

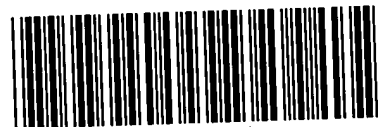
REGISTERED NUMBER: 05962488

MATALAN FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

52 WEEKS ENDED 27 FEBRUARY 2021

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MATALAN FINANCE PLC

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MATALAN FINANCE PLC

DIRECTORS AND ADVISERS

Directors

S Hill

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 52 WEEKS ENDED 27 FEBRUARY 2021

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

Review of business

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

Results

The result for the period was breakeven (2020: breakeven) and the Company has net assets of £198.5m (2020: £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.

As the Company is a subsidiary in the group of companies headed by Missouri Topco Limited, the risks facing the Company mirror those of the wider Matalan group (the Group).

The Group (and therefore indirectly the Company) are exposed to the following risks:

COVID-19

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

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

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

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

Foreign Exchange Risk –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.

MATALAN FINANCE PLC

STRATEGIC REPORT (CONTINUED)

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 November 2021

MATALAN FINANCE PLC

DIRECTORS' REPORT

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

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 result of the impact of COVID-19 on the Group's trading, the Group raised additional finance to provide further liquidity. This exercise involved extensive due diligence on the Group's three-year forecasts which encompassed a range of trading scenarios. As a result of this the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements. Further details regarding the borrowings held by the Group are provided in the financial statements of Missouri Topco Limited.

Based on the funding in place and the Group's forecasts to 2023, the directors have concluded that the Group and the Company has and will continue to have sufficient headroom to meet its liabilities in full over the next 12 months. As such the directors have concluded that it remains appropriate to adopt the going concern basis in the preparation of these financial statements.

Further details regarding the going concern status of the Group and the Company are included in note 2.3. This note also considers the potential impact of varying levels of further disruption during the winter of 2021, including a severe but plausible downside trading scenario arising from the COVID-19 pandemic whereby Matalan's entire store estate is forced to close for the duration of November 2021 and January 2022.

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.

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.

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.

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 November 2021

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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 52 week period ended 27 February 2021 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 27 February 2021 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>Going concern</p> <p>We draw attention to note 2.3 to the financial statements which describes how the Company is reliant on trade with other entities under common ownership of Missouri Topco Limited and the fact that this wider Group is subject to uncertainties over its going concern due to possible impacts of COVID-19 on the Group and the fact that the Group has a number of significant facilities maturing between July 2022 and January 2023 that will need to be refinancing at those times.</p> <p>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>Disclosure quality</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,</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Funding assessment: Assessed the Company's financing agreements including the terms of the existing First and Second Secured Lien Notes, the 1.5 Lien Secured Notes, Shareholders Notes, and Retail's financing agreements including the revolving credit facility and covenants, in addition to the Coronavirus Large Business Interruption Loan Scheme; • Historical comparisons: Evaluated the historical accuracy of forecasts including key inputs of sales and operating costs; • Key dependency assessment: Assessed 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; • Sensitivity analysis: 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; • Benchmarking assumptions: Benchmarked sales forecasts by channel and main product category against external market data; • Evaluating directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise; and • Assessing transparency: Assessed the completeness and accuracy of the matters covered in the going concern disclosure by comparing the overall position against our understanding of the risks.

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

<i>Refer to page 2 (principal risks) and page 16 (accounting policy).</i>	that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.	
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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 (Brexit has been removed in the current period having been included in 2020):

	The Risk	Our Response
Recoverability of Company's investment in subsidiaries £817.2m (2020: £817.2m) <i>Refer to page 17 (accounting policy) and page 24 (financial disclosures).</i>	Low risk, high value The carrying amount of the Company's investment in its subsidiary represents 93% (2020: 93%) of the Company's total assets. Their 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"> • Assessing subsidiary audits: 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 • Our sector experience: 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.

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

Materiality for the financial statements was set at £3.0m (2020: £3.0m), determined with reference to a benchmark of Net Assets of £198.6m (2020: £198.5m) of which it represents 1.5% (2020: 1.5%). 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 (2020: £0.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds

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

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company, or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we found the going concern disclosure in note 2.3 to be acceptable.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, and inspection of policy documentation, as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes; and
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the entity does not trade.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation.

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

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

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

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

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

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

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

7 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.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, 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

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

(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.

9 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
24 November 2021

MATALAN FINANCE PLC

INCOME STATEMENT

	Note	52 weeks ended 27 February 2021 £'m	53 weeks ended 29 February 2020 £'m
Administrative expenses		-	-
Operating result		-	-
Finance costs	4	(43.7)	(37.8)
Finance income	4	43.7	37.8
Net finance expense	4	-	-
Loss before income tax	7	-	-
Income tax	8	-	-
Loss for the period		-	-

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

MATALAN FINANCE PLC

STATEMENT OF FINANCIAL POSITION AS AT 27 FEBRUARY 2021

	Note	2021 £'m	2020 £'m
Non-current assets			
Investments	9	817.2	817.2
Receivables	11	59.8	-
Total non-current assets		877.0	817.2
Current assets			
Receivables	10	-	59.8
Total current assets		-	59.8
Total assets		877.0	877.0
Current liabilities			
Payables	13	(165.5)	(202.2)
Total current liabilities		(165.5)	(202.2)
Non-current liabilities			
Financial liabilities – borrowings	12	(513.0)	(476.3)
Total non-current liabilities		(513.0)	(476.3)
Total liabilities		(678.5)	(678.5)
Net assets		198.5	198.5
Capital and reserves			
Share capital	14	21.9	21.9
Retained earnings		176.6	176.6
Total shareholders' equity		198.5	198.5

The financial statements on pages 12 to 28 were approved by the board of directors on 24 November 2021 and signed on its behalf by:



S Hill
Director

Matalan Finance plc
Registered number: 05962488

MATALAN FINANCE PLC

STATEMENT OF CASH FLOWS

	Note	2021 £'m	2020 £'m
Result after tax		-	-
Adjustments for:			
Finance Costs	4	43.7	37.8
Finance Income	4	(43.7)	(37.8)
Operating cash flows before movements in working capital		-	-
Movements in working capital:			
Increase / (Decrease) in payables		(18.8)	-
Net cash flows from operating activities		(18.8)	-
Cash flows from investing activities			
Interest received		26.3	36.0
Net cash generated from investing activities		26.3	36.0
Cash flows from financing activities			
Bonds issued	16	27.7	-
Issue costs	16	(8.9)	-
Interest paid	16	(26.3)	(36.0)
Net cash used in financing activities		(7.5)	(36.0)
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		-	-

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

	Share capital £'m	Retained earnings £'m	Total equity £'m
As at 25 February 2019	21.9	176.6	198.5
Comprehensive expenditure			
Result for the period	-	-	-
As at 29 February 2020	21.9	176.6	198.5
As at 1 March 2020	21.9	176.6	198.5
Comprehensive expenditure			
Result for the period	-	-	-
As at 27 February 2021	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 company financial statements have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("adopted IFRSs"). 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 References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 1 and IAS 8: Definition of Material.

2.3 Going concern

The financial statements have been prepared on a going concern basis which the directors of the company consider to be appropriate for the following reasons. The company has net current liabilities of £105.7m (2020: £142.4m) and net assets of £198.5m (2020: £198.5m) with sufficient cash resources to meet working capital requirements.

The company is however 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 COVID-19 on the Group's trading, the Group raised additional finance to provide further liquidity. This exercise involved extensive due diligence on the Group's three-year forecasts which encompassed a range of trading scenarios.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.3 Going concern (continued)

The directors of the company have assessed the Group forecasts in order to inform the board's conclusions as to the ability of the Group to have sufficient headroom to meet its liabilities, and to ensure it can operate as a going concern over the next 12 months. Having done this, the board has concluded that the Group and hence this company have the liquidity they require and will continue to have sufficient headroom to meet their liabilities in full over the next 12 months from the date of approval of these company's financial statements.

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

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

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

2.4 Critical accounting estimates 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 27 February 2021, 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.

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.13 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any expected credit loss (see note 2.17).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, 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.

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
At 29 February 2020				
Borrowings (before deduction of £3.7m issue costs) including interest payable	(36.0)	(36.0)	(528.3)	-
Trade and other payables	(202.2)	-	-	-
	(238.2)	(36.0)	(528.3)	-
At 27 February 2021				
Borrowings (before deduction of £8.4m issue costs) including interest payable	(28.2)	(415.0)	(166.0)	-
Trade and other payables	(165.5)	-	-	-
	(193.7)	(415.0)	(166.0)	-

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

Financial assets

	Fair value through profit or loss		Amortised cost	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Investments	817.2	817.2	-	-
Amounts owed by group undertakings	-	-	59.8	59.8
Total Financial assets	817.2	817.2	59.8	59.8

	Fair value through profit or loss		Amortised cost	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Amounts owed to group undertakings	-	-	(163.2)	(199.4)
Accrued interest	-	-	(2.5)	-
Long-term borrowings	-	-	(513.0)	(476.3)
Total Financial liabilities	-	-	(678.7)	(675.7)

4. Net Finance Costs

	2021 £'m	2020 £'m
Finance costs and similar charges:		
Interest payable on notes	(39.5)	(36.6)
Amortisation of finance costs:		
Notes costs	(4.2)	(1.2)
Finance costs	(43.7)	(37.8)
Finance income:		
Loan interest and other finance costs recharged to group companies	43.7	37.8
Finance income	43.7	37.8
Net finance expense	-	-

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:

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

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Directors' emoluments (continued)

Amounts paid to the highest paid director:

	2021 £'m	2020 £'m
Aggregate emoluments	0.8	0.6
	0.8	0.6

6. Employee information

The Company had no employees during the period (2020: none).

7. Loss before income tax

The audit fee for the Company amounting to £11,000 (2020: £8,000) is borne by a fellow group company. The total fee for the Group is £0.3m (2020: £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.

8. Income tax expense

The income tax expense for the period is the same as (2020: same as) the rate of corporation tax in the UK of 19% (2020: 19%). The rate of corporation tax is based on a weighted average rate. A UK corporation tax rate of 19% (effective 1 April 2020) was substantially enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023.

	2021 £'m	2020 £'m
Loss before income tax	-	-
Loss before income tax multiplied by a rate of corporation tax of 19% (2020: 19%)	-	-
Effects of:		
Non-taxable income	(8.3)	(7.6)
Group relief surrendered	8.3	5.8
Deferred tax not recognised	-	1.8
Total income tax expense in the period	-	-

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 27 February 2021 and 29 February 2020

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
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

During the year the Group disposed of the wholly owned subsidiary, Jonmar Limited, in which Matalan Finance Plc previously had an indirect interest.

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

	2021 £'m	2020 £'m
Amounts owed by group undertakings	-	59.8

11. Receivables – non-current

	2021 £'m	2020 £'m
Amounts owed by group undertakings	59.8	-

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

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Financial liabilities – borrowings

	2021 £'m	2020 £'m
Non-current		
6.75% First Lien Secured Notes (net of £1.7m issue costs (2020: net of £2.6m issue costs)) maturity date 2023	(348.3)	(347.4)
9.5% Second Lien Secured Notes (net of £0.8m issue costs (2020: net of £1.1m issue costs)) maturity date 2024	(79.2)	(128.9)
9.5% Shareholder notes (net of £0.4m issue costs (2020: £nil)) maturity date 2024	(49.6)	-
16.5% 1.5 First Lien secured notes (net of £5.5m issue costs (2020: £nil)) maturity date 2022	(22.2)	-
Accrued PIK Interest (2020: £nil)	(13.7)	
	<u>(513.0)</u>	<u>(476.3)</u>

Borrowings are all denominated in sterling at 27 February 2021. The Company had no short-term borrowings during the period (2020: £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. During the year the Company issued £27.7m 1.5 lien secured notes. Issue costs of £8.5m were incurred in relation to the 1.5 lien secured notes. In addition, the Company subordinated the second lien and shareholder notes and agreed that interest would be accrued on a PIK basis.

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.

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Financial liabilities – borrowings (continued)

Maturity of Secured Notes

	2021 £'m	2020 £'m
Less than one year	-	-
One to five years	521.4	480.0
	521.4	480.0
Unamortised issue costs	(8.4)	(3.7)
	513.0	476.3
Current	-	-
Non-current	513.0	476.3
	513.0	476.3

13. Payables - current

	2021 £'m	2020 £'m
Amounts owed to group undertakings	(163.2)	(199.4)
Accruals and other payables	(2.3)	(2.8)
	(165.5)	(202.2)

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

14. Share capital

	10p ordinary shares	Total value £'m
Issued and fully paid	Number	
At 27 February 2021 and 29 February 2020	218,688,222	21.9

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

15. 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.

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. 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:

	2021 £'m	2020 £'m
Transactions with group undertakings:		
Funds borrowed	(35.2)	(36.0)
Funds provided	27.7	-
Interest receivable	43.7	37.8
	<hr/> 36.2	<hr/> 1.8
Amounts owed to parent	(55.1)	(55.1)
Amounts owed to group undertakings	(48.2)	(84.5)

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:

	2021 £'m	2020 £'m
Transactions with subsidiary undertakings:		
Notes / loan interest payments	(26.3)	(36.0)
Bond refinancing/ other fees	(8.9)	-
	<hr/> (35.2)	<hr/> (36.0)

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).

MATALAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. 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 27 February 2021. 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, 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB. The Company regards the Hargreaves family as the ultimate controlling party throughout the period.

Missouri Topco Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 27 February 2021. The consolidated financial statements of Missouri Topco Limited are available from Matalan, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.