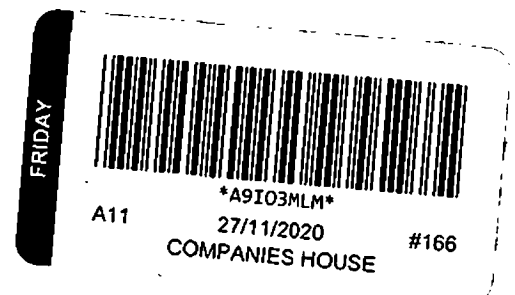


**REGISTERED NUMBER: 05962488**

**MATALAN FINANCE PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**53 WEEKS ENDED 29 FEBRUARY 2020**



# **MATALAN FINANCE PLC**

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## **MATALAN FINANCE PLC**

### **DIRECTORS AND ADVISERS**

#### **Directors**

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

#### **Company Secretary**

W G Lodder

#### **Registered Office**

Perimeter Road  
Knowsley Industrial Park  
Liverpool  
L33 7SZ

#### **Independent Auditor**

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

#### **Solicitor**

Clifford Chance LLP  
10 Upper Bank Street  
London  
E14 5JJ

#### **Banker**

Lloyds Bank plc  
King Street  
Manchester  
M2 4LQ

## **MATALAN FINANCE PLC**

### **STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020**

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

#### **Review of business**

The Company continues to be a debt and investment holding company.

#### **Results**

The result for the period was breakeven (2019: breakeven) and the Company has net assets of £198.5m (2019: £198.5m).

#### **Principal risks and uncertainties**

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

**Foreign Exchange Risk** – The Company is a subsidiary in the group of companies headed by Missouri Topco Limited (the Group). The Group and therefore the Company, is exposed to the risk of fluctuating foreign exchange rates. The Group uses forward foreign exchange contracts in order to manage its exposure to foreign exchange risk and wherever possible these are hedge accounted under IFRS 9. The Group has a treasury policy in place which limits how much can be purchased on a rolling 30 month basis. In accordance with this policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

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.

#### **COVID-19**

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

**Interest Rate Risk** - Fluctuating interest rates could have an impact on cashflows 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.

By order of the board



**S Hill**

**Director**

Perimeter Road,  
Knowsley Industrial Park  
Liverpool  
L33 7SZ  
24/11/2020

# **MATALAN FINANCE PLC**

## **DIRECTORS' REPORT**

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

### **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.

### **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**

As a debt holding company, the Company is reliant on intercompany trade. As a result of the impact of COVID-19 on the Group's post year end trading, the Group has recently raised additional finance to provide further liquidity. This exercise involved extensive due diligence on the Group's three-year forecasts which encompassed a range of trading scenarios. As a result of this the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements. Further details regarding the borrowings held by the Group and the revolving credit facility of £50m available but not drawn upon at year end are provided in the financial statements of Missouri Topco Limited.

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

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

### **Political donations**

The Company did not make any political donations in the current or prior period.

### **Dividends**

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

## **MATALAN FINANCE PLC**

### **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.

#### **Other information**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2.

#### **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**

Perimeter Road,  
Knowsley Industrial Park  
Liverpool  
L33 7SZ  
24/11/2020

## **MATALAN FINANCE PLC**

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 IFRSs as adopted by the EU;
- 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.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN FINANCE PLC

## 1 Our opinion is unmodified

We have audited the financial statements of Matalan Finance Plc ("the Company") for the 53 week period ended 29 February 2020 which comprise the Income Statement, 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 Company's affairs as at 29 February 2020 and of its result 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 as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## 2 Material uncertainty related to going concern

	The Risk	Our Response
<p><b>Going concern</b></p> <p>We draw attention to note 2.3 to the financial statements which indicates that there is a material uncertainty relating to the Company's ability to continue as a going concern.</p> <p>The company is part of the Missouri Topco Limited group of companies ("the group"), which includes Matalan Retail Limited ("Retail"), the group's main trading entity. The Company is required to make £36m interest payment obligations over the listed debt held by the entity, consisting of £350m First Lien Secured Notes and £130m Second Lien Secured Notes due 2023 and 2024 respectively. These funds are generated through intercompany charges with Retail, which as a result, is required to generate sufficient cash to service this obligation. Retail's ability to continue as a going concern is dependent on the external</p>	<p><b>Disclosure quality</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Company's business model, including the impact of Brexit, and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been</p>	<p><b>Our procedures included:</b></p> <ul style="list-style-type: none"> <li>• <b>Funding assessment:</b> Assessing the Company's financing agreements including the terms of the existing First and Second Lien Notes, the revolving credit facility and covenants, Coronavirus Large Business Interruption Loan Scheme and £25m additional bond funding;</li> <li>• <b>Historical comparisons:</b> Evaluating the historical accuracy of forecasts including key inputs of sales and operating costs;</li> <li>• <b>Key dependency assessment:</b> Assessing the Company's cash flow forecast to identify key inputs for further enquiry. The key inputs included sales growth, gross margin, overheads, inventory holding and creditor days;</li> <li>• <b>Sensitivity analysis:</b> We considered sensitivities over the level of available financial resources indicated by the company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively;</li> <li>• <b>Benchmarking assumptions:</b> Benchmarking sales forecasts by channel and main product category against external market data;</li> <li>• <b>Evaluating directors' intent:</b> We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise; and</li> <li>• <b>Assessing transparency:</b> Assessing the completeness and accuracy of the matters covered in the going concern disclosure by comparing the overall picture against our understanding of the risks.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN FINANCE PLC (CONTINUED)

<p>lender not calling in the debt owing to it in the event of the group, in a severe but plausible downside scenario, breaching its covenant. These events and conditions, along with the other matters explained in note 2.3 constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.</p> <p>Our opinion is not modified in respect of this matter</p> <p><i>Refer to page 2 (principal risks) and page 14 (accounting policy).</i></p>	<p>done) and, along with a description of the circumstances, is a key financial statement disclosure.</p>	
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### 3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2019):

	The Risk	Our Response
<p><b>The impact of uncertainties due to the UK exiting the European Union on our audit</b></p> <p><i>Refer to page 2 (principal risks) and page 14 (accounting policy).</i></p>	<p><b>Unprecedented levels of uncertainty</b></p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in recoverability of the company's investments in subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the company's future prospects and performance.</p> <p>Brexit is one of the most significant economic events for the UK its effects are subject to</p>	<p><b>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</b></p> <ul style="list-style-type: none"> <li>• <b>Our Brexit knowledge:</b> We considered the directors' assessment of Brexit-related sources of risk for the company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks;</li> <li>• <b>Sensitivity analysis:</b> When addressing recoverability of company's investment in subsidiaries and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and</li> <li>• <b>Assessing transparency:</b> As well as assessing individual disclosures as part of our procedures on recoverability of company's investment in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN FINANCE PLC  
(CONTINUED)**

	unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	
<b>Recoverability of company's investment in subsidiaries</b> £817.2m, (2019: £817.2m)  <i>Refer to page 14 (accounting policy) and page 23 (financial disclosures).</i>	<b>Low risk, high value</b> The carrying amount of the company's investment in its subsidiary represents 93% (2019: 93%) of the company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the company financial statements, this is considered to be the area that had the greatest effect on our overall company audit.	Our procedures included: <ul style="list-style-type: none"> <li>• <b>Assessing subsidiary audits:</b> Assessing the work performed by the subsidiary audit team on subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets; and</li> <li>• <b>Our sector experience:</b> As the carrying amount of investments exceeded the net asset value of the direct subsidiary, we compared the carrying amount of the investment with the expected value of the business based on discounted forecast cash flows.</li> </ul>

**4 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements was set at £3.0m (2019: £8.5m), determined with reference to a benchmark of Net Assets of £198.5m (2019: £198.5m) of which it represents 1.5% (2019: 4.5%). We consider net assets to be the most appropriate benchmark given that the company's principal function is the issuing of listed debt securities and investments in group companies.

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £0.1m (2019: £0.4m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

**5 We have nothing to report on the Strategic Report and Directors' Report**

The directors are responsible for the Strategic and Directors' Report together with the financial statements. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic Report and Director's 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATALAN FINANCE PLC (CONTINUED)**

### **6 We have nothing to report on the other matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

### **7 Respective responsibilities**

#### ***Directors' responsibilities***

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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](http://www.frc.org.uk/auditorsresponsibilities).

### **8 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.

**Andrew Reddington (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 St Peter's Square  
Manchester  
M2 3AE  
25th November 2020

**MATALAN FINANCE PLC**

**INCOME STATEMENT**

	Note	53 weeks ended 29 February 2020 £'m	52 weeks ended 23 February 2019 £'m
Administrative expenses		-	-
<b>Operating result</b>		-	-
Finance costs	4	(37.8)	(36.9)
Finance income	4	37.8	36.9
<b>Net finance expense</b>	4	-	-
<b>Loss before income tax</b>	7	-	-
Income tax	8	-	-
<b>Loss for the period</b>		-	-

The Company has no other comprehensive income/(expenditure) other than the result for the period.

# MATALAN FINANCE PLC

## STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2020

	Note	2020 £'m	2019 £'m
<b>Non-current assets</b>			
Investments	9	817.2	817.2
<b>Total non-current assets</b>		<b>817.2</b>	<b>817.2</b>
<b>Current assets</b>			
Receivables	10	59.8	59.8
<b>Total current assets</b>		<b>59.8</b>	<b>59.8</b>
<b>Total assets</b>		<b>877.0</b>	<b>877.0</b>
<b>Current liabilities</b>			
Payables	12	(202.2)	(203.5)
<b>Total current liabilities</b>		<b>(202.2)</b>	<b>(203.5)</b>
<b>Non-current liabilities</b>			
Financial liabilities – borrowings	11	(476.3)	(475.0)
<b>Total non-current liabilities</b>		<b>(476.3)</b>	<b>(475.0)</b>
<b>Total liabilities</b>		<b>(678.5)</b>	<b>(678.5)</b>
<b>Net assets</b>		<b>198.5</b>	<b>198.5</b>
<b>Capital and reserves</b>			
Share capital	13	21.9	21.9
Retained earnings		176.6	176.6
<b>Total shareholders' equity</b>		<b>198.5</b>	<b>198.5</b>

The financial statements on pages 10 to 26 were approved by the board of directors on 24/11/2020 and signed on its behalf by:



S Hill  
Director

Matalan Finance plc  
Registered number: 05962488

**MATALAN FINANCE PLC**

**STATEMENT OF CASH FLOWS**

	Note	2020 £'m	2019 £'m
Result after tax		-	-
<b>Adjustments for:</b>			
Interest payable	4	37.8	36.9
Interest receivable	4	(37.8)	(36.9)
<b>Operating cash flows before movements in working capital</b>		-	-
Movements in working capital:			
Increase in receivables		-	0.4
Decrease in payables		-	(0.4)
<b>Net cash flows from operating activities</b>		-	-
<b>Cash flows from financing activities</b>			
<b>Net cash used in financing activities</b>		-	-
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		-	-
<b>Cash and cash equivalents at the end of the period</b>		-	-

**MATALAN FINANCE PLC****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Share capital £'m</b>	<b>Retained earnings £'m</b>	<b>Total equity £'m</b>
As at 25 February 2018	21.9	176.6	198.5
<b>Comprehensive expenditure</b>			
Result for the period	-	-	-
As at 23 February 2019	21.9	176.6	198.5
As at 24 February 2019	21.9	176.6	198.5
<b>Comprehensive expenditure</b>			
Result for the period	-	-	-
As at 29 February 2020	21.9	176.6	198.5

# MATALAN FINANCE PLC

## 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 England 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 of 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 ("adopted IFRSs") 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.

#### 2.2 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 have had a material impact on the Company.

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:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 16 Leases.

#### 2.3 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company has net current liabilities of £142.4m (2019: £143.7m) and net assets of £198.5m (2019: £198.5m) with sufficient cash resources to meet working capital requirements.

The company is reliant on trade with other entities under common ownership of Missouri Topco Limited to continue as a going concern. As a result of the impact of the global pandemic, COVID-19, the Directors of those entities have undertaken an assessment of the going concern assumption using the base case financial forecasts and considering plausible downside scenarios for the entities to which the Company provides services to for a period of twelve months from the date of approval of these financial statements. The assumptions included in the severe but plausible downside scenario include that Matalan's entire store estate is forced to close for the duration of November and December 2020, with a further period of depressed trading immediately following.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2. Summary of significant accounting policies (continued)**

**2.3 Going concern (continued)**

The Directors have reviewed the forecasts of these entities and have concluded that there is a material uncertainty in the event of an extreme and prolonged lockdown during the peak trading period. This scenario is considered highly unlikely in that it both covers all of the peak annual trading period and would also require a change in current government guidance. However, the ability of Missouri Topco Limited to continue to provide this support is dependent on, in such a scenario, Missouri Topco Limited obtaining a waiver or further variation of terms with the banking facility lenders, who have been consistently supportive of the business throughout this period. In these circumstances the directors would need the banks approval to this request and, despite the collaborative support provided to date the Missouri Topco Limited Board can not automatically presume the lenders' agreement.

Based on these indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

**2.4 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 29 February 2020, 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.

**2.5 Finance income and expenditure**

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

**2.6 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.

**2.7 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.

**2.8 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.

# **MATALAN FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **2.8 Deferred income tax (continued)**

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 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.

#### **2.9 Borrowings**

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

#### **2.10 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.

#### **2.11 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.

#### **2.12 Share capital**

Ordinary shares are classified as equity.

#### **2.13 Receivables**

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

#### **2.14 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.

## MATALAN FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. Summary of significant accounting policies (continued)

##### 2.15 Payables

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

##### 2.16 Segmental reporting

The entire operations of the Company are considered part of a single segment.

##### 2.17 Impairment

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

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

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

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

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

The Company considers a financial asset to be in default when:

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

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

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

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

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

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. Summary of significant accounting policies (continued)

#### 2.17 Impairment (continued)

##### Measurement of ECLs

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

##### Credit-impaired financial assets

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

##### Write-offs

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

#### 2.18 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### 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 fair value interest rate risk and cashflow 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 Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the group's 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 Company to cash flow interest rate risk. The Company's long-term borrowings are all fixed rate instruments which significantly reduces the Companies exposure to interest rate risk.

##### *(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. Banks and financial institutions are approved by the Board on a case by case basis, taking into account credit rating and investment criteria.

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Financial risk management (continued)

#### (b) credit risk (continued)

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 majority of receivables held by the Company are inter-company balances. Therefore, the credit risk of the Company is significantly reduced as these balances are supported by the Group.

#### (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 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 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 inter-company receivables / payables.

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
<b>At 23 February 2019</b>				
Borrowings (before deduction of £4.9m issue costs) including interest payable	(36.0)	(36.0)	(564.4)	-
Trade and other payables	(203.5)	-	-	-
	<b>(239.5)</b>	<b>(36.0)</b>	<b>(564.4)</b>	<b>-</b>
<b>At 29 February 2020</b>				
Borrowings (before deduction of £3.7m issue costs) including interest payable	(36.0)	(36.0)	(528.3)	-
Trade and other payables	(202.2)	-	-	-
	<b>(238.2)</b>	<b>(36.0)</b>	<b>(528.3)</b>	<b>-</b>

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Financial risk management (continued)

#### Financial assets

	Fair value through profit or loss		Amortised cost	
	2020 £'m	2019 £'m	2020 £'m	2019 £'m
Investments	817.2	817.2	-	-
Amounts owed by group undertakings	-	-	59.8	59.8
<b>Total Financial assets</b>	<b>817.2</b>	<b>817.2</b>	<b>59.8</b>	<b>59.8</b>

	Fair value through profit or loss		Amortised cost	
	2020 £'m	2019 £'m	2020 £'m	2019 £'m
Amounts owed to group undertakings	-	-	(199.4)	(201.2)
Long-term borrowings	-	-	(476.3)	(475.0)
<b>Total Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(675.7)</b>	<b>(676.2)</b>

### 4. Net Finance Costs

	2020 £'m	2019 £'m
Finance costs and similar charges:		
Interest payable on notes	(36.6)	(35.7)
Amortisation of finance costs:		
Notes costs	(1.2)	(1.2)
<b>Finance costs</b>	<b>(37.8)</b>	<b>(36.9)</b>
Finance income:		
Loan interest and other finance costs recharged to group companies	37.8	36.9
<b>Finance income</b>	<b>37.8</b>	<b>36.9</b>
<b>Net finance expense</b>	<b>-</b>	<b>-</b>

## MATALAN FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5. Directors' emoluments

The directors of Matalan Finance plc did not receive any remuneration for their services to the Company in the current or prior year. The total remuneration for the directors for their services to the Group is disclosed below:

	2020 £'m	2019 £'m
Aggregate emoluments (including benefits in kind)	1.7	1.7
Performance bonuses and other emoluments	-	0.9
	<u>1.7</u>	<u>2.6</u>

Amounts paid to the highest paid director:

	2020 £'m	2019 £'m
Aggregate emoluments	0.6	0.6
Performance bonuses and other emoluments	-	0.4
	<u>0.6</u>	<u>1.0</u>

#### 6. Employee information

The Company had no employees during the period (2019: none).

#### 7. Loss before income tax

The audit fee for the Company amounting to £8,000 (2019: £8,000) is borne by a fellow group company. The total fee for the Group is £0.2m (2019: £0.2m). A detailed breakdown of all audit and non-audit fees payable to the auditor can be found in the financial statements of Missouri Topco Limited.

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. Income tax expense

The income tax expense for the period is the same as (2019: same as) the rate of corporation tax in the UK of 19% (2019: 19%). The rate of corporation tax is based on a weighted average rate. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2018) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2018. The reduction to 17% was withdrawn following publication of the Finance Bill on 19 March 2020.

	2020 £'m	2019 £'m
Loss before income tax	-	-
Loss before income tax multiplied by a rate of corporation tax of 19% (2019: 19%)	-	-
Effects of:		
Non taxable income	(7.6)	(7.4)
Group relief surrendered	5.8	7.4
Deferred tax not recognised	1.8	-
<b>Total income tax expense in the period</b>	<b>-</b>	<b>-</b>

### Deferred income tax

The Company has no recognised or unrecognised deferred income tax assets or liabilities at either the end of the current or prior period.

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Investments

Investment in subsidiaries  
£'m

Cost and net book value

At 29 February 2020 and 23 February 2019

817.2

The Company holds 100% of the ordinary share capital of Matalan Limited, of which there is one class. The principal activity of Matalan Limited is to act as a holding company and its registered address is Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ. 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	% interest held and voting rights
Matalan Retail Limited	Retail	100
Jonmar Limited	Property	100
Matalan Travel Limited	Travel services	100
Matalan Investments Limited	Holding company	100
HP01 Nominees Limited	Distribution	100
Matalan Holding Company Limited	Holding company	100
Matalan Direct Limited	Retail	100

The Company also indirectly owns 100% of the preference share capital of Matalan Holding Company Limited.

All of the above companies have the following registered address: Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ

### 10. Receivables – current

	2020 £'m	2019 £'m
Amounts owed by group undertakings	59.8	59.8

### 11. Financial liabilities – borrowings

	2020 £'m	2019 £'m
<b>Non current</b>		
First Lien Secured Notes (net of £2.6m issue costs (2019: £3.6m)) maturity date 2023	(347.4)	(346.4)
Second Lien Secured Notes (net of £1.1m issue costs (2019: £1.4m)) maturity date 2024	(128.9)	(128.6)
	<b>(476.3)</b>	<b>(475.0)</b>

## MATALAN FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11. Financial liabilities – borrowings (continued)

Borrowings are all denominated in sterling at 29 February 2020. The Company had no short-term borrowings during the period (2019: £nil). In the financial period ended 24 February 2018 the Company issued £350m First Lien Secured Notes and £130m Second Lien Secured Notes due 2023 and 2024 respectively. Issue costs of £6.2m were incurred and are being amortised over the terms of the facilities.

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

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

Security over the secured debt comprises a charge over substantially all of the property and assets of the Company and each guarantor. The guarantors are the ultimate parent company Missouri Topco Limited and fellow group entities Matalan Group Limited, Matalan Limited, Matalan Retail Limited and Matalan Holding Company Limited.

#### Maturity of Secured Notes

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

#### 12. Payables - current

	2020 £'m	2019 £'m
Amounts owed to group undertakings	(199.4)	(201.2)
Accruals	(2.8)	(2.3)
	(202.2)	(203.5)

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

# MATALAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13. Share capital

	10p ordinary shares	Total value
	Number	£'m
<b>Issued and fully paid</b>		
<b>At 29 February 2020 and 24 February 2019</b>	<b>218,688,222</b>	<b>21.9</b>

The shares of Matalan Finance plc consist of one class of ordinary shares, 100% of which are owned by Matalan Group Limited.

### 14. 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.

### 15. 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:

	2020 £'m	2019 £'m
Transactions with group undertakings:		
Funds borrowed	(36.0)	(36.7)
Interest receivable	37.8	36.9
	<b>1.8</b>	<b>0.2</b>
Amounts owed to parent	(55.1)	(55.1)
Amounts owed from group undertakings	(84.5)	(86.3)

The Company has entered into a 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 inter-company receivables / payables.

Net liabilities settled by other group companies on behalf of the Company under the cash pooling arrangement are as follows:

	2020 £'m	2019 £'m
Transactions with subsidiary undertakings:		
Notes / loan interest payments	(36.0)	(36.5)
Bond refinancing/ other fees	-	(0.3)
	<b>(36.0)</b>	<b>(36.8)</b>

## **MATALAN FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **15. Related party transactions (continued)**

At the reporting date, the directors of the Company and their immediate relatives controlled 100 per cent of the voting shares of the Company.

Key management are the directors of the Company. The directors' remuneration for their services to the Company has been borne by a fellow group company (refer to note 5).

#### **16. Ultimate parent company**

The directors regard Matalan Group Limited a company registered in England and Wales, as the immediate parent company. According to the register kept by the Company, Matalan Group Limited has a 100% interest in the equity capital of Matalan Finance plc at 29 February 2020. The company's registered address is Matalan Group 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, 1<sup>st</sup> 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 29 February 2020. The consolidated financial statements of Missouri Topco Limited are available from Matalan, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

#### **17. Post balance sheet events**

After the balance sheet date of 29 February 2020 the global pandemic caused by the COVID-19 virus occurred in the UK. This has been treated as a non-adjusting post balance sheet event. The Company has not been significantly impacted financially or operationally due to the pandemic, although the wider Matalan Group has been affected, as described in the Matalan Retail Limited statutory accounts. In response to the pandemic the Group raised additional finance to provide further liquidity in the form of £25m of CLBILS and £25m of bonds. This exercise involved extensive due diligence on the Group's three-year forecasts which encompassed a range of trading scenario, including the potential impact of varying levels of further disruption during the winter of 2020.