REGISTERED NUMBER: 02103564

MATALAN RETAIL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019

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MATALAN RETAIL LIMITED

DIRECTORS AND ADVISERS

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J N Mills
J J Hargreaves
S M Hill
G V Pateras
A Leighton (Resigned 30 April 2018)

Company Secretary
W G Lodder

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Independent Auditor
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MATALAN RETAIL LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 23 FEBRUARY 2019

The directors present their annual strategic report and the audited financial statements for the year ended 23 February 2019.

Overview
The Company continued to deliver improvements to trading performance in the period to 23 February 2019. In the context of a challenging market, the Company achieved earnings before interest, tax, depreciation and amortisation before exceptional items of £98.8m, which is decline of 1.0% (2018: £99.7m). See note 8 to the financial statements for EBITDA reconciliation to the statutory results.

Business Review
Revenue for the year ended 23 February 2019 was £1,103.9m (2018: £1,062.5m), with sales growth being driven in both store and online channels. The store refurbishment programme continued in the year driving additional revenues and store openings recommenced with a new store in Belfast city centre. Online revenues grew particularly strongly at 31% as we continued to improve the customer journey and grow our online customer base. Coupled with targeted range extensions, this has resulted in the delivery of a strong performance in a challenging market.

Gross Profit was £141.5m (2018: £149.8m). The year bore a significant impact of the post Brexit weakness of GBP. Further improvements in underlying product margin and reductions in levels of discounting successfully mitigated the majority of, but not all of this impact. In addition, we continued to improve our cost productivity within both selling and distribution costs despite ongoing wage rate inflation.

Administrative expenses, before exceptional items, were £74.4m (2018: £79.6m).

Exceptional items included in operating profit total £1.5m of administrative expenses (2018: £1.8m of administrative expenses). Refer to note 26 to the financial statements.

Operating profit, before exceptional items, was £67.1m (2018: £70.2m).

Net finance costs were £37.3m (2018: £38.6m). Refer to note 5 to the financial statements.

The statutory profit after tax was £20.9m (2018: £25.2m profit).

Additions to property, plant and equipment of £32.8m (2018: £30.5m) and intangible assets of £18.1m (2018: £10.1m) during the period include investment in ongoing supply chain reconfiguration, store refurbishment programme, online platform enhancements and purchase of intellectual property.

Development and performance of the business
The Group maintained its strategy for sustainable growth through the following areas:

- Executing a compelling and credible product offer
- Providing an easy and efficient omni-channel customer experience
- Nurturing engaging customer relationships
- Optimising operational performance

Executing a compelling and credible product offer
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. Through investment in fabrics and distinct design handwriting the sub-brands provide opportunity for customers to trade up through the range, with the same great value offered throughout. In extending customer choice, new categories continue to be tested and scaled including branded toys and health & beauty with plans to further extend ranges into adjacent, credible categories.

In the period the Company continued with a full price trading strategy, adding in an up-weighted level of pre-bought promotional product for key moments in the trading calendar. Our Kidswear range mix was successfully re-based, offering greater choice at the entry price point and an overall reduction in average selling price. This supported the capture of market share in this area.

Providing an easy and efficient omni-channel customer experience
Omni-Channel customers spend significantly more than a single channel customer and therefore the Company continued to migrate customers across channels to drive frequency, revenue and profitability.

Revenues in the Company's online channel increased in the period by 31%. We continue to enhance our website to improve the customer's online journey by, for example, reducing the number of clicks or taps to complete a transaction and have conducted significant testing in this regard. We have invested in our own in-house User Experience facility in which we can monitor customers during the online journey and better understand their behaviour.

We also focused on optimising our existing store space as well as improving the overall shopping environment. In the period we refurbished 47 stores, which included general modernisation, improved customer navigation and brand segregation, as well as improved levels of choice through increased densities. The store refurbishment programme will continue in the coming 12 months. We exited the period with 228 UK stores, five of which are Clearance stores.

During the period we re-commenced a store opening programme with the addition of a new store in Belfast city centre. We intend to continue this programme with future openings in the year ahead, both in traditional out of town formats in addition to more centrally located stores.

Our international franchise model continues to expand, taking the total international franchise stores to 29. The Company intends to open further franchise stores in new territories in the coming 12 months.

Nurturing engaging customer relationships
With our well-established relationship with over 10 million active customers, we maintain our focus on keeping them highly engaged in our offer and loyal to our brand across all channels. We have improved brand awareness significantly during the year driven heavily by TV advertising, in particular greater use of shorter 10 second 'burst' adverts to reinforce our message around quality and value.

We continued to execute disruptive and inspirational content via a media strategy that supports the brand's fashion credentials, through our "Always On" approach. We have a frequent and mass market reach across multiple channels, including TV, social media and printed editorial content in leading magazine titles. Our award winning "The Show" continues to evolve and be effective in raising awareness of our value message during peak trading times. We have introduced additional celebrities to widen the appeal of our offering, particularly Menswear.

During the year we commenced work on refreshing our loyalty proposition with a view to re-launching this to customers in the coming year. In addition, we continue to look at how we maximise the utilisation of our digitally enabled data warehouse to influence customer behaviour, but with an increasing focus on the omni-channel customer. Being more insights driven through the use of this data will enable us to further personalise contacts with customers across all channels, driving frequency and loyalty, through messaging and rewards specific to the customers own profile.

Optimising operational performance
The Company continued to focus on managing costs and driving efficiencies across the business by optimising its organisational structure and evolving its operating model.

During the year, the store operating model was further reviewed with changes planned to move towards a more customer focussed and efficient management structure. In addition, we completed the rollout of a new EPOS system to all UK stores, improving the customer experience with faster transaction speeds and removing a large number of tills from the estate. We also began to trial assisted service checkouts in a limited number of stores to understand customer appetite for a quicker, more autonomous checkout process.

In the supply chain, we have made significant changes to product flow, including extra hanging rails and pack stations and introduced light touch automation into our Knowsley Distribution Centre to improve throughput and increase capacity for online volumes.

These operational improvements delivered a significant improvement in operating efficiency in the period. Such initiatives will continue through the year ahead as we continuously seek opportunities to add value for less cost.

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 Company's finance department.

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

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

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

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

The Company 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 Company 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 Company manages its exposure by working closely with its suppliers and third parties to ensure it can offer the best value to its customers. The Company 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 Company can provide to its customers.

The Company manages its exposure by having an experienced management team, monitoring performance of all aspects of the supply chain 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 Company actively maintains a mixture of long-term and short-term debt finance, which is designed to ensure that the Company 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 Company is exposed to risk of fluctuating foreign exchange rates as a result of its overseas purchases. The principal currency with which this exposure lies is US dollar.

The exchange rates between the US dollar and other world currencies have fluctuated significantly in recent years and may continue to do so in the future. Following the UK referendum in June 2016, favouring Brexit, the pound sterling significantly weakened against the US dollar. Whilst this has strengthened somewhat through the year, at present the terms of Brexit remain unclear. Until the details become clear, further volatility is possible until the exit phase is concluded.

The Company 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 Company 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 Company 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 Company 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 Company.

Commodity Risk - as the Company'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 Company monitors trends in the cotton market to manage this risk and, by agreeing purchase contracts with suppliers six to nine months in advance, provides a degree of advance knowledge of the cost base.

Key Performance Indicators
The directors consider EBITDA before exceptional items to be the main financial KPI for the business. EBITDA before exceptional items is £98.8m (2018: £99.7m), see note 8 to the financial statements for a reconciliation to the statutory results.

By order of the board

S Hill
Director
19 June 2019

MATALAN RETAIL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 23 FEBRUARY 2019

The directors present their report for the year ended 23 February 2019.

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 Company are the sale of clothing and homewares through out-of-town retail outlets.

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 234 of the Companies Act 2006.

Going concern
After reviewing the Company's budget and appropriate sensitivities for the period to February 2020, 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.

As at 23 February 2019, the Company is in a net current asset position and has adequate liquid resources to pay its liabilities as they fall due.

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 Company's performance.

The Company is proud of it's 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 Company made political donations of £nil (2018: £nil).

Dividends
The Company did not issue a dividend in the current or prior period.

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 Company'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 23 February 2019 were 54 days (2018: 43 days) based on average daily purchases.

MATALAN RETAIL LIMITED

DIRECTORS' REPORT (CONTINUED)

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 Company'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 Company's Auditor is aware of that information.

Independent auditor

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

By order of the Board

S Hill
Director
19 June 2019

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

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 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 Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN RETAIL LIMITED

Opinion
We have audited the financial statements of Matalan Retail Limited for the period ended 23 February 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement 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 company's affairs as at 23 February 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of intangible assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN RETAIL LIMITED (CONTINUED)

Strategic report and directors' report
The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for 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 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN RETAIL LIMITED (CONTINUED)

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

A. Reddington

Andrew Reddington (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
24 June 2019

MATALAN RETAIL LIMITED

INCOME STATEMENT

	Note	**52 Weeks ended 23 February 2019 £'m**	52 weeks ended 24 February 2018 £'m
Revenue (including exceptional items)		**1,103.9**	1,062.5
Cost of sales (including exceptional items)		**(962.4)**	(912.7)
Gross profit		**141.5**	149.8
Administrative expenses (including exceptional items)		**(75.9)**	(81.4)
Operating profit	4	**65.6**	68.4
Operating profit pre exceptional items		**67.1**	70.2
Exceptional items - administrative expenses	26	**(1.5)**	(1.8)
Operating profit	4	**65.6**	68.4
Finance costs		**(38.0)**	(37.8)
Finance income		**0.7**	0.5
Exceptional items - finance expense		**-**	(1.3)
Net finance costs	5	**(37.3)**	(38.6)
Profit before income tax	9	**28.3**	29.8
Income tax expense	10	**(7.4)**	(4.6)
Profit for the period		**20.9**	25.2

MATALAN RETAIL LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	52 Weeks ended 23 February 2019 £'m	52 weeks cnded 24 February 2018 £'m
Profit for the period	**20.9**	25.2
Other comprehensive income/ (expenditure):		
Cash flow hedges	**50.7**	(108.3)
Tax element of cash flow hedges	**(9.6)**	20.6
Other comprehensive income/(expenditure) for the period, net of tax	**41.1**	(87.7)
Total comprehensive income/(expenditure) for the period	**62.0**	(62.5)

STATEMENT OF FINANCIAL POSITION AS AT 23 FEBRUARY 2019

	Note	2019 £'m	2018 £'m
Assets			
Property, plant and equipment	11	**178.0**	167.5
Intangible assets	12	**40.4**	31.7
Financial assets – derivative financial instruments	16	**3.6**	0.2
Deferred tax asset	10	**-**	6.6
Total non-current assets		**222.0**	206.0
Inventories – goods for resale	13	**133.9**	119.7
Trade and other receivables	14	**275.3**	277.6
Financial assets – derivative financial instruments	16	**5.6**	2.4
Cash and cash equivalents	15	**72.3**	62.1
Total current assets		**487.1**	461.8
Total assets		**709.1**	667.8
Liabilities			
Financial liabilities - derivative financial instruments	16	**(1.4)**	(25.4)
Trade and other payables	17	**(313.0)**	(292.3)
Current income tax liabilities		**(2.9)**	(1.8)
Provisions for other liabilities and charges	19	**(0.5)**	(0.5)
Total current liabilities		**(317.8)**	(320.0)
Financial liabilities – derivative financial instruments	16	**(0.4)**	(22.0)
Trade and other payables	18	**(40.6)**	(40.3)
Deferred income tax liabilities	10	**(3.9)**	-
Provisions for other liabilities and charges	19	**(0.7)**	(1.2)
Total non-current liabilities		**(45.6)**	(63.5)
Total liabilities		**(363.4)**	(383.5)
Net assets		**345.7**	284.3
Capital and reserves			
Share capital	20	**-**	-
Hedge reserve		**5.1**	(36.0)
Retained earnings		**340.6**	320.3
Total shareholders' equity		**345.7**	284.3

The financial statements on pages 12 to 43 were approved by the Board of directors on 19 June 2019 and signed on its behalf by:

S Hill
Director
Matalan Retail Limited
Registered number: 02103564

MATALAN RETAIL LIMITED

STATEMENT OF CASH FLOWS

	Note	**52 weeks ended 23 February 2019 £'m**	52 weeks ended 24 February 2018 £'m
Cash flows from operating activities			
Cash generated from operations	21	**104.1**	57.0
Interest paid		**(38.7)**	(31.3)
Taxation paid		**(5.4)**	(4.9)
Net cash generated from operating activities		**60.0**	20.8
Cash flows from investing activities			
Purchase of property, plant and equipment		**(32.8)**	(29.4)
Purchase of intangible assets		**(17.7)**	(10.3)
Interest received		**0.7**	0.5
Net cash used in investing activities		**(49.8)**	(39.2)
Net increase/ (decrease) in cash and cash equivalents		**10.2**	(18.4)
Cash and cash equivalents at the beginning of the period		**62.1**	80.5
Cash and cash equivalents at the end of the period		**72.3**	62.1

MATALAN RETAIL LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £'m	Hedge reserve £'m	Retained earnings £'m	Total equity £'m
As at 26 February 2017	-	51.7	294.8	346.5
Comprehensive income:				
Profit for the period	-	-	25.2	25.2
Other comprehensive expenditure				
Cash flow hedges				
- fair value loss in the period	-	(115.9)	-	(115.9)
- transfers to inventory	-	7.6	-	7.6
- tax element of cash flow hedges	-	20.6	-	20.6
Total other comprehensive expenditure	-	(87.7)	-	(87.7)
Transactions with owners				
Fair value credit for subscription for 'B' shares	-	-	0.3	0.3
Total transactions with owners	-	-	0.3	0.3
As at 24 February 2018	-	**(36.0)**	**320.3**	**284.3**
As at 25 February 2018	-	(36.0)	320.3	284.3
Comprehensive income:				
Profit for the period	-	-	20.9	20.9
Other comprehensive income				
Cash flow hedges				
- fair value gain in the period	-	52.2	-	52.2
- transfers to inventory	-	(1.5)	-	(1.5)
- tax element of cash flow hedges	-	(9.6)	-	(9.6)
Total other comprehensive income	-	41.1	-	41.1
Transactions with owners				
Fair value charge for subscription for 'B' shares	-	-	(0.6)	(0.6)
Total transactions with owners	-	-	(0.6)	(0.6)
As at 23 February 2019	-	**5.1**	**340.6**	**345.7**

1. General information

The Company is a private limited liability company and is incorporated and domiciled in the UK. The address of its registered office is Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation these 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 and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) which are recognised at fair value through the income statement.

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. There are no areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements.

2.2 New standards, amendments to standards or interpretations

The Company has adopted the following standards and statements. The adoption of these standards has not had a material impact on the Company's accounts:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Share-based payments

On adopting IFRS 9 the company has chosen to apply the hedge accounting requirements of IAS 39

The Company has not early adopted the following standards and statements which are not yet effective:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 16 Leases. The new standard is effective for annual reporting periods beginning on or after 1 January 2019. As such the new standard will be applicable to the Company for the financial year ending 29 February 2020.

IFRS 16 Leases will significantly affect the presentation of the Company financial statements with the Company recognising a right-of-use asset and a lease liability on the balance sheet for all leases currently accounted for as operating leases.

IFRS 16 will have a material impact on key components within the Income Statement as operating lease rental charges currently reported in cost of sales will be replaced with depreciation of the right-of-use asset, reported in depreciation and an interest charge on the lease liability being reported in finance costs. It will also have a material impact on the presentation of key components within the Cash Flow Statement, increasing cash flows from operating activities which will be offset by an increase in cash flows from financing activities, although there will be no material impact on net cash flows.

2. Summary of significant accounting policies (continued)

2.2 New standards, amendments to standards or interpretations (Continued)

The new IFRS 16 standard allows for two different transition approaches; fully retrospective and modified retrospective. Both approaches would impact the income statement, balance sheet, cash flow statement and disclosures when adopted including the opening balance sheet, although the amounts would differ depending on the approach taken.

The Company has assessed the impact of the new standard and has decided to adopt the modified retrospective approach (option b) where the right-of-use asset amount is equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and any unrecognised lease incentives held at the date of transition.

The Company intends to adopt the new standards and amendments no later than their applicable date, endorsed by the EU.

Upon transition the Company will recognise an opening right of use asset in the region of £504m and a lease liability in the region of £542m.

2.3 Going concern

After reviewing the Company's budget and appropriate sensitivities for the period to February 2020, 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.

As at 23 February 2019, the Company is in a net current asset position and has adequate liquid resources to pay its liabilities as they fall due.

2.4 Critical accounting estimates and judgements

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

Critical accounting estimates and judgements relate to the following:

(a) Carrying value of inventories

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

(b) Provisions

Provisions have been made for dilapidations and onerous property leases. Information relating to provisions is disclosed in note 19. 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 dependant 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. The selection of these residual values and estimated lives requires the exercise of management judgement.

2. Summary of significant accounting policies (continued)

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

Retail revenue, which is net of returns, is recognised in the financial statements when control has passed to the customer at the point of sale. Sale of goods online are recognised when goods are dispatched and title has passed.

International revenue is recognised upon shipment, when control passes to the customer. Average payment terms for international customers are 60 days.

2.6 Finance income
Finance income is recognised on a time apportioned basis using the effective interest method.

2.7 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 to administrative expenses on a straight line basis 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 us life which is generally 5 years.

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

2.9 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.

2.10 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.

2.11 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.

2.12 Inventories

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

2.13 Operating leases

Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Lease incentives to enter into new operating leases are deferred and released to the income statement on a straight-line basis over the lease term.

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

2.14 Current income tax

Current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the UK. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected.

2. Summary of significant accounting policies (continued)

2.15 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 income 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.

2.16 Derivative financial instruments

The Company uses forward foreign currency contracts to manage its exposure to fluctuating foreign exchange rates. In accordance with its Treasury policy, the Company does not hold or issue derivative financial instruments for speculative or trading purposes.

These derivative financial 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 dependant upon whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Company 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 Company 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 Company 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.

2. Summary of significant accounting policies (continued)

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.

2.17 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.

2.18 Borrowings
Interest bearing borrowings are recognised initially at fair value less attributable transaction 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 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 Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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

2.20 Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

2.21 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 Company'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.

2.22 Share based payments
At the date of acquisition Missouri Topco Limited, the Company'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. Summary of significant accounting policies (continued)

2.23 Share capital
Ordinary shares are classified as equity.

2.24 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 provision for impairment.

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

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

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

2.26 Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Financial risk management

3.1 Financial risk factors
The financial risk management of the Company is managed by the Group. The Company'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 Company's risk management is managed by the Group programme that focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company 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.

3. Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk
The Company 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 the Company is sterling. The Company is required to substantially hedge its foreign exchange risk exposure with group treasury. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company uses 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% (2018: 100%) of projected purchases in US dollars qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 23 February 2019, if sterling had strengthened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £3.2m higher (2018: £2.7m 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 23 February 2019, if sterling had weakened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £3.2m lower (2018: £2.7m 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 Company has no significant interest - bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The effective rate of interest applicable to the Company's cash balances in the year is 0.75% (2018: 0.60%).

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 (2018: £nil).

During 2018 and 2019, the Group's borrowings at fixed and variable rates were denominated in sterling. The Company holds no external debt as at 23 February 2019 (2018: £nil).

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).

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 company.

(c) Liquidity risk

Liquidity risk is managed on a group basis.

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprising borrowing facilities and cash and cash equivalents (note 15) 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 value of the Company'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.

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 24 February 2018				
Derivative financial instruments	(25.4)	(22.0)	-	-
Trade and other payables	(294.7)	(5.4)	(14.7)	(20.2)
Provisions for other liabilities and charges	(0.5)	(0.5)	(0.7)	-
	(320.6)	**(27.9)**	**(15.4)**	**(20.2)**
At 23 February 2019				
Derivative financial instruments	(1.4)	(0.4)	-	-
Trade and other payables	(315.9)	(5.6)	(15.5)	(19.5)
Provisions for other liabilities and charges	(0.5)	(0.4)	(0.3)	-
	(317.8)	**(6.4)**	**(15.8)**	**(19.5)**

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

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 24 February 2018				
Cash flow hedges:				
Inflows	2.4	0.2	-	-
Outflows	(25.4)	(22.0)	-	-
	(23.0)	**(21.8)**	-	-
At 23 February 2019				
Cash flow hedges:				
Inflows	5.6	3.6	-	-
Outflows	(1.4)	(0.4)	-	-
	4.2	**3.2**	-	-

3. Financial risk management (continued)

3.2 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 fair values of all financial assets and liabilities by class together with their carrying amount shown in the balance sheet are as follows:

Financial assets

	Fair value through profit or loss		Amortised cost	
	2019	2018	**2019**	2018
	£'m	£'m	**£'m**	£'m
Cash and cash equivalents	-	-	**72.3**	62.1
Trade and other receivables	-	-	**10.3**	8.5
Amounts owed by group undertakings	-	-	**245.7**	248.2
Cash flow hedges	**9.2**	2.6	-	-
Total Financial assets	**9.2**	2.6	**328.3**	318.8

Financial liabilities	Fair value through profit or loss		Amortised cost	
	2019	2018	**2019**	2018
	£'m	£'m	**£'m**	£'m
Trade and other payables	-	-	**(106.0)**	(83.7)
Accruals	-	-	**(34.5)**	(36.5)
Amounts owed to group undertakings	-	-	**(141.6)**	(141.6)
Other creditors	-	-	**(10.1)**	(10.2)
Cash flow hedges	**(1.8)**	(47.4)	-	-
Total Financial liabilities	**(1.8)**	(47.4)	**292.2**	272.0

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

	2019 £'m	2018 £'m
Revenue - pre exceptional items	**1,103.9**	1,062.5
Revenue	**1,103.9**	1,062.5
Cost of goods sold - pre exceptional items	**(576.0)**	(533.2)
Selling expenses - pre exceptional items	**(352.3)**	(346.4)
Distribution expenses	**(34.1)**	(33.1)
Total cost of sales	**(962.4)**	(912.7)
Gross profit	**141.5**	149.8
Administrative expenses - pre exceptional items	**(74.4)**	(79.6)
Exceptional items - administrative expenses	**(1.5)**	(1.8)
Administrative expenses	**(75.9)**	(81.4)
Operating profit	**65.6**	68.4

Further details of exceptional items above are included in note 26.

5. Net finance costs

	2019 £'m	2018 £'m
Finance costs and similar charges:		
Interest on loans and notes, net of amortisation of finance costs, recharged by other group companies	**(36.9)**	(36.7)
Other interest payable	**(1.0)**	(0.9)
Unwinding of discounts on provision	**(0.1)**	(0.2)
Finance costs	**(38.0)**	(37.8)
Finance income:		
Interest receivable	**0.7**	0.5
Finance income	**0.7**	0.5
Exceptional finance expense	**-**	(1.3)
Net finance costs	**(37.3)**	(38.6)

Unwinding of discounts on provisions arises on the onerous lease provision.

6. Directors' emoluments

The remuneration paid to the directors of Matalan Retail Limited was:

	2019 £'m	2018 £'m
Aggregate emoluments (including benefits in kind)	**1.7**	1.3
Performance bonuses and other emoluments	**0.9**	1.6
	2.6	2.9

No directors have benefits accruing under defined benefit or defined contribution pension schemes. Under arrangements for selected individuals to subscribe for equity settled "B" shares, a credit has been made to the income statement of £0.6m (2018: £0.3m charge) in respect of directors within administrative expenses.

Amounts paid to the highest paid director:

	2019 £'m	2018 £'m
Aggregate emoluments	**0.6**	0.6
Performance bonuses and other emoluments	**0.4**	0.9
	1.0	1.5

7. Employee information

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

	2019 Number	2018 Number
By function		
Selling and distribution	**12,658**	12,889
Administration	**720**	690
	13,378	13,579

	£'m	£'m
Staff costs (for the above persons)		
Wages and salaries	**151.9**	150.0
Social security costs	**8.5**	8.0
Other pension costs	**1.0**	0.9
Share based compensation charge	**(0.6)**	0.3
Termination payments	**1.5**	0.5
	162.3	159.7

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 Company 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, primarily through the Matalan fascia, in the United Kingdom.

Internal reports reviewed regularly by the Board provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the Company 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 Company and make decisions about resources to be allocated to the segment. EBITDA before exceptional items for the period was £98.8m (2018: £99.7m). This can be reconciled to statutory operating profit as follows:

	2019 £'m	2018 £'m
Operating profit	**65.6**	**68.4**
Depreciation and amortisation	**31.7**	**29.5**
Exceptional items	**1.5**	**1.8**
EBITDA before exceptional items	**98.8**	**99.7**

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

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

9. Profit before income tax

	2019 £'m	2018 £'m
Profit before income tax is stated after charging/(crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	**581.6**	581.4
Depreciation charge for the period on property, plant and equipment	**22.3**	22.6
Amortisation of intangible assets	**9.4**	7.0
Fair value charge for subscription for 'B' shares	**(0.6)**	0.3
Exceptional items (note 26)	**(1.5)**	(3.1)
Net foreign exchange gains	**(5.5)**	(47.5)
Fees payable to the Company's Auditor:		
for the audit of Matalan Retail Limited and its financial statements	**0.2**	0.1
for taxation compliance services	**0.1**	0.1
for the interim audit relating to the refinancing exercise	**-**	0.2
for GDPR advisory services	**-**	0.2
Operating lease rentals	**101.1**	103.0

10. Income tax expense

Analysis of expense in the period

	2019 £'m	2018 £'m
Current income tax		
UK corporation tax – current year	**6.6**	4.4
UK corporation tax – prior year	**(0.1)**	0.6
	6.5	5.0
Deferred income tax		
Origination and reversal of temporary differences	**0.2**	-
Adjustment in respect of prior periods	**0.7**	(0.4)
	0.9	(0.4)
Total income tax expense	7.4	4.6

The income tax charge for the period is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19.09%). The rate of corporation tax is based on a weighted average rate. Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013 with further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016 and will have the impact of reducing the company's future tax charge.

	2019 £'m	2018 £'m
Profit before income tax	**28.3**	29.8
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19.09%)	**5.4**	5.7
Effects of:		
Non deductible expenses	**8.4**	8.6
Group relief claimed	**(7.0)**	(9.9)
Adjustments to tax in respect of prior periods	**0.6**	0.2
Total income tax expense in the period	7.4	4.6

10. Income tax expense (continued)

Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%) except for financial derivatives where deferred tax has been calculated using a tax rate of 19%.

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

	2019	2018
	£'m	£'m
At the beginning of the period	**6.6**	(14.5)
Taken to equity:		
- hedge reserve	**(9.6)**	20.6
Taken to income statement:		
- prior year movements	**(0.7)**	0.4
- depreciation in advance of capital allowances	**(0.2)**	0.1
At the end of the period	**(3.9)**	6.6

Deferred income tax assets and liabilities are all expected to be recoverable or payable after more than one year and are attributable to the following:

	Assets		**Liabilities**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	£'m	£'m	**£'m**	£'m	**£'m**	£'m
Property, plant and equipment	**-**	-	**(2.6)**	(1.9)	**(2.6)**	(1.9)
Rolled over capital gain	**-**	-	**(0.6)**	(0.6)	**(0.6)**	(0.6)
Short term timing differences	**0.4**	0.6	**-**	-	**0.4**	0.6
Financial derivatives	-	8.5	**(1.1)**	-	**(1.1)**	8.5
Net deferred income tax assets/ (liability)	**0.4**	9.1	**(4.3)**	(2.5)	**(3.9)**	6.6

10. Income tax expense (continued)

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

Deferred income tax assets

	Financial derivatives £'m	Short term timing differences £'m	Total £'m
At 26 February 2017	-	0.2	0.2
Credited to the income statement	-	0.4	0.4
Taken directly to equity	8.5	-	8.5
At 24 February 2018	**8.5**	**0.6**	**9.1**
At 25 February 2018	8.5	0.6	9.1
Credited to the income statement	-	(0.2)	(0.2)
Taken directly to equity	(8.5)	-	(8.5)
At 23 February 2019	**-**	**0.4**	**0.4**

Deferred income tax liabilities

	Accelerated tax depreciation £'m	Rolled over capital gain £'m	Financial derivatives £'m	Total £'m
At 26 February 2017	(1.3)	(1.2)	(12.2)	(14.7)
Credited to the income statement	(0.6)	0.6	-	-
Taken directly to equity	-	-	12.2	12.2
At 24 February 2018	**(1.9)**	**(0.6)**	-	**(2.5)**
At 25 February 2018	(1.9)	(0.6)	-	(2.5)
Credited to the income statement	(0.7)	-	-	(0.7)
Taken directly to equity	-	-	(1.1)	(1.1)
At 23 February 2019	**(2.6)**	**(0.6)**	**(1.1)**	**(4.3)**

11. Property, plant and equipment

	Alterations to leasehold premises £'m	Motor vehicles £'m	Fixtures, fittings and IT hardware £'m	Total £'m
Cost				
At 26 February 2017	196.6	-	244.0	440.6
Additions	8.0	0.1	22.4	30.5
At 24 February 2018	**204.6**	**0.1**	**266.4**	**471.1**
At 25 February 2018	204.6	0.1	266.4	471.1
Additions	13.7	0.1	19.0	32.8
At 23 February 2019	**218.3**	**0.2**	**285.4**	**503.9**
Accumulated depreciation				
At 26 February 2017	86.7	-	194.4	281.1
Charge for the period	9.4	-	13.2	22.6
Impairment of assets	-	-	(0.1)	(0.1)
At 24 February 2018	**96.1**	-	**207.5**	**303.6**
At 25 February 2018	96.1	-	207.5	303.6
Charge for the period	9.8	-	12.5	22.3
At 23 February 2019	**105.9**	-	**220.0**	**325.9**
Net book value				
At 23 February 2019	**112.4**	**0.2**	**65.4**	**178.0**
Net book value				
At 24 February 2018	**108.5**	**0.1**	**58.9**	**167.5**
Net book value				
At 25 February 2017	109.9	-	49.6	159.5

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

12. Intangible assets

	Brands £'m	Computer software and associated costs £'m	Assets under construction £'m	Total £'m
Cost				
At 26 February 2017	1.7	91.1	12.0	104.8
Additions	-	7.6	2.5	10.1
At 24 February 2018	**1.7**	**98.7**	**14.5**	**114.9**
At 25 February 2018	1.7	98.7	14.5	114.9
Additions	3.0	6.8	8.3	18.1
Transfers		17.8	(17.8)	-
At 23 February 2019	**4.7**	**123.3**	**5.0**	**133.0**
Aggregate amortisation				
At 26 February 2017	1.7	74.5	-	76.2
Charge for the period	-	7.0	-	7.0
At 24 February 2018	**1.7**	**81.5**	-	**83.2**
At 25 February 2018	1.7	81.5	-	83.2
Charge for the period	0.3	9.1	-	9.4
At 23 February 2019	**2.0**	**90.6**	-	**92.6**
Net book value				
At 23 February 2019	**2.7**	**32.7**	**5.0**	**40.4**
Net book value				
At 24 February 2018	-	17.2	14.5	31.7
Net book value				
At 25 February 2017	-	16.6	12.0	28.6

Amortisation of intangible assets is charged to administrative expenses in the income statement.

13. Inventories

	2019 £'m	2018 £'m
Finished goods	**133.9**	119.7

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £581.6m (2018: £581.4m). During the period the Company has written down £14.1m (2018: £15.4m) of inventories.

14. Trade and other receivables

	2019 £'m	2018 £'m
Amounts owed by group undertakings	**245.7**	248.2
Trade receivables	**10.3**	8.5
Prepayments and accrued income	**19.3**	20.9
	275.3	277.6

15. Cash and cash equivalents

	2019 £'m	2018 £'m
Cash at bank and in hand	**72.3**	62.1

The effective interest rate on short-term deposits entered into in the financial period was 0.75% (2018: 0.60%) and these deposits have an average maturity period of 1 day (2018: 1 day). All short-term deposits had matured at 23 February 2019 (2018: all). The Company's cash and cash equivalents are denominated in Sterling, US dollars and Euros.

16. Derivative financial instruments

	2019		2018	
	Assets £'m	**Liabilities £'m**	Assets £'m	Liabilities £'m
Forward foreign exchange contracts	**9.2**	**(1.8)**	2.6	(47.4)
Total	**9.2**	**(1.8)**	2.6	(47.4)
Less non-current portion:				
Forward foreign exchange contracts	**3.6**	**(0.4)**	0.2	(22.0)
Non-current portion	**3.6**	**(0.4)**	0.2	(22.0)
Current portion	**5.6**	**(1.4)**	2.4	**(25.4)**

The amount that was recognised in the Statement of Comprehensive Income during the period net of tax was £41.1m (2018: £(87.7)m). The amount that was transferred from equity to profit and loss in the period was £0.3m (2018: £0.3m). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2018: £nil).

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 23 February 2019 was £508.2m (2018: £695.1m).

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

	2019 £'m	2018 £'m
Maturing within one year	**373.7**	363.4
Maturing between one to two years	**134.5**	331.7
	508.2	695.1

The net fair value of losses as at 23 February 2019 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £7.5m (2018:£44.8m losses). 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:

	2019 £'m	2018 £'m
Maturing within one year	**4.3**	(23.0)
Maturing between one to two years	**3.2**	(21.8)
	7.5	(44.8)

17. Trade and other payables – current

	2019 £'m	2018 £'m
Trade payables	**(106.0)**	(83.7)
Amounts owed to group undertakings	**(141.6)**	(141.6)
Other tax and social security payable	**(15.3)**	(15.3)
Other creditors	**(10.1)**	(10.2)
Accruals	**(34.5)**	(36.5)
Deferred income	**(5.5)**	(5.0)
	(313.0)	(292.3)

Amounts owed to group undertakings are repayable on demand and therefore presented as current.

18. Trade and other payables – non-current

	2019 £'m	2018 £'m
Accruals and deferred income	**(40.6)**	(40.3)

19. Provisions for liabilities and charges

	Onerous contracts £'m	Total £'m
At 24 February 2018	**(1.7)**	(1.7)
Utilised in the period	**0.6**	0.6
Charged to the income statement	**(0.1)**	(0.1)
At 23 February 2019	**(1.2)**	(1.2)

	2019 £'m	2018 £'m
Analysis of total provisions:		
Non-current	**(0.7)**	(1.2)
Current	**(0.5)**	(0.5)
	(1.2)	(1.7)

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

20. Share capital and reserves

Ordinary share capital

	2019	2018
	£	£
Issued and fully paid		
1,000 (2018: 1,000) ordinary shares of £1 each	**1,000**	1,000

Reserves

Hedge reserve
The hedge reserve of a £5.1m gain (2018: £36.0m loss) comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments relating to hedged transactions, which have not yet occurred.

21. Cash flows from operating activities

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

	Note	2019	2018
		£'m	£'m
Cash generated from operations:			
Operating profit		**65.6**	68.4
Adjustments for:			
Depreciation	11	**22.3**	22.6
Amortisation of intangibles	12	**9.4**	7.0
Loss on disposal		**(0.1)**	(0.1)
Non cash exceptional items		**(0.1)**	0.4
Share based compensation charge		**(0.6)**	0.3
Hedge accounting		**0.1**	0.1
Operating cash flows before movements in working capital		**96.6**	98.7
Movements in working capital:			
Increase in inventories		**(11.8)**	(5.8)
Increase/ (decrease) in other receivables		**3.3**	(54.4)
Increase in trade and other payables		**16.0**	18.5
Net cash flows from operating activities		**104.1**	57.0

Increase in other receivables

Included within the reduction in other receivables noted above is £(2.5)m (2018: £50.5m) in relation to transactions with other group companies. This is comprised of £(2.1)m paid on behalf of another group company for the purchase of the Head Office long-term lease, £36.5m (2018: £35.7m) interest payments made on behalf of other group companies, £0.3m (2018: £23.4m) costs associated with the refinancing (2018: repurchase) of Secured Notes on behalf of other group companies, net against total interest charges of £(36.9)m (2018: £(36.7)m), Matalan Direct Limited bad debt provision of £nil (2018: £(3.8)m); and £(0.2)m of other related party transactions (2018: £(0.7)m).

22. Operating lease commitments

At 23 February 2019 the Company had total future aggregated minimum lease payments commitments under non-cancellable operating leases which fall due as follows:

	2019	2018
	£'m	£'m
Within one year	**107.5**	106.5
Between two and five years inclusive	**380.3**	388.5
Over five years	**308.9**	358.1
	796.7	853.1

The Company leases various retail outlets, offices, warehouses and plant under non-cancellable operating lease agreements. Average remaining lease terms are 7 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

23. Capital commitments

The capital expenditure for the Company that has been contracted for but not provided at 23 February 2019 was £1.8m (2018: £nil).

24. Contingent liabilities

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

25. Related party transactions

The Company has a related party relationship with other group undertakings, its parent Company and with its directors and executive officers. During the financial period the Company entered into transactions, in the ordinary course of business, with other related parties as follows:

	2019	2018
	£'m	£'m
Transactions with fellow group undertakings:		
Funds provided	43.6	106.6
Capital expenditure	1.0	0.2
Interest payable	(36.9)	(36.7)
Operating expenses	(13.9)	(14.7)
	(6.2)	55.4

Amounts owed to parent	(135.4)	(135.4)
Amounts owed by group undertakings	239.5	246.3

25. Related party transactions (continued)

The Company has entered into a cash pooling arrangement with other group companies. Net liabilities settled by the Company on behalf of group companies under the cash pooling arrangement were:

	2019 £'m	2018 £'m
Transactions with other group companies:		
Operating expenses paid by other group companies	**12.8**	13.2
Capital expenditure	**1.0**	0.2
Loan repayment	-	480.0
Loan received	-	(480.0)
Refinancing costs paid on behalf of other group companies	**0.3**	23.4
Interest payments made on behalf of other group companies	**36.5**	35.7

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

In the prior year, the Company leased its head office from a company associated with the Hargreaves family. The rental expenditure incurred in the period was £nil (2018: £1.6m), and there will be no further rental payments.

The Company purchased and provided IT services with a company that is associated with the Hargreaves family. The expenditure incurred in the period was £2.8m (2018: £2.6m) of which £0.2m was outstanding at 23 February 2019 (2018: £nil). The services provided to the company in the period totalled £nil (2018: £0.1m) of which a debtor of £nil was outstanding at 23 February 2019 (2018; £nil).

The Company purchased clothing for resale from companies associated with the Hargreaves family. Purchases in the period totalled £4.0m (2018: £5.5m) of which £0.5m was outstanding at 23 February 2019 (2018: £0.2m).

The Company used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred in the period was £0.8m (2018: £2.4m) of which £0.1m was outstanding at 23 February 2019 (2018: £0.1m).

The Company purchased intellectual property from a company associated with the Hargreaves family. The expenditure incurred was £3.0m (2018: £nil) of which £nil was outstanding at 23 February 2019.

The Company incurred costs relating to the Hargreaves family and associated companies in the period of £0.5m, of which £0.1m was outstanding at 23 February 2019 (2018: £0.2m of which £nil was outstanding at 24 February 2018).

During the period a member of the Hargreaves family was paid £0.2m for consultancy services provided to the Company (2018: £0.1m).

26. Exceptional items

Exceptional items are comprised as follows:

	2019 £'m	2018 £'m
Restructuring costs	(1.5)	(1.3)
EBT provision	-	(0.5)
Closure of SportingPro division - administrative costs	-	-
Exceptional items – administrative expenses	**(1.5)**	(1.8)
Financing expense	-	(1.3)
Exceptional items - finance expense	**-**	(1.3)
Total exceptional items	**(1.5)**	(3.1)

Financing expense

In January 2018, the Group issued £350m First Lien secured notes due 2023 and £130m Second Lien unsecured notes due 2024. Refinancing costs, fees and expenses attributable to the Company were £1.3m. These costs have been treated as exceptional in the prior year.

Restructuring costs

Following a number of employment contracts being terminated in the period and incentives offered to new employees, restructuring costs of £1.6m (2018: £1.4m) have been incurred in the year. This was offset by a £0.1m credit to exceptional items relating to a true-up of actual costs incurred during the year in relation to an onerous contract.

EBT provision

A provision of £0.5m was made in the prior year for employment related tax liabilities arising due to an historical ongoing review of the value of the B shares sold to the EBT. This was treated as exceptional in the prior year.

27. Ultimate parent company

The directors regard Matalan Limited, a company registered in England and Wales, as the immediate parent company. According to the register kept by the Company, Matalan Limited has a 100% interest in the equity capital of Matalan Retail Ltd at 23 February 2019. The company's registered address is Matalan Limited, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ. The directors regard Missouri Topco Limited, a company registered in Guernsey, as the ultimate parent company. The company's registered address is Missouri Topco Limited, 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB. The Company regards the Hargreaves family as the ultimate controlling party throughout the period.

Missouri Topco Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 23 February 2019. The consolidated financial statements of Missouri Topco Limited are available from Matalan, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.