	-	-
Tax paid		-	(2.5)	-	-
Net cash generated from operating activities		**4.6**	95.2	-	-
Cash flows from investing activities					
Purchases of property, plant and equipment		**(15.8)**	(32.1)	-	-
Purchases of intangible assets		**(9.5)**	(19.7)	-	-
Interest received		**0.5**	0.5	-	-
Proceeds from sale of building	30	**25.0**	-	-	-
Gain on sale of forward contracts	25	**18.3**	-	-	-
Net cash generated from/ (used) in investing activities		**18.5**	(51.3)	-	-
Cash flows from financing activities					
Repayment of lease liabilities		**(20.7)**	(54.9)	-	-
Repurchase of shares		-	(0.3)	-	-
Exceptional finance costs		**(1.2)**	-	-	-
Loan issued		**25.0**	-	-	-
Bonds issued		**27.7**	-	-	-
Issue costs		**(13.9)**	-	-	-
Repayment of loan		**(8.3)**	-	-	-
Net cash generated from/ (used in) financing activities		**8.6**	(55.2)	-	-
Net increase/(decrease) in cash and cash equivalents		**31.7**	(11.3)	-	-
Cash and cash equivalents at the beginning of the period		**61.2**	72.5	-	-
Net cash and cash equivalents at the end of the period	16	**92.9**	61.2	-	-

The Company had no cash flows in 2021 (2020: none).

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 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 profit for the period	-	-	-	-	-	-	(16.8)	(16.8)
Other comprehensive expenditure								
Cash flow hedges								
- fair value gain in the period	-	-	-	11.7	-	-	-	**11.7**
- tax element of cash flow hedges	-	-	-	(1.2)	-	-	-	**(1.2)**
Total cash flow hedges, net of tax	-	-	-	**10.5**	-	-	-	**10.5**
Total other comprehensive income, net of tax	-	-	-	**10.5**	-	-	-	**10.5**
Hedging gains and losses transferred to the cost of inventory	-	-	-	(3.6)	-	-		**(3.6)**
Transactions with owners								
Fair value credit 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)**

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 1 March 2020	17.3	385.6	(774.3)	12.0	5.7	3.1	143.6	(207.0)
Comprehensive expenditure								
Loss for the period	-	-	-	-	-	-	(115.7)	(115.7)
Total loss for the period	-	-	-	-	-	-	(115.7)	(115.7)
Other comprehensive expenditure								
Cash flow hedges								
- fair value loss in the period	-	-	-	(32.1)	-	-	-	**(32.1)**
- tax element of cash flow hedges	-	-	-	4.1	-	-	-	**4.1**
Total cash flow hedges, net of tax	-	-	-	**(28.0)**	-	-	-	**(28.0)**
Total other comprehensive income, net of tax	-	-	-	**(28.0)**	-	-	-	**(28.0)**
Hedging gains and losses transferred to the cost of inventory	-	-	-	**9.0**	-	-	-	**9.0**
Reserves reclassification	-	-	4.2	-	(1.1)	(3.1)	-	-
Transactions with owners								
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	0.4	**0.4**
Total transactions with owners	-	-	-	-	-	-	**0.4**	**0.4**
As at 27 February 2021	**17.3**	**385.6**	**(770.1)**	**(7.0)**	**4.6**	-	**28.3**	**(341.3)**

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Company	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity £'m
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**
As at 1 March 2020	**17.3**	**385.6**	**4.6**	**80.9**	**488.4**
Comprehensive expenditure					
Profit for the period	-	-	-	-	-
Total comprehensive expenditure	-	-	-	-	-
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	0.4	**0.4**
Total transactions with owners	-	-	-	0.4	0.4
As at 27 February 2021	**17.3**	**385.6**	**4.6**	**81.3**	**488.8**

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 recoverable amount.

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.

2.2 New standards, amendments to standards or interpretations

The Group has adopted the following IFRSs in these financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform has been adopted from 1 March 2020. This has been applied retrospectively to hedging relationships that existed at 1 March 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform. These amendments also apply to any gain or loss accumulated in the cash flow hedging reserve that existed at 1 March 2020. The details of the accounting policies are disclosed in note 2.17. See also note 3 for related disclosures about risks and hedge accounting.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 1 and IAS 8: Definition of Material.

These do not have a material impact on the Group and Company's financial statements.

2. Summary of significant accounting policies (continued)

2.3 Going concern

The COVID-19 pandemic and the UK government restrictions in response resulted in three separate national lockdowns in the financial period, prompting the closure of the Matalan UK store estate for three extended periods. These lockdowns were also interspersed by more localised and time-limited periods of restrictions as a result of the tiering systems adopted by the different UK nations.

Our online offering has been able to trade throughout this period, with a level of the lost store revenues mitigated by significant growth in our e-commerce business. Nevertheless, Matalan has lost significant sums of revenue as a direct result of these COVID-19 restrictions.

Consequently we have taken and continue to take decisive action in implementing a number of significant cost reduction and liquidity enhancing actions throughout the business, including significant reduction to stock commitment, renegotiation of supplier payment terms, negotiated rent deferrals with our store landlords, and participation in the government's business rates holiday, Job Retention Scheme, and HMRC time to pay arrangements. During the financial period, the Group also managed to successfully access additional funding through the issuance of new bond notes and new banking facilities via the CLBILS scheme in June 2020.

As a result of the actions taken and despite the extended periods of store closures, the Group held cash on its balance sheet as at 27th February 2021 of £110.0m.

The Group's banking facility lenders have remained consistently supportive of the business. The Group's RCF lenders agreed appropriate amendments to the facility terms in FY21 to reflect the impact of COVID-19 on trading performance. The Group has also successfully agreed a suspension of the net leverage ratio covenant testing in its Revolving Facility Agreement for the second and third quarters of the financial year ending February 2022, consistent with business forecasts.

Whilst we remain hopeful that the success of the UK's vaccine roll-out will limit the need for further significant restrictions, 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 2021 and January 2022. It should be noted that this scenario is currently considered highly unlikely in that it both covers part of the peak annual trading period and would also require a significant change in current government policy in regard to further national lockdowns. In this scenario, the forecasts show the Group would have sufficient funds to continue to operate. The forecasts also show the Group having sufficient liquidity to pass all remaining applicable covenant tests going forwards.

The directors have assessed the Group forecasts in order to inform the board's conclusions as to the ability of the Group and the parent 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 parent Company has the liquidity it requires and will continue to have sufficient headroom to meet its liabilities in full over the next 12 months from the date of approval of these financial statements.

Whilst the Group has no debt facilities expiring in the next 12 months, the directors wish to draw attention to the fact that the Group has a number of significant facilities maturing between July 2022 and January 2023. Given the timescales involved, there is no immediate requirements to refinance, but the directors are nevertheless assessing the options around the potential future refinancing of these debts.

The Board believe that, based on Group forecasts and at its projected level of performance, that the Group will, when required to do so, be able to refinance these maturing facilities successfully. This ability is subject to there being no further extended period of business disruption as a result of COVID-19 having a material negative impact on the ability of the business to trade from its store estate during the remainder of FY22. The potential impact that further COVID related store closures might have on a future Group refinancing constitutes a material uncertainty that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern, and to realise their assets and discharge their liabilities in the normal course of business.

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

2.3 Going concern (continued)

Taking all of the above matters into account, the directors have concluded that it remains appropriate to adopt the going concern basis in the preparation of these financial statements. The financial statements therefore do not include any adjustments that would result from the basis of preparation being inappropriate.

2.4 Critical accounting estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions concerning the future that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These 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 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. Provisions are made from those items of inventory where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding future selling values and disposal channels, and is consequently a source of estimation uncertainty. The third national lockdown in response to the COVID-19 pandemic commenced on 4th January 2021 and lasted for a period of 14 weeks, crossing the financial year-end. As a result, the closure of the entire store estate for that period meant that there were far greater levels of prior season stock holding at year-end as well as increased uncertainty around the Group's opportunity to liquidate this stock. Due to the unique circumstances in existence at the year end, there is a significantly higher level of sensitivity inherent in the judgments made by management and, as a result, there is an increased potential for far greater volatility between management estimates and actual post year-end performance.

Details regarding the level of write-offs and provisions recognised against inventory during both the current and prior year are disclosed in note 14 and reflect the material nature of these amounts.

(b) Provisions

Provisions have been made for dilapidations and onerous contracts. Information relating to provisions is disclosed in note 20. 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.

(d) IFRS 16 Leases

Under IFRS 16, the Group recognises right-of-use assets representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, adjusted to take into account the risk associated with the location of the lease, and length of the lease, which ranges between 1 to 15 years. The Group has therefore made a judgement to determine the incremental borrowing rate used. The discount rate applied ranges between 7.49% and 11.31% dependent on the length and location of the lease. The length of the lease term is based on the contractual right to utilise the asset and is not considered to involve a significant level of judgement because the Group has not taken into account break clauses except in specific circumstances.

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

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.

2.6 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. Dropship revenue is recognised when goods are despatched, and the title has passed. International revenue is recognised on ex works basis, in line with our franchise contracts.

For the parent company, as an investment holding company, dividend income is presented in revenue.

2.7 Finance income and expenditure
Financing expenses include interest payable, finance charges on lease liabilities 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. Summary of accounting policies and new standards (continued)

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.

Management consider there to be two cash generating units. The first cash generating unit incorporates the online channel and all of the physical retail stores, with the exception of Oxford Street, on the basis that they share a single primary trading purpose, namely the omnichannel retail of fashion and homeware. The Oxford Street store is treated as a second, separate cash generating unit, on the basis its key primary function is as a brand flagship for the Group. In the financial year, the Oxford Street store has been impaired due to the decline in the brand value of Oxford Street itself, and its reputation as a retail destination. See note 30 for details of impairment.

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. Summary of accounting policies and new standards (continued)

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. Inventories of goods purchased from overseas are recognised at the point that control passes.

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 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.

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

2.17 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.

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.

2.18 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.

2.19 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.

2.20 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. Summary of significant accounting policies (continued)

2.21 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.

2.22 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.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables with significant financing component are measured using the general model described above.

2. Summary of significant accounting policies (continued)

2.26 Trade and other receivables (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency S&P.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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.

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.

2.29 Government Grants
Government grants are initially recognised as accrued income at fair value if there is reasonable assurance that they will be received, and the Group has complied with the conditions associated with the grant. Grants that compensate the Group for expenses or losses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses or losses are recognised. Government grants relating to the Coronavirus Job Retention Scheme, are included within accruals in the balance sheet and credited to the profit and loss account on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. The Group has elected to present grants related to expenses as a reduction to the related expense line.

2.30 Right-of-use assets

The right-of-use asset is measured at cost, comprising the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date (net of incentives received). The right-of-use asset is subsequently depreciated and impaired (as determined by IAS 36) where indicators of impairment exist, adjusted for certain remeasurements of the lease liability. Depreciation is applied on a straight-line basis from the lease commencement date until the end of the lease term or the end of the useful life of the underlying asset, whichever is earliest.

2.31 Lease liabilities

The lease liability is initially recognised at the present value of the lease payments unpaid at that date, discounted using the rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed lease payments (including in substance fixed) less any lease incentives;
- Variable payments based on an index or rate;
- Amounts expected to be paid under a residual value guarantee;
- Payments arising from options reasonably certain to be exercised; and
- Penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest method and reduced by lease payments that are allocated between repayments of principal and finance costs. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

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% (2020: 100%) of projected purchases in US dollars qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 27 February 2021, if sterling had strengthened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £3.6m higher (2020: £2.3m 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 27 February 2021, if sterling had weakened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £4.4m lower (2020: £2.8m 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.

(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 0.00% (2020: 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 (2020: £nil). During 2021 and 2020, the Group's borrowings at fixed rates were denominated in sterling.

3. Financial risk management (continued)

(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).

The Group's cash and cash equivalents are all held with established high street banks. A summary of the Group's exposure to credit risk for cash and cash equivalents by credit risk rating is presented below:

Credit risk rating	Credit impaired	Not credit-impaired	Impairment
	£'m	£'m	£'m
BBB+	-	104.9	-
BBB	-	5.1	-

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 maintaining a range of credit lines of varying maturities.

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.

3. Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
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	(171.3)	-	-	-
Lease liabilities	(107.9)	(101.9)	(273.6)	(277.3)
	(316.3)	**(137.9)**	**(801.9)**	**(277.3)**
At 27 February 2021				
Borrowings (before deduction of £11.6m issue costs) including interest payable	(29.6)	(449.4)	(166.0)	-
Derivative financial instruments	(25.9)	(0.8)	-	-
Trade and other payables	(163.0)	-	-	-
Lease liabilities	(108.5)	(103.2)	(274.5)	(264.8)
Provisions for liabilities and charges	(0.5)	(0.7)	(1.0)	-
	(327.5)	**(554.1)**	**(441.5)**	**(264.8)**

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 29 February 2020				
Cash flow hedges:				
Inflows	15.7	4.6	-	-
Outflows	(1.1)	-	-	-
	14.6	**4.6**	-	-
At 27 February 2021				
Cash flow hedges:				
Inflows	-	-	-	-
Outflows	(25.9)	(0.8)	-	-
	(25.9)	**(0.8)**	-	-

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 (including overdraft) 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	**2021 £'m**	2020 £'m
Total borrowings (net of issue costs)	17	**526.5**	**476.3**
Less: Net cash and cash equivalents	16	**(92.9)**	**(61.2)**
Net debt		**433.6**	**415.1**
Adjusted total capital		**428.8**	567.3
Gearing ratio		**101%**	73%

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 minimum cash level. 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 27 February 2021:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets				
Cash flow hedges	-	-	-	-
Total assets	**-**	**-**	**-**	**-**
Liabilities				
Cash flow hedges	-	(26.7)	-	(26.7)
Total liabilities	**-**	**(26.7)**	**-**	**(26.7)**

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

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'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 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.

4. Operating profit

	Group 2021 £'m	Group 2020 £'m
Revenue	**744.1**	1,129.4
Total Revenue	**744.1**	1,129.4
Cost of goods sold	**(431.4)**	(620.7)
Selling expenses	**(243.3)**	(330.4)
Distribution expenses – pre exceptional items	**(38.9)**	(48.5)
Exceptional items – distribution expenses	**-**	(1.0)
Total cost of sales	**(713.6)**	(1,000.6)
Gross profit	**30.5**	128.8
Administrative expenses - pre exceptional items	**(58.1)**	(58.9)
Exceptional items - administrative expenses	**(11.7)**	(0.6)
Administrative expenses	**(69.8)**	(59.5)
Operating (loss)/ profit	**(39.3)**	69.3

Further details of exceptional items above are included in note 30.

Revenue of the Company is £nil (2020: £60.8m) relating to dividend received.

5. Net finance costs

	Group 2021 £'m	Group 2020 £'m
Finance costs and similar charges:		
Interest payable on notes	**(40.4)**	(36.6)
Amortisation of finance costs:		
Notes costs	**(5.9)**	(1.2)
Other interest payable	**(1.8)**	(1.0)
IFRS 16 interest charge	**(47.8)**	(49.3)
Finance costs	**(95.9)**	(88.1)
Exceptional finance expense	**(1.2)**	-
Finance income:		
Interest receivable on short term cash deposits	**-**	0.5
Gain on sale of forward contracts	**4.4**	-
Gain on ineffective forward contracts	**0.5**	-
Finance income	**4.9**	0.5
Net finance costs	**(92.2)**	(87.6)

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:

	2021	2020
	£'m	£'m
Aggregate emoluments and fees (including benefits in kind)	**2.4**	1.7
	2.4	1.7

The directors accrued £0.1m in defined contribution pension schemes during the year. Under arrangements for selected individuals to subscribe for equity settled "B" shares, a debit has been made to the income statement of £0.4m (2020: £0.4m) in respect of directors within administrative expenses.

Amounts paid to the highest paid director:

	2021	2020
	£'m	£'m
Aggregate emoluments	**0.8**	0.6
Performance bonuses and other emoluments	**-**	-
	0.8	0.6

7. Employee information

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

	Group	
	2021	2020
	Number	Number
By function		
Selling and distribution	**10,864**	12,106
Administration	**694**	747
	11,558	12,853

	2021	2020
	£'m	£'m
Staff costs (for the above persons)		
Wages and salaries	**108.7**	150.3
Social security costs	**6.9**	8.3
Other pension costs	**0.2**	0.7
Share based compensation charge	**0.4**	0.4
Termination payments	**2.0**	0.6
	118.2	160.3

The Company does not have any employees (2020: none).

In relation to employee remuneration, the company has netted £28.8m of government grant income from the Coronavirus Job Retention Scheme against the associated charge, of which £4.9m is accrued at the year end.

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 Group is an omnichannel retailer and as such the customer journey often involves more than one channel. 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 £(21.5)m (2020: £80.3m). This can be reconciled to statutory operating (loss)/ profit as follows:

	Group	
	2021 (under IFRS 16) £'m	2020 (under IFRS 16) £'m
Operating (loss)/ profit	**(39.3)**	69.3
Depreciation and amortisation	**108.1**	112.1
Exceptional items	**11.7**	1.6
EBITDA before exceptional items	**80.5**	183.0

Reconciliation to IAS 17 EBITDA

EBITDA pre exceptionals under IFRS 16	**80.5**	183.0
Increase in cost of sales	**(101.7)**	(102.4)
Increase in administrative expenses	**(0.3)**	(0.3)
EBITDA pre exceptionals under IAS 17	**(21.5)**	80.3

The Group utilises IAS 17 EBITDA to provide users of the accounts with a consistent measure of performance. IAS 17 EBITDA is arrived at by taking IFRS 16 EBITDA and adding back IAS 17 operating lease charges.

The revenue analysis by geographic area for the 52 weeks ended 27 February 2021 is as follows:

	2021 £'m	**2020 £'m**
United Kingdom	721.1	1,099.0
Rest of the World	23.0	30.4

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.

9. Loss before income tax

	Group	
	2021	2020
	£'m	£'m
Loss on ordinary activities before tax is stated after charging / (crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	**445.1**	636.8
Depreciation charge for the period on property, plant and equipment and right-of-use assets	**97.2**	102.0
Amortisation of intangible assets	**10.9**	10.1
Fair value charge for subscription for 'B' shares	**0.4**	0.4
Exceptional items (note 30)	**12.9**	1.6
Net foreign exchange gains	**(13.7)**	(16.1)
Fees payable to the Group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies	**0.3**	0.2

The audit fee for the Company amounting to £20,000 (2020: £15,000) is borne by a fellow group company. The total group audit fee is £0.3m (2020: £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 2021 £'m	Group 2020 £'m
Current income tax		
UK corporation tax – current year	**(0.4)**	-
UK corporation tax – prior year	**-**	(0.1)
	(0.4)	(0.1)
Deferred income tax		
Deferred income tax relating to the origination and reversal of temporary differences	**(14.5)**	(1.8)
Effect of change in income tax rates	**0.2**	-
Adjustment in respect of prior periods	**(1.1)**	0.4
	(15.4)	(1.4)
Total income tax credit	**(15.8)**	(1.5)

The Group income tax credit for the period is lower (2020: charge is lower) than the rate of corporation tax of 19.0% (2020: 19.0%). The rate of corporation tax is based on a weighted average rate. A UK corporation tax rate of 19% (effective 1 April 2020) was substantially enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset at 27 February 2021 has been calculated based on 19% (2019: 17%).

The differences are explained below:

	Group 2021 £'m	Group 2020 £'m
Loss for the period	**(115.7)**	(16.8)
Income tax credit	**(15.8)**	(1.5)
Loss on ordinary activities excluding income tax	**(131.5)**	(18.3)
Loss on ordinary activities multiplied by the rate of corporation tax of 19.0% (2020: 19.0%)	**(25.0)**	(3.5)
Effects of:		
Non-deductible expenses	**1.9**	1.1
Adjustments to income tax in respect of prior periods	**(1.1)**	0.4
Deferred income tax not recognised	**8.2**	0.3
Change in the rate of tax	**0.2**	0.2
Total income tax credit	**(15.8)**	(1.5)

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 19% (2020: 17% except for financial derivatives where deferred tax has been calculated using a tax rate of 19%). In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the group's future tax charge. If this rate had been substantially enacted at the current balance sheet date the deferred tax asset would have increased by £3.2m.

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

	Group	
	2021	2020
	£'m	£'m
At the beginning of the period	**(4.5)**	(4.6)
Taken to equity:		
- hedge reserve	**4.1**	(1.2)
Taken to income statement:		
- prior year movement	**1.1**	(0.4)
- depreciation in advance of capital allowances	**3.7**	0.1
- temporary timing differences	**10.8**	1.6
-change in the rate of tax	**(0.2)**	-
At the end of the period	**15.0**	(4.5)

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

	Assets		Liabilities		Net	
	2021	2020	**2021**	2020	**2021**	2020
	£'m	£'m	**£'m**	£'m	**£'m**	£'m
Property, plant and equipment	**2.4**	-	-	(3.4)	**2.4**	(3.4)
Rolled over capital gain	-	-	-	(0.6)	-	(0.6)
Short-term temporary differences	**10.9**	1.9	-	-	**10.9**	1.9
Financial derivatives	**1.7**	-	-	(2.4)	**1.7**	(2.4)
Net deferred income tax assets/ (liabilities)	**15.0**	1.9	-	(6.4)	**15.0**	(4.5)

A deferred income tax asset of £3.7m (2020: £3.3m) 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	Accelerated tax depreciation £m	Short term temporary differences £'m	Total £'m
At 24 February 2019	-	-	0.4	0.4
Credited to the income statement	-	-	1.5	1.5
At 29 February 2020	-	-	1.9	1.9
At 29 February 2020	-	-	1.9	1.9
Credited to the income statement	-	2.4	9.0	11.4
Taken directly to equity	1.7	-	-	1.7
At 27 February 2021	**1.7**	**2.4**	**10.9**	**15.0**

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 24 February 2019	(3.3)	(0.6)	(1.1)	(5.0)
Charged to the income statement	(0.1)	-	-	(0.1)
Taken directly to equity	-	-	(1.3)	(1.3)
At 29 February 2020	(3.4)	(0.6)	(2.4)	(6.4)
At 29 February 2020	(3.4)	(0.6)	(2.4)	(6.4)
Credited to the income statement	3.4	0.6	-	4.0
Taken directly to equity	-	-	2.4	2.4
At 27 February 2021	-	-	-	-

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 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
At 1 March 2020	279.2	0.1	308.8	4.5	592.6
Additions	8.9	-	5.2	1.8	15.9
Disposals	(32.6)	-	-	-	(32.6)
Transfers	-	-	4.5	(4.5)	-
At 27 February 2021	**255.5**	**0.1**	**318.5**	**1.8**	**575.9**
Accumulated depreciation					
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
At 1 March 2020	130.0	-	242.6	-	372.6
Charge for the period	13.1	-	13.7	-	26.8
Impairment	4.6	-	-	-	4.6
Disposals	(7.6)	-	-	-	(7.6)
At 27 February 2021	**140.1**	**-**	**256.3**	**-**	**396.4**
Net book value					
At 27 February 2021	**115.4**	**0.1**	**62.2**	**1.8**	**179.5**
Net book value					
As at 29 February 2020	149.2	0.1	66.2	4.5	220.0

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 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
At 1 March 2020	4.7	148.8	10.0	0.9	164.4
Additions	-	9.7	0.5	-	10.2
Transfers	-	10.0	(10.0)	-	-
At 27 February 2021	**4.7**	**168.5**	**0.5**	**0.9**	**174.6**
Aggregate amortisation					
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
At 1 March 2020	2.6	110.4	-	0.9	113.9
Charge for the period	0.6	10.3	-	-	10.9
At 27 February 2021	**3.2**	**120.7**	**-**	**0.9**	**124.8**
Net book value					
At 27 February 2021	**1.5**	**47.8**	**0.5**	**-**	**49.8**
Net book value					
At 29 February 2020	2.1	38.4	10.0	-	50.5

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 24 February 2019	458.2
Fair value credit to group undertakings for subscription for 'B' shares	0.4
At 29 February 2020	458.6
At 29 February 2020	458.6
Fair value credit to group undertakings for subscription for 'B' shares	0.4
At 27 February 2021	**459.0**

A list of principal subsidiary undertakings is given in note 31.

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	
	2021 £'m	2020 £'m
Finished goods	**131.8**	133.0

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £445.1m (2020: £636.8m). During the period the Group has written off and provided against £29.2m (2020: £16.9m) of inventories.

The Company has no inventories.

15. Trade and other receivables – current

	Group	
	2021 £'m	2020 £'m
Trade receivables	**9.2**	10.2
Prepayments and accrued income	**11.3**	13.4
	20.5	23.6

The Company is owed £30.1m by group undertakings at the period end (2020: £30.1m).

During the financial year the amount owed by group undertakings was reallocated to non-current assets on the basis that there is currently no intention for the Company to seek the settlement of this balance in the next 12 months.

16. Cash and cash equivalents

	Group	
	2021	2020
	£'m	£'m
Cash at bank and in hand	**110.0**	61.2
Overdraft	**(17.1)**	-
Net cash and cash equivalents	**92.9**	61.2

The Company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.00% (2020: 0.75%) and these deposits have an average maturity period of 1 day (2020: 1 day). All short-term deposits had matured at 27 February 2021 (2020: all). The Group's cash and cash equivalents are denominated in sterling, US dollars and Euros.

17. Financial liabilities – borrowings

	Group	
	2021	2020
	£'m	£'m
Non current		
6.75% First Lien Secured Notes (net of £1.7m issue costs (2020: £2.6m)) maturity date 2023	**(348.3)**	(347.4)
9.5% Second Lien Secured Notes (net of £0.8m issue costs (2020: £1.1m)) maturity date 2024	**(79.2)**	(128.9)
9.5% Shareholder Notes (net of £0.4m issue costs (2020: £nil)) Maturity date 2024	**(49.6)**	-
16.5% 1.5 lien secured notes (net of £5.5m issue costs (2020: £nil)) maturity date 2022	**(22.2)**	-
CLBILS (net of £3.2m issue costs (2020: £nil)) maturity date 2022	**(13.5)**	-
Accrued PIK interest (2020: £nil)	**(13.7)**	-
	(526.5)	(476.3)

The Company has no borrowings.

Borrowings are all denominated in sterling at 27 February 2021. Issue costs of £6.2m were incurred in relation to the First Lien Secured Notes and Second Lien Secured Notes and are being amortised over the terms of the facilities.

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

During the year the Group issued £27.7m 1.5 lien secured notes and received £25m in CLBILS funding. Issue costs were incurred of £13.2m in relation to the 1.5 lien secured notes and CLBILS, and are being amortised over the terms of the facilities. In addition, during the 52 week period ended 27 February 2021 the Group subordinated £50.0m of the Second Lien unsecured notes, held by shareholders of the company. In December 2020, £8.3m of the CLBILS funding was repaid following the sale of the Group's head office.

17. Financial liabilities – borrowings (continued)

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

Maturity of borrowings

	Group	
	2021	2020
	£'m	£'m
Less than one year	**-**	-
One to five years	**538.1**	480.0
Five to ten years	**-**	-
	538.1	480.0
Unamortised issue costs	**(11.6)**	(3.7)
	526.5	476.3
Current	**-**	-
Non-current	**526.5**	476.3
	526.5	476.3

Borrowing facilities

At 27 February 2021 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	
	2021	2020
	£'m	£'m
Letters of credit	**7.4**	1.7
Guarantees	**8.0**	8.3
Overdraft	**17.1**	-
Unused	**0.8**	40.0
Subtotal	**33.3**	50.0
CLBILS	**16.7**	-
Total	**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	
	2021	2020
	£'m	£'m
Trade payables	**(103.0)**	(124.9)
Other tax and social security payables	**(20.8)**	(11.7)
Other creditors	**(0.1)**	(3.5)
Accruals	**(38.8)**	(30.8)
Deferred income	**-**	(0.1)
Dividends payable	**(0.3)**	(0.3)
	(163.0)	(171.3)

The Company owes group undertakings £0.3m at the period end (2020: £0.3m). Amounts owed to group undertakings are repayable on demand and therefore presented as current

19. Derivative financial instruments

Group	**2021**		2020	
	Assets	**Liabilities**	Assets	Liabilities
	£'m	**£'m**	£'m	£'m
Forward foreign exchange contracts	**-**	**(26.7)**	20.3	(1.1)
Total	**-**	**(26.7)**	20.3	(1.1)
Less non-current portion:				
Forward foreign exchange contracts	**-**	**(0.8)**	4.6	-
Non-current portion	**-**	**(0.8)**	4.6	-
Current portion	**-**	**(25.9)**	15.7	(1.1)

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 £(19.0)m (2020: £6.9m). The amount that was transferred from equity to profit and loss in the period was £nil (2020: £nil). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £0.4m (2020: £nil).

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 27 February 2021 was £381.1m (2020: £550.3m).

19. Derivative financial instruments (continued)

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

	2021 £'m	2020 £'m
Maturing within one year	**337.3**	349.2
Maturing between one to two years	**43.8**	201.1
	381.1	550.3

The net fair value of (losses)/ gains as at 27 February 2021 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £(26.7)m (2020: £19.2m). These are transferred at their current fair value as an inventory-based adjustment on receipt of the underlying inventory.

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

Group	2021 £'m	2020 £'m
Maturing within one year	**(25.9)**	14.6
Maturing between one to two years	**(0.8)**	4.6
Maturing between two and five years	**-**	-
	(26.7)	19.2

20. Provisions for other liabilities and charges

Group

	Onerous contracts £m	**Total £'m**
At 29 February 2020	-	-
Charged in the year	(1.9)	(1.9)
Transferred to accruals	-	-
At 27 February 2021	**(1.9)**	**(1.9)**

	2021 £'m	2020 £'m
Analysis of total provisions:		
Current	**(0.5)**	-
Non-current	**(1.4)**	-
	(1.9)	-

During the year, the Group recognised a provision relating to an onerous contract of £1.9m. In arriving at the provision the Group assumed a discount rate in line with the right-of-use asset relating to the contract, and reviewed expected cash flows up to the break date of the contract.

21. 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 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	-
At 27 February 2021	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 was reflected within retained earnings in the prior year.

As at 27 February 2021, 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 loss of £7.0m (2020: £12.0m 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 £4.6m (2020: £5.7m) comprises the value of the 'A' shares repurchased in 2011 (£4.6m).The prior year figure also covered the cost over the nominal value of the Company's ordinary 10p shares purchased at market value and then cancelled in 2011 (£1.1m)

Warrant reserve
On 22 December 2006, warrants were granted to subscribe for 0.75% of the issued 'A' ordinary shares in the Company in issue at that date. 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. In the financial period, the warrant reserve was reallocated against the merger reserve.

21.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 (2020: £0.4m).

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.

22. Cash flows from operating activities

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

	Group		Company	
	2021	2020	**2021**	2020
	£'m	£'m	**£'m**	£'m
Cash generated from continuing operations				
(Loss)/ profit for the year	**(115.7)**	(16.8)	-	60.3
Adjustments for:				
Tax	**(15.8)**	(1.5)	-	-
Interest	**91.0**	87.6	-	-
Exceptional finance costs	**1.2**	-	-	-
Depreciation	**97.2**	102.0	-	-
Amortisation of intangibles	**10.9**	10.1	-	-
Impairment	**8.3**	-	-	-
Share based compensation charge	**0.4**	0.4	-	-
Hedge accounting	**0.2**	-	-	-
Operating cash flows before movements in working capital	**77.7**	181.8	-	60.3
Movements in working capital				
Decrease/ (increase) in inventories	**2.7**	(1.3)	-	-
Increase in trade and other receivables	**(16.6)**	(4.5)	-	-
Increase/ (decrease) in trade and other payables	**17.0**	7.7	-	(60.3)
Net cash flows from operating activities	**80.8**	183.7	-	-

23. Reconciliation of debt

Group

	2021			2020		
	Loans and borrowings	**Lease liabilities**	**Total**	**Loans and borrowings**	**Lease liabilities**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Opening balance	**(476.3)**	**(522.4)**	**(998.7)**	**(475.0)**	-	**(475.0)**
Recognition of IFRS 16 lease liabilities	-	-	-	-	(561.5)	**(561.5)**
Repayment of lease liabilities	-	20.7	**20.7**	-	54.8	**54.8**
Bonds/ Loan issued	(90.7)	-	**(90.7)**	-	-	-
Interest paid	28.3	47.9	**76.2**	36.6	49.3	**85.9**
Payment of issue costs	13.9	-	**13.9**	-	-	-
Repayment of borrowings	29.3	-	**29.3**	-	-	-
Amortisation of issue costs	(5.9)	-	**(5.9)**	(1.3)	-	**(1.3)**
Interest expense	(42.2)	(47.9)	**(90.1)**	(36.6)	(49.3)	**(85.9)**
Lease modifications and additions	-	(29.1)	**(29.1)**	-	(15.7)	**(15.7)**
Closing balance	**(543.6)**	**(530.8)**	**(1,074.4)**	**(476.3)**	**(522.4)**	**(998.7)**

The Loans and borrowings balance of £543.6m is inclusive of non-current borrowings of £526.5 (note 17) and overdraft of £17.1m (note 16).

24. Leases

a. Right of use assets

	Stores	Warehouse and Other	Total
	£'m	£'m	£'m
Cost			
At 29 February 2020	493.1	41.0	534.1
Additions	13.5	19.5	33.0
Disposals	(2.6)	-	(2.6)
At 27 February 2021	**504.0**	**60.5**	**564.5**
Accumulated depreciation			
At 29 February 2020	69.5	4.5	74.0
Charge for the period	66.1	4.3	70.4
Impairment	3.7	-	3.7
Eliminated from disposals	(1.4)	-	(1.4)
At 27 February 2021	**137.9**	**8.8**	**146.7**
Net book value			
At 27 February 2021	**366.1**	**51.7**	**417.8**
Net book value			
As at 29 February 2020	423.6	36.5	460.1

b. Lease liabilities

Year ended 27 February 2021 – Leases under IFRS 16	**2021**
The following amounts have been recognised in profit or loss for which the group is a lessee	
	£'m
Interest on lease liabilities	47.9
Income from sub-leasing right-of-use assets presented within interest	(0.1)

Year ended 29 February 2020 – Leases under IFRS 16	**2020**
	£'m
Interest on lease liabilities	49.8
Income from sub-leasing right-of-use assets presented within interest	(0.5)

Amounts recognised in statement of cash flows	**2021**
	£'m
Interest paid in respect of lease liabilities	**47.9**
Repayment of lease liabilities	**20.7**

24. Leases (continued)

c. 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.

2021 Right-of-use liabilities

	2021
	£'m
Within one year	**108.6**
Between one and two years	**103.3**
Between two to five years	**274.8**
Over five years	**265.2**
Total	**751.9**

2020 Right of use liabilities

	2020
	£'m
Within one year	107.9
Between one and two years	101.9
Between two and five years	273.6
Over five years	277.3
Total	760.7

d. Sale and leaseback

During the year, the Group disposed of the entity which held the Group's head office. The lessee entity within the Group (Matalan Retail Limited) continues to pay rent for the head office on an unaltered basis. The sale and leaseback was undertaken to raise additional liquidity to repay a portion of the RCF and CLBILS. No gain or loss was realised on the sale and leaseback.

25. Sale of forward contracts

During the period, forward contracts formally designated for hedging were disposed of, generating £18.3m of cash for the business. This amount was split as £4.4m relating to FY21 and £13.9 relating to FY22. The amounts relating to FY21 have been recognised within finance income and the amount relating to FY22 have been deferred to be recognised at the date those hedges would otherwise have matured.

Group	**2021 £'m**	2020 £'m
Amount relating to FY22 taken to hedge reserve	**(13.9)**	-
Amount relating to FY21 taken to interest income	**(4.4)**	-
	(18.3)	-

26. Government Grants

During the period, the Group received government grants in the form of the following:

Group	**2021 £'m**	2020 £'m
Coronavirus Job Retention Scheme	**28.8**	-
Business grants	**2.5**	-
Rates relief	**41.2**	-
	72.5	-

Coronavirus Job Retention Scheme
In March 2020, in response to the first national lockdown, the Chancellor announced the introduction of the Coronavirus Job Retention Scheme. The scheme allowed companies to be reimbursed up to 80% of employee wages for staff retained on company payrolls whilst placed on furlough.

Business grants
The UK Governments introduced legislation to allow companies to claim grant funding to cover the costs of retail stores that were subject to government mandated closures during periods of lockdown or other COVID-19 restrictions.

Rates relief
In March 2020, the UK Government introduced a business rates holiday for retail, hospitality and leisure businesses. As a result, the business was not required to pay business rates on the vast majority of its premises for the 2020-2021 tax year. As a result the company benefitted from £41.2m of rates relief.

The Group also received funding through the government CLBILS scheme. Further details can be found in note 17.

27. Capital commitments

The capital expenditure for the Group that has been contracted for but not provided at 27 February 2021 was £5.4m (2020: £1.3m). The Company has no capital commitments at 27 February 2021 (2020: £nil).

28. 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.

29. 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 (2020: £nil). The balance of the related transactions outstanding at 27 February 2021 is £29.9m (2020: £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:

During the period, the Group disposed of the subsidiary which held the head office. The subsidiary was sold to JMax Knowsley Limited, which is a company controlled by a member of the Hargreaves Family for consideration of £1. £24,999,999 was then paid on behalf of the sold subsidiary to settle intercompany balances with Matalan Retail Limited. Rental costs of £0.3m were charged to the Group.

The Group purchased and provided IT services with a company that is associated with the Hargreaves family. The expenditure incurred in the period was £4.0m (2020: £3.2m) of which £0.3m was outstanding at 27 February 2021 (2020: £0.3m). The services provided to the company in the period totalled £nil (2020: £nil) of which £nil was outstanding at 27 February 2021 (2020: £nil).

The Group purchased clothing for resale from companies associated with the Hargreaves family. Purchases in the period totalled £0.1m (2020: £2.1m) of which £nil was outstanding at 27 February 2021 (2020: £nil).

The Group used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred in the period was £0.1m (2020: £0.4m) of which £nil was outstanding at 27 February 2021 (2020: £nil).

The Group incurred sundry costs relating to the Hargreaves family and associated companies in the period of £0.2m, which were all reimbursed in the period, of which £nil was outstanding at 27 February 2021 (2020: £0.7m of which £nil was outstanding at 29 February 2020).

During the period a member of the Hargreaves family was paid £nil for consultancy services provided to the Group (2020: £0.1m).

30. Exceptional items

Exceptional items are comprised as follows:

	Group	
	2021	2020
	£'m	£'m
Industrial action costs	-	(1.0)
Exceptional items – cost of sales	**-**	(1.0)
Restructuring costs	**(2.0)**	(0.6)
Other income	**0.4**	-
Impairment of building	**(4.6)**	-
Impairment of Oxford Street Store	**(5.5)**	-
Exceptional items - administrative expenses	**(11.7)**	(0.6)
Finance Expense	**(1.2)**	-
Exceptional items – Finance expense	**(1.2)**	-
Total exceptional items	**(12.9)**	(1.6)

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

Restructuring costs
Following a number of employment contracts being terminated in the period, restructuring costs of £2.0m (2020: £0.6m) have been incurred in the year.

Other income
Following the disposal of a lease which had an onerous provision, the remaining amount of the non-rental portion was released resulting in a credit of £0.4m (2020: £nil).

Impairment of building
During the 52 weeks ended 27 February 2021, the Group disposed of the subsidiary company which held the head office fixed asset. The Group impaired the value of the head office to fair value, being £25.0m, and incurred an impairment loss of £4.6m. Further details can be found in note 29.

Impairment of Oxford Street Store
Following the impact of COVID-19 on the high street, the Group deemed it necessary to impair the right-of-use asset relating to the Oxford street store and provide for the fixed establishment costs up to the end of their contract. The following assumptions were utilised in arriving at the value in use:

- Period on which management approved forecasts are based: 4 years
- Discount rate applied: 7.6%

Management have applied a forecast period of 4 years in order to be in line with the break date of the lease. The discount rate applied is in line with the IFRS 16 lease liability discount rate.

Finance expense
During the year the Group incurred exceptional finance costs relating to refinancing and the sale of its subsidiary company of £1.2m (2020: £nil).

31. 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
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.

During the year the Group disposed of its wholly owned subsidiary, Jonmar Limited. Further details can be found in notes 29 and 30.

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