REGISTERED NUMBER: 05962488

MATALAN FINANCE PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

52 WEEKS ENDED 25 FEBRUARY 2012

MATALAN FINANCE PLC

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MATALAN FINANCE PLC

DIRECTORS AND ADVISERS

DIRECTORS

J N Mills (Chairman)
D Blackhurst (appointed 26 May 2011)
P J T Gilbert

COMPANY SECRETARY

P J T Gilbert

REGISTERED OFFICE

Gillibrands Road
Skelmersdale
West Lancashire
WN8 9TB

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

SOLICITORS

DLA Piper LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3DL

MATALAN FINANCE PLC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012

The directors present their report and the audited financial statements for the 52 weeks ended 25 February 2012

DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the company is that of a holding company to Matalan Limited and its subsidiary companies The company holds external debt and recharges the cost of the debt to a subsidiary company The company expects to continue as a holding company going forward

REVIEW OF BUSINESS

The company holds external debt and recharges the cost of the debt to a subsidiary company

REFINANCING

On 11 April 2011, the Matalan group completed an issue of £250 0m Senior secured notes, over 5 years at a fixed rate of 8 7/8% The new notes were issued by the company The existing Senior secured facilities held by the company of £231 0m were repaid on 12 April 2011 and the interest rate swap contracts entered into during the 52 week periods ending 27 February 2010 and 26 February 2011, also held by the company, were terminated on 12 April 2011, resulting in settlement payments of £4 7m These payments were settled through the group cash pooling arrangement by Matalan Retail Limited and not by the company itself

In February 2012 the group renegotiated its Revolving Credit Facility (RCF) whereby an agreement was made to cancel £20m of committed facilities the Directors' considered to be unnecessary This facility is held by the company The group is confident that sufficient levels of liquidity remain in the business from group cash balances and the remaining £30m RCF held by this company

RESULTS

The loss for the period was £(10 2)m (2011 profit of £51 1m) and the company has net assets of £228 7m (2011 £238 9m) Loss for the period includes £8 3m exceptional refinancing costs

RISK MANAGEMENT

The responsibility of monitoring financial risk management and treasury responsibilities and procedures lies 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 principle risks that may impact the company achieving its strategic objectives

Interest Rate Risk – Following the repayment of the company's Senior secured facilities as part of the April 2011 refinancing exercise, the debt held by the company is now subject to fixed rates of interest only This fixed rate debt structure has significantly lowered interest rate risk faced by the company The company is also impacted to a lessor extent by market, credit and liquidity risks These risks have been addressed in section 3 1 of the Notes to the Financial Statements

MATALAN FINANCE PLC

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS

The company did not pay a dividend during the year (2011 £244 5m intercompany dividend issued to Matalan Group Limited)

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 the 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 accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that 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 to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

MATALAN FINANCE PLC

DIRECTORS' REPORT (CONTINUED)

DISCLOSURE OF INFORMATION TO AUDITORS

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 Auditors are 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 Auditors are aware of that information

INDEPENDENT AUDITORS

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting

On behalf of the board

P J T Gilbert
Director
16 May 2012

MATALAN FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN FINANCE PLC

We have audited the financial statements of Matalan Finance plc for the 52 weeks ended 25 February 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 25 February 2012 and of its loss and cash flows for the 52 weeks then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN FINANCE PLC (CONTINUED)

MATTERS ON WHICH WE REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

John Cowling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
16 May 2012

MATALAN FINANCE PLC

INCOME STATEMENT

	Note	**52 weeks ended 25 February 2012 £'m**	52 weeks ended 26 February 2011 £'m
Administrative expenses pre exceptional items		-	(0 1)
Total administrative expenses		-	(0 1)
Operating result		-	(0 1)
Finance costs	5	**(47.0)**	(42 9)
Exceptional refinancing costs	5, 20	**(8.3)**	(8 8)
Finance income	5	**47.0**	42 9
Net finance costs	5	**(8.3)**	(8 8)
Income from shares in group undertakings		-	60 0
(Loss) / profit before income tax	8	**(8.3)**	51 1
Income tax (expense) / credit	9	**(1.9)**	-
(Loss) / profit for the period		**(10.2)**	51 1

The company has no other comprehensive (expenditure)/income other than (loss)/profit for the period

MATALAN FINANCE PLC

BALANCE SHEET

	Note	**2012**	2011
		£'m	£'m
Non-current assets			
Investments	11	**817.2**	817 2
Deferred income tax assets	9	-	1 9
Total non-current assets		**817.2**	819 1
Current assets			
Receivables	12	**59.9**	71 9
Total current assets		**59.9**	71 9
Total assets		**877.1**	891 0
Current liabilities			
Financial liabilities – borrowings	13	-	(15 9)
Financial liabilities – derivative financial instruments	15	-	(5 9)
Payables	14	**(188.0)**	(206 6)
Total current liabilities		**(188.0)**	(228 4)
Non-current liabilities			
Financial liabilities – borrowings	13	**(460.4)**	(423 7)
Total non-current liabilities		**(460.4)**	(423 7)
Total liabilities		**(648.4)**	(652 1)
Net assets		**228.7**	238 9
Capital and reserves			
Share capital	16	**21.9**	21 9
Retained earnings		**206.8**	217 0
Total shareholders' equity		**228.7**	238 9

The financial statements on pages 7 to 24 were approved by the board of directors on 16 May 2012 and signed on its behalf by

P J T Gilbert
Director

Matalan Finance plc
Registered number 05962488

MATALAN FINANCE PLC

CASH FLOW STATEMENT

	2012 £'m	2011 £'m
Net cash (used ın)/generated from operatıng actıvıtıes [a]	**(3.4)**	51 4
Cash flows from financing activities		
Proceeds from borrowıngs	**250.0**	475 0
Repayment of prevıous facılıtıes	**(231.0)**	(259 9)
Fees assocıated wıth refinancıng	**(15.6)**	(19 6)
Payments made on behalf of other group companıes		
- 'A' share buy back	-	(233 2)
- Warrant fees charge	-	(1 8)
- Purchase of 'B' shares through the EBT	-	(12 0)
- Share premıum assocıated wıth 'B' shares	-	0 1
Net cash generated from/(used in) financing activities	**3.4**	(51 4)
Net movement ın cash and cash equıvalents	-	-
Cash and cash equıvalents at the begınnıng of the perıod	-	-
Cash and cash equivalents at the end of the period	-	-

[a] In the current perıod the company provıded £3 4m (2011 receıved £51 4m) to Matalan Retaıl Lımıted to settle the refinancıng exercıse Thıs amount ıs ıncluded wıthın amounts owed to group undertakıngs

The £15 6m 'Fees assocıated wıth refinancıng' ıncurred ın the current perıod ıncludes £4 7m ın relatıon to the termınatıon of the ınterest rate swaps (see note 15) and £10 5m in relation to ıssue costs assocıated wıth the Aprıl 2011 refinancıng exercıse £0 3m of costs associated wıth the February 2012 RCF renegotıatıon and £0 1m of other costs have also been ıncurred

MATALAN FINANCE PLC

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £'m	Share premium £'m	Retained earnings £'m	Total equity £'m
As at 28 February 2010	21 9	415 5	(5 1)	432 3
Comprehensive income				
Profit for the period	-	-	51 1	51 1
Transactions with owners				
Capital reduction	-	(415 5)	415 5	-
Dividends paid to shareholders (note 10)	-	-	(244 5)	(244 5)
As at 26 February 2011	21 9	-	217 0	238 9
As at 27 February 2011	21 9	-	217 0	238 9
Comprehensive expenditure				
Loss for the period	-	-	(10 2)	(10 2)
As at 25 February 2012	**21.9**	-	**206.8**	**228.7**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The company is a public limited company, wholly owned by Matalan Group Limited The company is incorporated and domiciled in the UK The address of its registered office is Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB

2. Summary of 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

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 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

The financial statements contain information about Matalan Finance plc as an individual company and do not contain consolidated financial information as the parent of the group The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Missouri Topco Limited, a company incorporated in Guernsey

New standards, amendments to standards or interpretations
There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year that would be expected to have a material impact on the company

At the date of authorisation of these financial statements, the IASB and IFRIC have issued new or amended standards and interpretations which were in issue but not effective for the financial year and not early adopted

- IFRS 7, 'Financial instruments - disclosures' (effective 1 January 2013)
- IFRS 9, 'Financial instruments' (effective 1 January 2015)
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013)
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013)
- IAS 19 (revised 2011), 'Employee benefits' (effective 1 July 2012)
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013)
- IAS32 'Financial instruments - presentation' (effective 1 January 2014)
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012)
- Amendment to IAS 1, 'Presentation of financial statements' on other comprehensive income (effective 1 July 2012)

The company intends to adopt the new standards and amendments no later than their applicable date, subject to endorsement by the EU The company has yet to assess the full impact of adopting these new standards and amendments

2. Summary of accounting policies (continued)

Finance income

Finance income is recognised on a time-proportioned basis using the effective interest method

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 Investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

Current income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively 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

Deferred income tax

Deferred income tax is provided in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes Temporary differences not provided include 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 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 tax assets are reduced to the extent it is no longer probable that the related income 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 (continued)

Borrowings

Interest bearing bank 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 group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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

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

Share capital

Ordinary shares are classified as equity

Receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment

Payables

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

3. Financial risk management

3.1 Financial risk factors

The financial and capital risk management of the company is managed by group The company's activities expose it to market 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 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 group board of directors Group treasury identifies, evaluates and hedges financial risks

(a) Market risk

Cashflow and fair value interest rate risk

The company has no interest bearing assets The company'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

On 11 April 2011, the company completed a refinancing exercise whereby the existing senior secured facilities (subject to a fluctuating rate of interest based on LIBOR) were repaid and Senior secured notes were issued at a fixed rate of interest The unsecured senior notes, also issued at a fixed rate of interest in March 2010, are still in issue This exercise therefore significantly reduces the company's exposure to interest rate risk

In the prior period, the company managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates Group policy is to maintain a minimum of 60% of its borrowings in fixed rate instruments using interest rate swaps to achieve this when necessary As part of the April 2011 refinancing exercise, the interest rate swaps held by the company were terminated

(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, including outstanding receivables and committed transactions For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are dealt with in relation to placing cash deposits

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 TSB plc, The Royal Bank of Scotland plc and Barclays Bank plc

The majority of receivables held by the company are inter-company balances There is no credit risk in relation to these balances as they are supported by the group

3. Financial risk management (continued)

(c) Liquidity risk

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

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 The only cash flows within the company during the current year relate to the refinancing exercise

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 26 February 2011				
Borrowings (before deduction of £16 4m issue costs)	(18 0)	(18 0)	(54 0)	(366.0)
Derivative financial instruments	(5 9)	-	-	-
Trade and other payables	(206 6)	-	-	-
	(230 5)	(18 0)	(54 0)	(366.0)
At 25 February 2012				
Borrowings (before deduction of £14 6m issue costs)	-	-	(250 0)	(225.0)
Trade and other payables	(188 0)	-	-	-
	(188.0)	-	**(250.0)**	**(225.0)**

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 following represents the company's assets and liabilities that are measured at fair value at 25 February 2012·

	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**
Liabilities				
Derivatives				
- Interest rate swap	-	-	-	-
Total liabilities	-	-	-	-

The following represents the company's assets and liabilities that are measured at fair value at 26 February 2011

	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**
Liabilities				
Derivatives				
- Interest rate swap	-	(5 9)	-	**(5.9)**
Total liabilities	-	(5 9)	-	**(5.9)**

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 interest rate swaps is calculated as the present value of the estimated future cash flows based on the valuation provided by the counterparty with which the contracts are held

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances Estimates and judgements applied will affect the reported values of assets, liabilities, revenues and expenses in the financial statements Accounting estimates will, by definition, seldom equal the related actual results

As at the 25 February 2012, the company has not applied any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

5. Net Finance Costs

	2012	2011
	£'m	£'m
Finance costs and similar charges		
Interest payable on loans	**(2.0)**	(18 8)
Interest payable on notes	**(41.7)**	(20 0)
Amortisation of finance costs		
Debt costs	**(0.3)**	(2 1)
Notes costs	**(3.0)**	(1 0)
Loan interest and other finance income recharged to group companies	-	(1 0)
Finance costs	**(47.0)**	(42 9)
Exceptional refinancing costs (note 20)	**(8.3)**	(8 8)
Finance income		
Fair value gains – interest rate swaps held at fair value through the income statement	-	1 0
Loan interest and other finance costs recharged to group companies	**47.0**	41 9
Finance income	**47.0**	42 9
Net finance costs	**(8.3)**	(8 8)

6. Directors' emoluments

The directors' remuneration for their services to the company has been borne by another group company

7. Employee information

There were no employees during the period (2011 none)

8. Profit before income tax

The audit fee for the company amounting to £8,000 (2011 £8,000) is borne by a fellow group company The total fee for the group is £0 1m (2011 £0 1m)

9. Income tax expense / (credit)

Analysis of expense in the period

	2012 £'m	2011 £'m
Current income tax		
UK corporation tax – current period	-	-
	-	-
Deferred income tax		
Deferred income tax relating to the origination and reversal of temporary differences	1.6	-
Adjustment in respect of prior periods	0.3	-
	1.9	-
Total income tax expense	1.9	-

The income tax credit for the period is lower (2011 higher) than the rate of corporation tax of 26 17% (2011 28 0%) The rate of corporation tax is based on a weighted average rate The standard rate of corporation tax reduced from 28% to 26% on 1 April 2011 The differences are explained below

	2012 £'m	2011 £'m
(Loss) / profit before income tax	(8.3)	51 1
(Loss) / profit before income tax multiplied by a rate of corporation tax of 26 17% (2011 28 0%)	(2.2)	14 3
Effects of		
Non taxable income	(12.2)	(28 5)
Group relief surrendered	15.9	14 2
Prior period adjustment	0.3	-
Change in rate of income tax	0.1	-
Total income tax expense in the period	1.9	-

Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2011 27%)

The analysis of the deferred income tax account is shown below

	2012 £'m	2011 £'m
Fair value gains and losses	-	1 9
At the end of the period	-	1 9

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Income tax expense / (credit) (continued)

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income taxes relate to the same fiscal authority

Deferred income tax assets are expected to be recoverable after more than one year and are attributable to the following

Deferred income tax assets

	Financial derivatives £'m	Total £'m
At 28 February 2010	1.9	1 9
(Expensed) / credited to the income statement	-	-
At 26 February 2011	1.9	1 9
At 27 February 2011	1 9	1 9
Expensed to the income statement	(1 9)	(1 9)
At 25 February 2012	-	-

The deferred income tax asset is recognised on the basis that it is more likely than not that there will be future taxable profits to offset against these assets

In his budget of 21 March 2012, the Chancellor of the Exchequer announced tax changes including the phased reduction in the corporation tax rate to 22% from 1 April 2014 As at 25 February 2012, only the reduction in rate to 25% had been substantively enacted with no impact on the tax charge of the company in the current period

10. Dividends

	2012 £'m	2011 £'m
Amounts recognised as distributions to equity shareholders in the period		
Dividend of £nil (2011 £9 0m paid to Matalan Group Limited)	-	9 0
Dividend of £nil (2011 £235 5m paid to Matalan Group Limited)	-	235 5
	-	244 5

11. Investments

	Investment in subsidiaries £'m
Cost and net book value	
At 28 February 2010	817 2
Investment in subsidiary undertaking	-
At 26 February 2011	817 2
At 27 February 2011	817 2
Investment in subsidiary undertaking	-
At 25 February 2012	**817.2**

The company holds 100% of the ordinary share capital of Matalan Limited The principal activity of Matalan Limited is to act as a holding company and it is incorporated in England and Wales The directors believe that the book value of the investment is supported by the underlying net assets and the future discounted cash flows of the trading subsidiaries of the investment The investment has a coterminous year end with the company

The company also has an indirect interest in the following subsidiary companies

Name	Principal activity	Country of incorporation	% interest held and voting rights
Matalan Retail Limited	Retail	England and Wales	100
Jonmar Limited	Property	England and Wales	100
Matalan Travel Limited	Travel services	England and Wales	100
Matalan Investments Limited	Holding company	England and Wales	100
HP01 Nominees Limited	Distribution	England and Wales	100
Matalan Holding Company Limited	Holding company	England and Wales	100

12. Receivables – current

	2012 £'m	2011 £'m
Amounts due from group undertakings	**59.9**	71 9
	59.9	71 9

13. Financial liabilities – borrowings

	2012 £'m	2011 £'m
Current		
Senior facilities (net of £nil issue costs (2011 £2.1m)	-	(15 9)
	-	(15 9)
Non current		
Senior facilities (net of £nil issue costs (2011 £7 3m))	-	(205 7)
Unsecured notes (net of £5 9m issue costs (2011 £7 0m))	**(219.1)**	(218 0)
Secured notes (net of £8.7m issue costs (2011 £nil))	**(241.3)**	-
	(460.4)	(423 7)

Bank borrowings are all denominated in sterling at 25 February 2012 Senior secured and unsecured notes are subject to fixed rates of interest The group had no short-term borrowings during the period (2011 £nil)

On 11 April 2011, the Matalan group completed an issue of £250 0m Senior secured notes, over 5 years at a fixed rate of 8 7/8% The new notes were issued by the company The existing Senior secured facilities held by the company of £231 0m were repaid on 12 April 2011 and the interest rate swap contracts entered into during the 52 week periods ending 27 February 2010 and 26 February 2011, also held by the company, were terminated on 12 April 2011, resulting in settlement payments of £4 7m These payments were settled through the group cash pooling arrangement by another group company and not by the company itself

Bank loan amounts include rolled up interest charges as appropriate to the instrument and also include an element of borrowing costs in accordance with IAS39 Average interest rates on bank loans during the period were 7 3% (2011 5 6%)

The company is no longer exposed to interest rate risk No interest rate swaps are held

Maturity of bank loans, Senior facilities and Senior notes

	2012 £'m	2011 £'m
Less than one year	-	18 0
One to five years	**250.0**	72 0
Five to ten years	**225.0**	366 0
	475.0	456 0
Issue costs	**(14.6)**	(16 4)
	460.4	439 6
Current	-	15 9
Non-current	**460.4**	423 7
	460.4	439 6

14. Payables - current

	2012 £'m	2011 £'m
Amounts owed to group undertakings	(170.9)	(195 7)
Accruals and deferred income	(17.1)	(10 9)
	(188.0)	(206 6)

15. Derivative financial instruments

	2012		2011	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps	-	-	-	(5 9)
Total	-	-	-	(5 9)
Current portion	-	-	-	(5 9)

Interest rate swap

During prior years the company has entered into interest rate swaps which were executed to partially hedge the company's interest rate exposure against unfavourable movements in LIBOR The directors did not seek to apply hedge accounting under IAS39 to these derivatives, consequently the change in their fair value at each period end was recognised in the income statement

During the 52 week period ended 27 February 2010 the holders of the interest rate swap defaulted on the contract We continue to be in dispute with the holders of this instrument

New floating to fixed rate swaps were then entered into during the 52 week period ended 27 February 2010 These had an initial notional principal of £238 3m which was being amortised over the period of the swaps The start dates were 28 August 2009 and the final maturity date was to be 31 March 2013 The weighted average fixed rate payable under these swaps was 3 16%

During the 52 week period ended 26 February 2011, the group entered into basis swaps to align the interest rate swaps with expected cash flows The basis swaps had an initial notional amount of £198 4m which was being amortised over the period of the swaps The contract start dates were 31 August 2010 and the final maturity date was to be 31 August 2012 The company was paying three month LIBOR and was receiving one month LIBOR plus 0 1805%

On 11 April 2011, the group completed a refinancing of existing debt and issue of Senior secured notes The interest rate swaps entered into during the 52 week period ending 27 February 2010 and basis swaps entered into during the 52 week period ending 26 February 2011 were terminated as part of this exercise resulting in the group making settlement payments of £4 7m This is included within 'Fees associated with refinancing' in the cashflow statement The fair value of the interest rate swaps in place as at 26 February 2011 was a £5 9m loss The directors based their assessment of the fair value of these derivatives on the market valuation provided by independent third parties

16. Share capital

	10p 'A' ordinary shares Number	Total value £'m
Allotted, called up and fully paid		
At 25 February 2012 and 26 February 2011	**218,688,222**	**21.9**

17. Cash flows from operating activities

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 Matalan Retail Limited on its behalf with a corresponding adjustment to intercompany receivables / payables

18. Contingent liabilities

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

19. 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

	2012 £'m	2011 £'m
Transactions with parent company		
Funds provided	-	10 2
Dividends paid	-	(244 5)
	-	(234 3)
Transactions with group undertakings		
Funds borrowed	**(284.2)**	(99 3)
Funds provided	**250.0**	245 7
Dividend received	-	60 0
Interest receivable	**47.0**	40 9
	12.8	247 3
Amounts owed to parent	**(282.1)**	(282 1)
Amounts owed to group undertakings	**171.1**	158 3

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 Matalan Retail Limited on its behalf with a corresponding adjustment to intercompany receivables / payables

19. Related party transactions (continued)

Net lıabılıtıes settled by Matalan Retaıl Lımıted under the cash poolıng arrangement

	2012 £'m	2011 £'m
Transactıons wıth subsıdiary undertakıngs		
Net proceeds from borrowıngs	**19.0**	(19 0)
Notes / loan ınterest payments	**(35.6)**	(29 2)
Fees paid by other group undertakıngs	**(15.6)**	(2 5)
Other ınterest payments	**(2.0)**	-
	(34.2)	(50 7)

The company consıders the Hargreaves famıly to be the ultımate controllıng party

Key management ıs the dırectors of the company The compensatıon paıd or payable to key management for employee servıces to the company has been borne by another group company (refer to note 6)

20. Exceptional items

Exceptıonal ıtems are comprısed as follows

	2012 £'m	2011 £'m
Refinancıng costs	**(8.3)**	(8 8)
Exceptional refinancing costs	**(8.3)**	(8 8)
Total exceptional items	**(8.3)**	(8 8)

Refinancing costs

Durıng the perıod, £8 0m of finance costs assocıated wıth the Aprıl 2011 refinancıng exercıse have been expensed as exceptıonal ıtems (2011 £8 8m of finance costs assocıated wıth the March 2010 refinancıng exercise) An addıtıonal £0 3m (2011 £nıl) was ıncurred ın relatıon to the RCF renegotıatıon.

21. Ultimate parent company

The dırectors regard Matalan Group Lımıted a company regıstered ın England and Wales, as the ımmedıate parent company Accordıng to the regıster kept by the company, Matalan Group Lımıted has a 100% interest ın the equıty capıtal of Matalan Fınance plc at 25 February 2012 The dırectors regard Mıssourı Topco Lımıted, a company regıstered ın Guernsey, as the ultımate parent company

The dırectors regard the Hargreaves famıly as the ultımate controllıng party throughout the perıod

The parent of the largest and smallest group to consolıdate these financıal statements at 25 February 2012 ıs the ultımate parent company Mıssourı Topco Lımıted The consolıdated financial statements of Mıssourı Topco Lımıted are avaılable from Matalan, Gıllıbrands Road, Skelmersdale, West Lancashıre, WN8 9TB