

REGISTERED NUMBER: 00045618

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

52 WEEKS ENDED 27 FEBRUARY 2016

MISSOURI TOPCO LIMITED

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MISSOURI TOPCO LIMITED

DIRECTORS AND ADVISERS

Directors

A Leighton

J N Mills

J J Hargreaves

S Hill

A Misra (resigned 9 October 2015)

Company Secretary

J N Mills

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MISSOURI TOPCO LIMITED

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

The directors present their annual strategic report and the audited financial statements for the 52 weeks ended 27 February 2016.

Overview

Significant operational issues were encountered in the period with the supply chain programme being undertaken by the Group and our transition into a new warehouse. The resultant impact was heavily disrupted stock flow to our northern store estate and short term de-scaling of our online business. These issues, coupled with what remained a challenging market, resulted in EBITDA before exceptionals of £56.2m (2015: £100.3m). Positively, good progress has been made in managing these issues and the business is well placed to execute a recovery in its performance moving forwards.

Business Review

Revenue before exceptional items for the 52 weeks ended 27 February 2016 was £1,056.9m (2015: £1,094.0m), a 3.4% decrease compared to the previous year. The disrupted stock flow to our northern stores and subsequent reduction in store stock availability impacted revenues in the first half of the period. Wider market conditions toughened through the second half as unseasonal weather impacted footfall and the performance of winter ranges. Positively, we delivered an improved sales mix as we traded through the final quarter having liquidated the summer stock issues and focussed on a fuller priced customer proposition.

Gross Profit before exceptional items was £87.0m (2015: £132.2m). Markdown costs increased significantly in the period as the impact of disrupted stock flow meant that additional seasonal stock had to be liquidated at deeper levels of discount. In addition to this, distribution costs increased following the move to single stock unit replenishment and short term investment required to manage through the issues in the new warehouse. Intake margins continued to improve during the period via strategic buying, range enhancements and favourable input costs. Importantly, by the close of the period the stock position was much healthier with reduced levels of overall inventory, a better mix of core ranges and less terminal stock.

Administrative expenses, before exceptional items, were £60.7m (2015: £61.9m). The decrease is due to reduced personnel and consultancy costs.

Exceptional items total £9.4m in the period and were made up of net selling costs of £5.2m and administrative expenses of £4.2m (2015: £9.2m administrative expenses) refer to note 29.

Operating profit, before exceptional items, was £26.3m (2015: £70.3m).

Net finance costs before exceptional items were £39.0m (2015: £40.4m) refer to note 5.

The statutory loss after tax was £18.6m (2015: £0.4m loss). The statutory loss this period is due to the reduction in Gross Profit in the period.

Additions to property, plant and equipment of £22.2m (2015: £28.1m) and intangible assets of £10.7m (2015: £9.1m) during the period reflect the costs associated with the five new stores, the development of the new web platform and investment in store merchandising fixtures.

MISSOURI TOPCO LIMITED

STRATEGIC REPORT (CONTINUED)

Development and performance of the business

The Group's growth strategy remained focussed on the following areas:

- Consistently deliver our offer and further develop our range proposition
- Capitalise on our supply chain program
- Deliver sustainable margin enhancement
- Establish and leverage an ability to operate across multiple channels and formats

Consistently deliver our offer and further develop our range proposition

In the period the Group has seen robust performance in our Homeware, Childrenswear and Footwear categories as well as improved core range availability. Our own label sports range launched strongly following the decision to withdraw from the SportingPro format earlier in the year. However, whilst this progress is pleasing, there remains opportunity to replicate this success in the other departments, especially Ladieswear and Menswear and to further enhance our overall customer experience. This is a key focus for our new Brand Director, appointed in the year. The foundations of this have been established in the latter parts of this period with further improvements in marketing, visual merchandising and in-store communication planned in the next year.

Capitalise on our supply chain program

In the period the Group has encountered significant internal issues with the supply chain program and transition into a new warehouse. This resulted in a significant level of markdown being incurred to liquidate stock delayed through the supply chain. In the second half of the period, following a third party review of operations and the appointment of a Supply Chain Director, there were significant improvements to stock flow through the peak trading period. The solutions put in place require further refinement and the Group will continue to re-configure and enhance the supply chain to improve the operational efficiency of servicing the store network and the capability to support the volume of online demand.

Deliver sustainable margin enhancement

Intake margins improved in the year as a result of strategic buying partnerships, and favourable commodity and currency markets. Further opportunity exists to enhance intake margins, including via supplier development and compliance, consolidation of supply, on-boarding of new territories and evolution to our price and range architecture.

Establish and leverage an ability to operate across multiple channels and formats

Four new out-of-town stores were opened during the period in Rugby, Glasgow, Kendal and Edmonton whilst the Biggleswade store was re-sited in the year. The Group also opened a further city centre store, on Oxford Street, London in June. The store is located in the heart of capital's shopping district and has attracted many new customers to the Matalan offer along with increasing our brand and range exposure and coverage. The nine SportingPro stores were closed in the period following the exit from the SportingPro brand and fascia. We exited the period with 224 UK stores, five of which are Clearance stores.

Revenues in the Group's online channel decreased in the period. Constraints in the new Liverpool warehouse meant that demand had to be managed over the key Christmas trading period. By the year end, short term solutions had been put in place to be able to satisfy demand and the focus in the coming year is to deliver a permanent solution that allows unrestrained online growth. In addition, a new web platform is under development that will significantly enhance our functional capability and user experience, set to launch in early 2017. In July, the Group purchased the trade and assets of an online bathroom retailer which was subsequently rebranded as Matalan Direct. This offers online category extensions to our Homeware ranges, such as bathrooms, furniture and blinds via a separate website and standalone supply chain, delivering direct from supplier to customer.

MISSOURI TOPCO LIMITED

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

The responsibility of monitoring financial risk management and treasury responsibilities and procedures lie with the board of directors. The policies set by the board of directors are implemented by the Group's finance department.

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

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

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

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

The Group has an ethical sourcing policy and works closely with customers, performing frequent surveys and feedback sessions, to understand how to best meet their needs.

Suppliers or Third Parties - failure of a key supplier or third party would impact the service that the Group can provide to its customers. Sustained supplier cost price increases as a result of rising raw material costs, labour costs and transport costs would place pressure on margins.

The Group manages its exposure by working closely with its suppliers and third parties to ensure it can offer the best value to its customers. The Group monitors the stability of its supply base closely and works with suppliers and third parties to identify any issues on a timely basis.

Supply Chain - the Group is currently engaged in a further program of warehouse development following the singles implementation last year.

To mitigate risks of change, the Group has appointed an experienced Supply Chain Director in the period and the program is being managed in line with best practice program management principles and supported by third party experts. The change program will be halted during the Christmas peak period in order to ensure no disruption to peak trading.

Liquidity Risk - any impact on available cash and liquidity could have a material effect on the business and its result.

The Group actively maintains a mixture of long-term and short-term debt finance, which is designed to ensure that the Group has access to sufficient available funds for ongoing working capital needs as well as planned capital investment and expansion. The amount of debt finance required is monitored and reviewed at least annually by the board of directors.

During the period the Group has successfully re-set the covenant condition on the short-term financing available to ensure continued access to its Revolving Credit Facility (RCF). The re-set covered the second half of this period, and subsequent to the period end, a re-set covering the period ending 25 February 2017 has been completed. The Group has significant cash reserves at £74.5m (2015: £93.5m) and has not drawn down on the RCF outside of the letters of credit and guarantees, refer to note 17.

MISSOURI TOPCO LIMITED

STRATEGIC REPORT (CONTINUED)

Foreign Exchange Risk - The Group is exposed to risk of fluctuating foreign exchange rates as a result of its overseas purchases. The principal currency with which this exposure lies is US dollar.

The Group uses forward foreign exchange contracts in order to manage its exposure to foreign exchange risk and wherever possible these are hedge accounted under IAS 39. The Group has a treasury policy in place which limits how much can be purchased on a rolling 30 month basis. In accordance with this policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

Interest Rate Risk - fluctuating interest rates could have an impact on cashflows and profit.

The Group has long term interest bearing debt liabilities which are subject to fixed rates of interest. This fixed rate debt structure has significantly lowered interest rate risk faced by the Group.

Commodity Risk - As the Group's principal activity is the purchase and sale of clothes, it is exposed to a cost base which is heavily influenced by the market price of cotton.

The Group monitors trends in the cotton market to manage this risk and, by agreeing purchase contracts with suppliers six to nine months in advance, provides a degree of advance knowledge of the cost base.

Key Performance Indicators

The directors consider EBITDA before exceptional items to be the main financial KPI for the business. EBITDA before exceptional items is £56.2m (2015: £100.3m).

By order of the board



S Hill

Director

18 May 2016

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

The directors present their report for the 52 weeks ended 27 February 2016.

Directors

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

Principal activities

The principal activity of Missouri Topco Limited is that of a holding company.

The principal activities of the Group are the sale of clothing and homewares through out-of-town retail outlets, primarily through the Matalan fascia.

Directors' indemnities

During the period and up to the date of signing the financial statements, the Company maintained third party indemnity insurance for its directors and officers as defined by Section 234 of the Companies Act 2006.

Going concern

After reviewing the Group's and Company's budget and appropriate sensitivities for the period to February 2018, 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 around the borrowings held by the Group and the RCF available but not drawn down on at year end are provided in note 17.

Whilst the maturity profile of the existing Secured Notes (see note 17) extends into 2019 and 2020 respectively, the business continues to review its long term funding strategy.

The Group statement of financial position shows a net liability position as a result of the requirement to apply merger accounting to reflect the change in ownership of Matalan, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. As at 27 February 2016, the Group is in a net current asset position and has adequate liquid resources to pay its liabilities as they fall due. The accounts of Matalan Retail Limited, the principal subsidiary of the Group, show the balance sheet strength of the trading group.

Employees

Information on matters of concern to employees is given through information bulletins and reports. Monthly meetings are held with head office employees which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

The Group's policy is to recruit disabled workers for those vacancies they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Political & charitable donations

During the period the Group made charitable donations of £119,331 (2015: £94,837). The Group made political donations of £nil (2015: £nil).

Dividends

No dividend has been paid by the Company in the period.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

Creditor payment policy

UK suppliers are paid at the end of the month following invoice or to the specific terms agreed with the supplier. Foreign suppliers are paid within an agreed number of days from either shipment date or document date.

It is the Group's policy to ensure the suppliers are aware of the Company's terms of payment and that terms of payment are agreed at the commencement of business with each supplier. Payments are made in accordance with the payment terms and conditions agreed. Trade creditor days at 27 February 2016 were 42 days (2015: 43 days) based on average daily purchases.

Disclosure of information to the auditor

For all persons who are directors at the time of the approval of the directors' report and financial statements:

- a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- b) each director has taken all the steps necessary as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditor

In accordance with Companies (Guernsey) Law 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



S Hill
Director
18 May 2016

MISSOURI TOPCO LIMITED

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

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

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

The financial statements are required by law to 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 and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They 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.

MISSOURI TOPCO LIMITED

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

We have audited the Group and Company financial statements (the "financial statements") of Missouri Topco Limited (the "Company") for the period ended 27th February 2016 which comprise the Group and parent company Income Statements, the Group and parent company Statement of Comprehensive Income, the Group and Parent company Statements of Financial Position, the Group Statement of Cash Flows, the Group and Parent company Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the Strategic Report and the Directors Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 27 February 2016 and of its loss for the period then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

MISSOURI TOPCO LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSOURI TOPCO LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.



Frances Whittle
For and on behalf of KPMG LLP

Chartered Accountants and Recognised Auditor

*1 St Peter's Square
Manchester
M2 3AE*

18 May 2016

MISSOURI TOPCO LIMITED

INCOME STATEMENT

		Group		Company	
		52 weeks ended 27 February 2016 £'m	52 weeks ended 28 February 2015 £'m	52 weeks ended 27 February 2016 £'m	52 weeks ended 28 February 2015 £'m
	Note				
Revenue (including exceptional items)	4	1,061.4	1,094.0	-	-
Cost of sales (including exceptional items)	4	(979.6)	(961.8)	-	-
Gross profit (including exceptional items)	4	81.8	132.2	-	-
Administrative expenses (including exceptional items)	4	(64.9)	(71.1)	(0.2)	(0.2)
Operating profit/(loss) (including exceptional items)	4	16.9	61.1	(0.2)	(0.2)
Operating profit/(loss) pre exceptional items		26.3	70.3	(0.2)	(0.2)
Exceptional items - revenue	29	4.5	-	-	-
Exceptional items - cost of sales	29	(9.7)	-	-	-
Exceptional items - administrative expenses	29	(4.2)	(9.2)	-	-
Operating profit/(loss)		16.9	61.1	(0.2)	(0.2)
Finance costs	5	(39.3)	(41.2)	-	-
Exceptional financing costs	5, 29	-	(19.2)	-	-
Finance income	5	0.3	0.8	-	-
Net finance costs		(39.0)	(59.6)	-	-
(Loss)/profit before income tax and exceptional items	9	(12.7)	29.9	(0.2)	(0.2)
Total exceptional items		(9.4)	(28.4)	-	-
(Loss)/profit before income tax		(22.1)	1.5	(0.2)	(0.2)
Income tax credit/(expense)	10	3.5	(1.9)	-	-
Loss for the period		(18.6)	(0.4)	(0.2)	(0.2)
Attributable to:					
Equity holders of the parent		(18.0)	(0.4)		
Non controlling interest		(0.6)	-		
Loss for the period		(18.6)	(0.4)		

MISSOURI TOPCO LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	Group	
	52 weeks ended 27 February 2016 £'m	52 weeks ended 28 February 2015 £'m
Loss for the period	(18.6)	(0.4)
Other comprehensive income/(expenditure) :		
Cash flow hedges	46.0	60.4
Tax element of cash flow hedges	(8.9)	(12.1)
Other comprehensive income for the period, net of tax	37.1	48.3
Total comprehensive income for the period	18.5	47.9

The Company has no other comprehensive expenditure other than the loss (2015: loss) for the period.

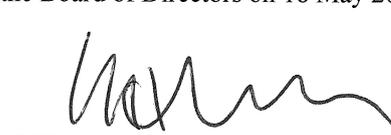
MISSOURI TOPCO LIMITED

STATEMENT OF FINANCIAL POSITION

		Group		Company	
	Note	2016	2015	2016	2015
		£'m	£'m	£'m	£'m
Assets					
Property, plant and equipment	11	174.5	177.6	-	-
Intangible assets	12	26.5	23.2	-	-
Investments	13	-	-	458.2	457.7
Financial assets - derivative financial instruments	20	27.0	14.5	-	-
Total non-current assets		228.0	215.3	458.2	457.7
Inventories - goods for resale	14	131.3	143.2	-	-
Trade and other receivables	15	27.9	26.2	30.1	30.1
Financial assets - derivative financial instruments	20	47.6	11.1	-	-
Current income tax assets		0.5	-	-	-
Cash and cash equivalents	16	74.5	93.5	-	-
Total current assets		281.8	274.0	30.1	30.1
Total assets		509.8	489.3	488.3	487.8
Liabilities					
Financial liabilities – derivative financial instruments	20	-	(0.9)	-	-
Trade and other payables	18	(150.3)	(150.3)	(60.1)	(59.9)
Current income tax liabilities		-	(0.5)	-	-
Provisions for other liabilities and charges	21	(0.6)	(5.2)	-	-
Total current liabilities		(150.9)	(156.9)	(60.1)	(59.9)
Financial liabilities – borrowings	17	(488.0)	(486.8)	-	-
Financial liabilities – derivative financial instruments	20	-	(0.5)	-	-
Trade and other payables	19	(43.5)	(41.9)	-	-
Deferred income tax liabilities	10	(17.1)	(11.8)	-	-
Provisions for other liabilities and charges	21	(2.0)	(2.5)	-	-
Total non-current liabilities		(550.6)	(543.5)	-	-
Total liabilities		(701.5)	(700.4)	(60.1)	(59.9)
Net (liabilities)/assets		(191.7)	(211.1)	428.2	427.9
Shareholders' (deficit)/equity					
Share capital	22	17.3	17.3	17.3	17.3
Share premium		385.6	385.6	385.6	385.6
Hedge reserve		56.0	18.9	-	-
Merger reserve		(774.3)	(774.3)	-	-
Warrant reserve		3.1	3.1	-	-
Capital redemption reserve		5.7	5.7	4.6	4.6
Non-controlling interest		(0.2)	-	-	-
Retained earnings		115.1	132.6	20.7	20.4
Total shareholders' (deficit)/equity		(191.7)	(211.1)	428.2	427.9

The financial statements on pages 11 to 53 were approved by the Board of Directors on 18 May 2016 and signed on its behalf by:


 J Mills
 Director


 S Hill
 Director

Missouri Topco Limited
 Registered number: 00045618

MISSOURI TOPCO LIMITED**STATEMENT OF CASH FLOWS**

		Group	
	Note	2016 £'m	2015 £'m
Cash flows from operating activities			
Cash generated from operations	23	52.0	110.6
Interest paid		(37.7)	(46.6)
Tax paid		(1.1)	(5.3)
Net cash generated from operating activities		13.2	58.7
Cash flows from investing activities			
Purchases of property, plant and equipment		(22.2)	(27.0)
Purchases of intangible assets		(10.7)	(8.9)
Interest received		0.3	0.8
Net cash used in investing activities		(32.6)	(35.1)
Cash flows from financing activities			
Repayment of previous debt		-	(475.0)
Proceeds from borrowing		-	492.0
Fees associated with refinancing		-	(19.0)
Issued Share Capital		0.4	-
Net cash used in financing activities		0.4	(2.0)
Net (decrease)/increase in cash and cash equivalents		(19.0)	21.6
Cash and cash equivalents at the beginning of the period		93.5	71.9
Cash and cash equivalents at the end of the period	16	74.5	93.5

The Company had no cash flows in 2016 (2015: none)

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Non-controlling interest £'m	Retained earnings £'m	Total equity £'m
As at 2 March 2014	17.3	385.6	(774.3)	(29.4)	5.7	3.1	-	132.5	(259.5)
Comprehensive income									
Profit for the period	-	-	-	-	-	-	-	(0.4)	(0.4)
Total profit for the period	-	-	-	-	-	-	-	(0.4)	(0.4)
Other comprehensive expenditure									
Cash flow hedges									
- fair value gain in the period	-	-	-	63.6	-	-	-	-	63.6
- transfers to inventory	-	-	-	(3.2)	-	-	-	-	(3.2)
- tax element of cash flow hedges	-	-	-	(12.1)	-	-	-	-	(12.1)
Total cash flow hedges, net of tax	-	-	-	48.3	-	-	-	-	48.3
Total other comprehensive expenditure, net of tax	-	-	-	48.3	-	-	-	-	48.3
Transactions with owners									
Fair value credit for subscription for 'B' shares	-	-	-	-	-	-	-	0.5	0.5
Total transactions with owners	-	-	-	-	-	-	-	0.5	0.5
As at 28 February 2015	17.3	385.6	(774.3)	18.9	5.7	3.1	-	132.6	(211.1)

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Non-controlling interest £'m	Retained earnings £'m	Total equity £'m
As at 1 March 2015	17.3	385.6	(774.3)	18.9	5.7	3.1	-	132.6	(211.1)
Comprehensive expenditure									
Loss for the period	-	-	-	-	-	-	-	(18.0)	(18.0)
Total loss for the period	-	-	-	-	-	-	-	(18.0)	(18.0)
Other comprehensive income									
Cash flow hedges									
- fair value gain in the period	-	-	-	50.4	-	-	-	-	50.4
- transfers to inventory	-	-	-	(4.4)	-	-	-	-	(4.4)
- tax element of cash flow hedges	-	-	-	(8.9)	-	-	-	-	(8.9)
Total cash flow hedges, net of tax	-	-	-	37.1	-	-	-	-	37.1
Total other comprehensive income, net of tax	-	-	-	37.1	-	-	-	-	37.1
Transactions with owners									
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	-	0.5	0.5
Total transactions with owners	-	-	-	-	-	-	-	0.5	0.5
Non-controlling interest	-	-	-	-	-	-	(0.2)	-	(0.2)
As at 27 February 2016	17.3	385.6	(774.3)	56.0	5.7	3.1	(0.2)	115.1	(191.7)

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Company	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£'m	£'m	£'m	£'m	£'m
As at 2 March 2014	17.3	385.6	4.6	20.1	427.6
Comprehensive expenditure					
Loss for the period	-	-	-	(0.2)	(0.2)
Total comprehensive expenditure	-	-	-	(0.2)	(0.2)
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	0.5	0.5
Total transactions with owners	-	-	-	0.5	0.5
As at 28 February 2015	17.3	385.6	4.6	20.4	427.9
As at 1 March 2015	17.3	385.6	4.6	20.4	427.9
Comprehensive expenditure					
Loss for the period	-	-	-	(0.2)	(0.2)
Total comprehensive expenditure	-	-	-	(0.2)	(0.2)
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	0.5	0.5
Total transactions with owners	-	-	-	0.5	0.5
As at 27 February 2016	17.3	385.6	4.6	20.7	428.2

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The Company is incorporated and domiciled in Guernsey. All subsidiary companies are incorporated and domiciled in the UK. The Company is limited by shares. The financial statements are presented in sterling, which is the Group's functional and presentational currency. The Group's principal place of business is Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations. The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

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 of complexity, or where assumptions and estimates are significant to the financial statements.

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 would be expected to have a material impact on the Company.

The Company has not early adopted the following standards and statements which are not yet effective. The adoption of these standards is not expected to have a material impact on the Company's accounts when adopted, except where stated:

- IFRS 9 Financial Instruments
- Amendments to IFRS 2 Share-based payments
- Amendments to IFRS 8 Operating segments
- Amendments to IFRS 13 Fair value measurement
- Amendments to IAS 24 Continuing related party disclosures

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

2.3 Going concern

After reviewing the Group's and Company's budget and appropriate sensitivities for the period to February 2018, 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 around the borrowings held by the Group and the RCF available but not drawn down on at year end are provided in note 17.

The group has significant cash reserves of £74.5m and has not drawn down on the RCF outside of the letters of credit and guarantees. The covenant conditions on the short-term financing available have been successfully re-set during the period to provide continued access to the RCF.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.3 Going concern (continued)

The Group statement of financial position shows a net liability position as a result of the requirement to apply merger accounting to reflect the change in ownership of Matalan, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. As at 27 February 2016, the Group is in a net current asset position and has adequate liquid resources to pay its liabilities as they fall due. The accounts of Matalan Retail Limited, the principal subsidiary of the Group, show the balance sheet strength of the trading group.

2.4 Critical accounting estimates and judgements

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

Critical accounting estimates and judgements relate to the following:

(a) Carrying value of inventories

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

(b) Provisions

Provisions have been made for dilapidations and onerous property leases. Information relating to provisions is disclosed in note 21. The provisions are based on historical experience and management's best knowledge and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

(c) Depreciation of property, plant and equipment and amortisation of computer software costs

Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as disclosed in note 2. The selection of these residual values and estimated lives requires the exercise of management judgement.

2.5 Basis of consolidation

Missouri Topco Limited, the ultimate parent company of Matalan Group Limited is 100% owned by the Hargreaves family. A group reconstruction, which took place in 2007, was accounted for using merger accounting principles as the controlling interests of the Company has remained unchanged.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.5 Basis of consolidation (continued)

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

2.6 Revenue

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

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

2.7 Finance income

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

2.8 Intangible assets

(a) Computer software

Software and associated costs are capitalised as intangible assets where it is not an integral part of the related hardware at purchase cost and amortised in the income statement to administrative expenses on a straight line basis over its estimated useful life which is generally 3 to 5 years.

(b) Brands

Purchased brands are capitalised at historical cost as intangible assets and amortised over its estimated useful life which is generally 5 years.

2.9 Impairment of non-financial assets

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

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.10 Property, plant and equipment

Items of property, plant and equipment are stated at purchase cost or deemed purchase cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Alterations to leasehold premises	shorter of remaining life and 25 years
Fixtures, fittings and IT hardware	3 – 10 years
Motor vehicles	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised net in the income statement.

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

2.11 Assets under construction

Assets that are not yet in use are classified as 'assets under construction'. When the related asset is brought into use the asset will be transferred out of this classification and depreciation or amortisation will commence based on the estimated useful life as defined by the accounting policies specified above.

2.12 Investments

Investments in subsidiaries are stated at cost, where cost is the aggregate nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The net book value of investments in subsidiaries is increased by the fair value of employee services for those employees of those subsidiaries receiving share based payments granted by this company, in accordance with IFRS 2 "Share based payments" with a corresponding credit to equity.

2.13 Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Foreign exchange differences arising on translation are dealt with in the income statement except when deferred in equity as qualifying cash flow hedges.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.14 Inventories

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

2.15 Operating leases

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

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

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

2.16 Current income tax

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

2.17 Deferred income tax

Deferred income tax is provided in full using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply when the related deferred tax liability is settled or asset is realised.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred income tax is charged or credited to the income statement when the liability is settled or the asset is realised. Deferred income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.18 Derivative financial instruments

The Group uses forward foreign currency contracts to manage its exposure to fluctuating interest and foreign exchange rates. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes. These instruments are initially recognised and measured at fair value on the date the contracts are entered into and subsequently re-measured at their fair value at the balance sheet date. The fair value is calculated using mathematical models and is based upon the duration of the derivative instrument together with quoted market data including foreign exchange rates at the balance sheet date.

The method of recognising the resulting gain or loss is dependent upon whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Group accounts for those derivative financial instruments used to manage its exposure to foreign exchange risk on highly probable foreign currency stock purchases as cashflow hedges under IAS 39. At inception of a contract the Group documents the relationship between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment of the effectiveness at inception and on an ongoing basis to ensure that the instrument remains an effective hedge of the transaction. The assessment of effectiveness is re-performed at each quarter end to ensure that the hedge remains highly effective.

The effective portion of the changes in fair value of cashflow hedges is recognised in equity. On completion of the forecast purchase transaction, the effective part of any gain or loss previously deferred in equity is recognised as part of the carrying amount of the underlying non-financial asset. The effective gain or loss is recognised in cost of sales in the income statement in the same period during which the underlying asset affects the income statement.

If the hedge transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in the income statement. The gain or loss relating to the ineffective portion of all hedges is recognised immediately in the income statement. Cumulative gains or losses remain in equity and are then recognised when transactions are ultimately recognised in the income statement.

Derivatives are deemed to be current unless the financial instrument is due to mature more than 12 months after the balance sheet date then they are deemed to be non-current.

2.19 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.

2.20 Borrowings

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

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.21 Dividends

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

2.22 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to the termination of the employment of current employees according to a detailed formal plan without possibility of withdrawal. These benefits are disclosed in the financial statements where material.

2.23 Exceptional items

Items that are material in size and/or non-recurring in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, gains or losses on the disposal or impairment of assets and other significant non recurring gains or losses.

2.24 Share based payments

At the date of acquisition Missouri Topco Limited, the Group's ultimate parent, entered into agreements with selected individuals which enabled them to subscribe for 300,000 of the B shares in that company. These agreements were considered to be within the scope of IFRS 2 "Share Based Payments".

The agreements provide that B shareholders would participate in the increase in fair value of the Group from the date of merger with Matalan plc and until either a specified exit event or liquidation occurs. The agreements were treated as a share based payment transaction in accordance with IFRS 2. The fair value of the subscription agreement was valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, reviewed at each balance sheet date. The resulting charge or credit is accounted for as an employee expense or income with a corresponding increase or decrease in equity. The shares covered by the subscription agreements have all now been fully paid up and issued.

2.25 Warrants

Warrants issued to subscribe for 'A' ordinary shares in the Company are valued at fair value at the date of grant. Fair value is calculated using a Black Scholes model. Where warrants are issued in conjunction with debt financing, they are treated as an attributable transaction cost of the related debt, accordingly their cost is treated as a deduction in borrowings and is amortised in the income statement as a finance cost over the term of borrowings.

2.26 Share capital policy

Ordinary shares are classified as equity.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.27 Trade and other receivables

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

2.28 Trade and other payables

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

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

2.29 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group treasury department under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Euro and the Hong Kong Dollar.

Group policy requires all group companies to manage their foreign exchange risk against their functional currency. The functional currency of all group companies is sterling. The group companies are required to substantially hedge their foreign exchange risk exposure with group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group hedges future seasons' purchases denominated in US dollars. The group treasury's risk management policy is to hedge circa 90% of forecast purchases within 12 months, 75% of forecast purchases between 13 and 24 months and up to 25% of forecast purchases between 25 and 30 months of anticipated cash flows in respect of the purchase of inventory. 100% (2015: 100%) of projected purchases in US dollars qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 27 February 2016, if sterling had strengthened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £2.0m higher (2015: £0.3m higher), mainly as a result of foreign exchange gains on translation of US dollar trade payable amounts compensated by foreign exchange losses on translation of US dollar denominated cash and trade receivable US dollar amounts.

At 27 February 2016, if sterling had weakened by 10% against the US dollar with all other variables held constant, post-tax profit would have been £2.0m lower (2015: £0.3m lower), mainly as a result of foreign exchange losses on translation of US dollar trade payable amounts compensated by foreign exchange gains on translation of US dollar denominated cash and trade receivable US dollar amounts.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The effective rate of interest applicable to the Group's cash balances in the year is 0.70% (2015: 0.86%).

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's long-term borrowings are all fixed rate instruments which significantly reduces the Group's exposure to interest rate risk.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The impact on profit or loss of a 10 basis-point shift in LIBOR with all other variables held constant would be a maximum increase/decrease of £nil (2015: £nil).

During 2015 and 2016, the Group's borrowings at fixed rates were denominated in sterling.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are dealt with in relation to placing cash deposits.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Management monitors the utilisation of credit limits regularly.

Sales to retail customers are settled in cash or using major credit cards (it is company policy not to accept cheques).

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by counterparties. The main counterparties dealt with in the period include Lloyds Bank plc, Barclays Bank plc and The Royal Bank of Scotland plc.

The ageing of receivables has not been disclosed as receivables are not deemed to be material to the Group.

(c) Liquidity risk

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

Management monitors rolling forecasts of the Group's liquidity reserve comprising borrowing facilities (note 17) and cash and cash equivalents (note 16) on the basis of expected cash flow. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

(c) Liquidity risk (continued)

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

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 28 February 2015				
Borrowings (before deduction of £5.2m issue costs) including interest payable	(36.8)	(36.8)	(440.7)	(156.7)
Derivative financial instruments	(0.9)	(0.4)	(0.1)	-
Trade and other payables	(150.3)	(4.6)	(14.2)	(23.1)
Provisions for other liabilities and charges	(5.2)	(0.6)	(1.3)	(0.6)
	(193.2)	(42.4)	(456.3)	(180.4)
At 27 February 2016				
Borrowings (before deduction of £4.0m issue costs) including interest payable	(36.8)	(36.8)	(560.6)	-
Derivative financial instruments	-	-	-	-
Trade and other payables	(150.2)	(4.9)	(14.2)	(24.4)
Provisions for other liabilities and charges	(0.6)	(0.5)	(1.3)	(0.2)
	(187.6)	(42.2)	(576.1)	(24.6)

The table below analyses the value of the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the contractual maturity date as at the balance sheet date. Inflows from gains and outflows from losses on these instruments are presented separately.

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 28 February 2015				
Cash flow hedges:				
Inflows	11.1	14.5	-	-
Outflows	(0.9)	(0.4)	(0.1)	-
	10.2	14.1	(0.1)	-
At 27 February 2016				
Cash flow hedges:				
Inflows	47.6	25.3	1.7	-
Outflows	-	-	-	-
	47.6	25.3	1.7	-

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by adjusted total capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Adjusted total capital is calculated as 'equity' as shown in the consolidated statement of financial position and excluding the merger reserve.

Group net debt	2016	2015
	£'m	£'m
Total borrowings (net of issue costs)	488.0	486.8
Less: Cash and cash equivalents	(74.5)	(93.5)
Net debt	413.5	393.3
Adjusted total capital	581.9	563.2
Gearing ratio	71%	70%

The gearing ratio excludes the creation of a merger reserve and the Group considers this a more appropriate measure to be used as it takes account of underlying assets and equity generated in the course of business. The Group was required to meet specific bank covenants including debt cover during the year. The Group has complied with bank covenants throughout the year.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs)

The following represents the Group's assets and liabilities that are measured at fair value at 27 February 2016:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets				
Cash flow hedges	-	74.6	-	74.6
Total assets	-	74.6	-	74.6
Liabilities				
Cash flow hedges	-	-	-	-
Total liabilities	-	-	-	-

The following represents the Group's assets and liabilities that are measured at fair value at 28 February 2015:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets				
Cash flow hedges	-	25.6	-	25.6
Total assets	-	25.6	-	25.6
Liabilities				
Cash flow hedges	-	(1.4)	-	(1.4)
Total liabilities	-	(1.4)	-	(1.4)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date by reference to contract rate and the market forward exchange rates at the balance sheet date.

MISSOURI TOPCO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4. Operating profit**

	Group	
	2016	2015
	£'m	£'m
Revenue - pre exceptional items	1,056.9	1,094.0
Exceptional items - revenue	4.5	-
Total Revenue	1,061.4	1,094.0
Cost of goods sold - pre exceptional items	(577.4)	(580.3)
Exceptional items - cost of goods sold	(9.1)	-
Selling expenses - pre exceptional items	(336.7)	(336.6)
Exceptional items - selling costs	(0.6)	-
Distribution expenses	(55.8)	(44.9)
Total cost of sales	(979.6)	(961.8)
Gross profit	81.8	132.2
Administrative expenses - pre exceptional items	(60.7)	(61.9)
Exceptional items - administrative expenses	(4.2)	(9.2)
Administrative expenses	(64.9)	(71.1)
Operating profit	16.9	61.1

Further details of exceptional items above are included in note 29.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Net finance costs

	Group	
	2016	2015
	£'m	£'m
Finance costs and similar charges:		
Interest payable on notes	(36.8)	(38.3)
Amortisation of finance costs:		
Notes costs	(1.2)	(1.7)
Other interest payable	(1.1)	(0.9)
Unwinding of discounts on provision	(0.2)	(0.3)
Finance costs	(39.3)	(41.2)
Exceptional financing costs	-	(19.2)
Finance income:		
Interest receivable on short term cash deposits	0.3	0.8
Finance income	0.3	0.8
Net finance costs	(39.0)	(59.6)

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

Exceptional finance costs of £19.2m relate to the June 2014 refinancing exercise and include charges for the accelerated amortisation of issue costs relating to the Senior Notes and Senior Secured Notes previously in issue together with associated redemption costs.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Directors' emoluments

The remuneration paid or payable to the directors of Missouri Topco Limited, as part of their service contract with Matalan Retail Limited, was:

	2016 £'m	2015 £'m
Aggregate emoluments and fees (including benefits in kind)	1.5	1.7
Performance bonuses and other emoluments	0.4	0.4
	1.9	2.1

No directors have benefits accruing under defined benefit or defined contribution pension schemes. Under arrangements for selected individuals to subscribe for equity settled "B" shares, a charge has been made to the income statement of £0.3m (2015: £0.3m) in respect of directors within administrative expenses.

Amounts paid to the highest paid director:

	2016 £'m	2015 £'m
Aggregate emoluments	0.6	0.7
Performance bonuses and other emoluments	-	-
	0.6	0.7

7. Employee information

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

	Group	
	2016 Number	2015 Number
By function		
Selling and distribution	14,476	15,132
Administration	701	700
	15,177	15,832
	2016 £'m	2015 £'m
Staff costs (for the above persons)		
Wages and salaries	143.3	138.5
Social security costs	7.4	6.9
Other pension costs	0.9	0.9
Share based compensation charge	0.5	0.5
Termination payments	1.1	1.8
	153.2	148.6

We have excluded costs relating to non Matalan employees in 2016 and have restated 2015 to equivalent numbers.

The Company does not have any employees (2015: none).

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Segment reporting

IFRS 8 Operating Segments requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision-maker. The Group adopts this policy and the chief operating decision-maker has been identified as the Board of Directors. The Directors consider there to be one operating and reportable segment, being that of the sale of clothing and homewares through out of town retail outlets, primarily through the Matalan fascia, in the United Kingdom.

Internal reports reviewed regularly by the Board provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the Group as a whole and does not identify individual segments.

The chief operating decision maker relies primarily on EBITDA before exceptional items to assess the performance of the Group and make decisions about resources to be allocated to the segment. EBITDA before exceptional items for the period was £56.2m (2015: £100.3m). This can be reconciled to statutory operating profit as follows:

	Group	
	2016	2015
	£'m	£'m
Operating profit	16.9	61.1
Depreciation and amortisation	29.9	30.0
Exceptional items	9.4	9.2
EBITDA before exceptional items	56.2	100.3

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

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

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Profit before income tax

	Group	
	2016	2015
	£'m	£'m
Profit on ordinary activities before tax is stated after charging /(crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	602.2	557.9
Depreciation charge for the period on property, plant and equipment	22.9	23.0
Amortisation of intangible assets	7.0	7.0
Fair value charge/(credit) for subscription for 'B' shares	0.5	0.5
Impairment of fixed assets (note 29)	0.0	4.1
Exceptional items (note 29)	9.4	24.3
Net foreign exchange (gains)/ losses	(15.7)	22.4
Fees payable to the Group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies	0.1	0.2
for taxation compliance services	0.1	0.1
for all other services	-	0.1
Operating lease rentals payable	99.5	99.7

The audit fee for the Company amounting to £2,000 (2015: £2,000) is borne by a fellow group company. The total group audit fee is £0.1m (2015: £0.2m). Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately as the information is required instead to be disclosed on a consolidated basis.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expense

Analysis of expense

	Group	
	2016	2015
	£'m	£'m
Current income tax		
UK corporation tax – current year	-	2.9
UK corporation tax – prior year	0.1	(0.1)
	0.1	2.8
Deferred income tax		
Deferred income tax relating to the origination and reversal of temporary differences	(2.8)	(0.6)
Effect of change in income tax rates	-	-
Adjustment in respect of prior periods	(0.8)	(0.3)
	(3.6)	(0.9)
Total income tax expense	(3.5)	1.9

The Group income tax (credit) / charge for the period is lower (2015: higher) than the rate of corporation tax of 20.09% (2015: 21.17%). The rate of corporation tax is based on a weighted average rate. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

The differences are explained below:

	Group	
	2016	2015
	£'m	£'m
(Loss) / profit on ordinary activities before income tax	(22.1)	1.5
(Loss) / profit on ordinary activities multiplied by the rate of corporation tax of 20.09% (2015: 21.17%)	(4.4)	0.3
Effects of:		
Non deductible expenses	1.1	1.5
Adjustments to income tax in respect of prior periods	(0.7)	(0.4)
Change in rate of income tax on deferred income tax	-	-
Deferred income tax not recognised	0.5	0.5
Total income tax (credit) / expense in the period	(3.5)	1.9

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expense (continued)

Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 20% (2015:20%) except for financial derivatives maturing after one year where deferred tax has been calculated using a tax rate of 19%.

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

	Group	
	2016	2015
	£'m	£'m
At the beginning of the period	(11.8)	(0.6)
Taken to equity:		
- hedge reserve	(8.9)	(12.1)
Taken to income statement:		
- prior year movement	0.8	0.3
- depreciation in advance of capital allowances	2.7	0.8
- other temporary differences	0.1	(0.2)
- change in rate of income tax	-	-
At the end of the period	(17.1)	(11.8)

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

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£'m	£'m	£'m	£'m	£'m	£'m
Property, plant and equipment	-	-	(2.5)	(5.5)	(2.5)	(5.5)
Rolled over capital gain	-	-	(1.4)	(1.9)	(1.4)	(1.9)
Short-term temporary differences	0.4	0.3	-	-	0.4	0.3
Financial derivatives	-	-	(13.6)	(4.7)	(13.6)	(4.7)
Net deferred income tax assets/(liabilities)	0.4	0.3	(17.5)	(12.1)	(17.1)	(11.8)

A deferred income tax asset of £2.0m in relation to losses has not been recognised on the basis that there is uncertainty regarding its future recoverability.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expense (continued)

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

Deferred income tax assets

	Financial derivatives £'m	Short term temporary differences £'m	Total £'m
As at 2 March 2014	7.4	0.3	7.7
Credited to the income statement	-	-	-
Taken directly to equity	(7.4)	-	(7.4)
At 28 February 2015	-	0.3	0.3
At 1 March 2015	-	0.3	0.3
Credited to the income statement	-	0.1	0.1
Taken directly to equity	-	-	-
At 27 February 2016	-	0.4	0.4

The Directors consider it probable that there will be sufficient taxable profits in the future such as to recognise the deferred income tax asset.

Deferred income tax liabilities

	Accelerated tax depreciation £'m	Rolled over capital gain £'m	Financial derivatives £'m	Total £'m
As at 2 March 2014	(6.6)	(1.7)	-	(8.3)
Credited/(debited) to the income statement	1.1	(0.2)	-	0.9
Taken directly to equity	-	-	(4.7)	(4.7)
At 28 February 2015	(5.5)	(1.9)	(4.7)	(12.1)
At 1 March 2015	(5.5)	(1.9)	(4.7)	(12.1)
Credited/(debited) to the income statement	3.0	0.5	-	3.5
Taken directly to equity	-	-	(8.9)	(8.9)
At 27 February 2016	(2.5)	(1.4)	(13.6)	(17.5)

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, plant and equipment

Group

	Alterations to leasehold premises £'m	Motor vehicles £'m	Fixtures, fittings and IT hardware £'m	Assets under construction £'m	Total £'m
Cost					
At 2 March 2014	164.6	1.5	236.2	23.9	426.2
Additions	11.9	-	7.9	8.3	28.1
Transfers	29.8	-	2.4	(32.2)	-
Disposals	-	-	(0.6)	-	(0.6)
At 28 February 2015	206.3	1.5	245.9	-	453.7
At 1 March 2015	206.3	1.5	245.9	-	453.7
Additions	10.0	-	12.2	-	22.2
Transfers	-	-	-	-	-
Disposals	(10.3)	(1.5)	(13.8)	-	(25.6)
At 27 February 2016	206.0	-	244.3	-	450.3
Accumulated depreciation					
At 2 March 2014	76.5	1.5	171.6	-	249.6
Charge for the period	7.5	-	15.5	-	23.0
Eliminated in respect of disposals	-	-	(0.6)	-	(0.6)
Impairment of assets	3.9	-	0.2	-	4.1
At 28 February 2015	87.9	1.5	186.7	-	276.1
At 1 March 2015	87.9	1.5	186.7	-	276.1
Charge for the period	8.2	-	14.7	-	22.9
Eliminated in respect of disposals	(9.3)	(1.5)	(12.4)	-	(23.2)
At 27 February 2016	86.8	-	189.0	-	275.8
Net book value					
At 27 February 2016	119.2	-	55.3	-	174.5
Net book value As at 28 February 2015	118.4	-	59.2	-	177.6
Net book value At 1 March 2014	88.1	-	64.6	23.9	176.6

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

The Company has no property, plant and equipment.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets

Group

	Brands £'m	Computer software and associated costs £'m	Assets under construction £'m	Goodwill £'m	Total £'m
Cost					
At 2 March 2014	1.7	86.3	2.8	-	90.8
Additions	-	6.8	2.3	-	9.1
Transfers	-	5.1	(5.1)	-	-
Disposals	-	(3.3)	-	-	(3.3)
At 28 February 2015	1.7	94.9	-	-	96.6
At 1 March 2015	1.7	94.9	-	-	96.6
Additions	-	4.6	5.2	0.9	10.7
Transfers	-	-	-	-	-
Disposals	-	(1.2)	-	-	(1.2)
At 27 February 2016	1.7	98.3	5.2	0.9	106.1
Aggregate amortisation					
At 2 March 2014	1.7	68.0	-	-	69.7
Charge for the period	-	7.0	-	-	7.0
Eliminated in respect of disposals	-	(3.3)	-	-	(3.3)
At 28 February 2015	1.7	71.7	-	-	73.4
At 1 March 2015	1.7	71.7	-	-	73.4
Charge for the period	-	7.0	-	-	7.0
Eliminated in respect of disposals	-	(0.8)	-	-	(0.8)
At 27 February 2016	1.7	77.9	-	-	79.6
Net book value					
At 27 February 2016	-	20.4	5.2	0.9	26.5
Net book value					
As at 28 February 2015	-	23.2	-	-	23.2
Net book value					
At 1 March 2014	-	18.3	2.8	-	21.1

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

The Company has no intangible assets.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets (continued)

Acquisitions in the current period

On 1 July 2015, the Group completed the acquisition of the trade and assets of an online retailer for £8, satisfied in cash. The acquisition was completed by Matalan Direct Limited, a 75% owned subsidiary of Matalan Limited.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

Group

	Fair values on acquisition £m
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	-
Trade and other payables	(0.9)
Net identifiable assets and liabilities	(0.9)
Total consideration	-
Goodwill on acquisition	0.9

13. Investments

Company

	Investment in subsidiaries £'m
Cost and net book value	
At 2 March 2014	457.2
Fair value credit to group undertakings for subscription for 'B' shares	0.5
At 28 February 2015	457.7
At 1 March 2015	457.7
Fair value charge to group undertakings for subscription for 'B' shares	0.5
At 27 February 2016	458.2

A list of principal subsidiary undertakings is given in note 30.

The Directors believe that the book value of investments is supported by their underlying net assets and the future discounted cash flows of the trading subsidiaries of the investment.

The investment is wholly owned and has a coterminous period end with the Company.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Inventories

	Group	
	2016	2015
	£'m	£'m
Finished goods	131.3	143.2
	131.3	143.2

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £602.2m (2015: £557.9m). During the period the Group has written off £9.9m (2015: £9.9m) of inventories.

The Company has no inventories.

15. Trade and other receivables - current

	Group	
	2016	2015
	£'m	£'m
Trade receivables	7.8	6.1
Prepayments and accrued income	20.1	18.7
Restricted cash	-	1.4
	27.9	26.2

The restricted cash balance of £nil (2015: £1.4m) relates to cash placed on deposit with one of the Group's providers of forward contracts.

The Company is owed £30.1m by group undertakings at the period end (2015: £30.1m).

16. Cash and cash equivalents

	Group	
	2016	2015
	£'m	£'m
Cash at bank and in hand	74.5	93.5

The Company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.70% (2015: 0.86%) and these deposits have an average maturity period of 1 day (2015: 1 day). All short-term deposits had matured at 27 February 2016 (2015: all). The Group's cash and cash equivalents are denominated in sterling, US dollars and Euros.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Financial liabilities – borrowings

	Group	
	2016	2015
	£'m	£'m
Non current		
First Lien Secured Notes (net of £2.7m issue costs (2015: £3.6m)) maturity date 2019	(339.3)	(338.4)
Second Lien Secured Notes (net of £1.3m issue costs (2015: £1.6m)) maturity date 2020	(148.7)	(148.4)
	(488.0)	(486.8)

The Company has no borrowings.

Borrowings are all denominated in sterling at 27 February 2016. The Group had no short-term borrowings during the period (2015: £nil).

Issue costs of £5.2m were incurred in relation to the First Lien Secured Notes and Second Lien Secured Notes and are being amortised over the terms of the facilities.

At the period end the First Lien Secured Notes were trading at a bid price of 83.1 and the Second Lien Secured Notes were trading at a bid price of 71.9.

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

Maturity of Secured Notes

	Group	
	2016	2015
	£'m	£'m
Less than one year	-	-
One to five years	492.0	342.0
Five to ten years	-	150.0
	492.0	492.0
Unamortised issue costs	(4.0)	(5.2)
	488.0	486.8
Current	-	-
Non current	488.0	486.8
	488.0	486.8

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Financial liabilities – borrowings (continued)

Borrowing facilities

At 27 February 2016 the table below reflects the usage of the RCF (revolving credit facility). These facilities are subject to an annual review and incur fees at market rates.

	Group	
	2016	2015
	£'m	£'m
Letters of credit	1.0	1.2
Guarantees	8.3	8.3
Unused	40.7	40.5
	50.0	50.0

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

18. Trade and other payables - current

	Group	
	2016	2015
	£'m	£'m
Trade payables	(82.9)	(86.4)
Other tax and social security payables	(17.4)	(18.5)
Other creditors	(6.0)	(2.1)
Accruals	(39.3)	(39.3)
Deferred income	(4.4)	(3.7)
Dividends payable	(0.3)	(0.3)
	(150.3)	(150.3)

The Company owes group undertakings £60.1m at the period end (2015: £59.9m). Amounts owed to group undertakings are repayable on demand and therefore presented as current.

19. Trade and other payables – non-current

	Group	
	2016	2015
	£'m	£'m
Accruals and deferred income	(43.5)	(41.9)

The Company has no non-current trade and other payables.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Derivative financial instruments

Group	2016		2015	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Forward foreign exchange contracts	74.6	-	25.6	(1.4)
Total	74.6	-	25.6	(1.4)
Less non-current portion:				
Forward foreign exchange contracts	27.0	-	14.5	(0.5)
Non-current portion	27.0	-	14.5	(0.5)
Current portion	47.6	-	11.1	(0.9)

The Company has no derivative financial instruments.

The amount that was recognised in the Statement of Comprehensive Income during the period net of tax was £36.8m (2015: £48.3m). The amount that was transferred from equity to profit and loss in the period was £0.5m (2015: £0.5m). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2015: £nil).

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 27 February 2016 was £553.2m (2015: £552.3m).

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

Group	2016 £'m	2015 £'m
Maturing within one year	277.2	294.8
Maturing between one to two years	250.8	234.1
Maturing between two and five years	25.2	23.4
	553.2	552.3

The net fair value of gains as at 27 February 2016 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £74.6m (2015: gains of £24.2m). These are transferred at their current fair value as an inventory based adjustment on receipt of the underlying inventory.

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

Group	2016 £'m	2015 £'m
Maturing within one year	47.6	10.2
Maturing between one to two years	25.3	14.1
Maturing between two and five years	1.7	(0.1)
	74.6	24.2

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Provisions for other liabilities and charges

Group	Onerous contracts £'m	Dilapidations provision £'m	Total £'m
At 1 March 2015	(5.4)	(2.3)	(7.7)
Utilised in the period	3.2	2.5	5.7
Charged to the income statement	(0.3)	(0.3)	(0.6)
At 27 February 2016	(2.5)	(0.1)	(2.6)
		2016	2015
		£'m	£'m
Analysis of total provisions:			
Non-current		(2.0)	(2.5)
Current		(0.6)	(5.2)
		(2.6)	(7.7)

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

During the prior period, a provision was recognised for properties no longer used by the business following its move to a new head office and distribution centre. This provision was treated as exceptional and has been fully utilised during the year.

During a previous period, the Group established a provision for anticipated future dilapidations costs.

22. Share capital and reserves

Ordinary share capital

Group and Company	10p 'A'		10 p 'B'		5p 'B1'		5p 'B2'	
	ordinary shares Number	Total value £'m	ordinary shares Number	Total value £'m	ordinary shares Number	Total value £'m	ordinary shares Number	Total value £'m
Issued and fully paid								
At 1 March 2014	172,763,695	17.3	204,000	-	96,000	-	96,000	-
At 28 February 2015	172,763,695	17.3	164,000	-	136,000	-	136,000	-
At 27 February 2016	172,763,695	17.3	164,000	-	136,000	-	136,000	-

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Share capital and reserves (continued)

Reserves

Merger reserve

In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to Matalan Finance plc created the merger reserve at the time of issue.

Hedge reserve

The hedge reserve of a £56.0m gain (2015: £18.9m gain) comprises the effective portion of the cumulative net change in fair value of qualifying cash flow hedging instruments relating to hedged transactions, which have not yet occurred.

Capital redemption reserve

The capital redemption reserve of £5.7m (2015: £5.7m) comprises the cost over the nominal value of the Company's ordinary 10p shares purchased at market value and then cancelled in 2011 (£1.1m) and the value of the 'A' shares repurchased in 2011 (£4.6m).

Warrant reserve

Warrants to subscribe for 0.75% of the issued 'A' ordinary shares in the Company were granted on 22 December 2006. The warrants have an exercise price of 10p per share. The warrants are exercisable on the earlier of a change in control of the Group, repayment of the PIK debt and liquidation. The fair value of the warrants was valued at the date of grant using a Black Scholes model and spread across the expected term, with the resulting charge accounted for as a finance cost. The key inputs into the valuation were: fair value at grant date of £2, expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and a risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of the total number of warrants was calculated at £3.1m. The remaining unamortised charge was accelerated when the PIK debt was repaid on 30 March 2010. £1.1m was charged to exceptional refinancing costs during 2011. The warrants have not yet been exercised.

B share subscription agreement

Agreements to subscribe for 300,000 B shares in the Company were agreed with selected individuals at the date of acquisition. The agreements provide that B shareholders will participate in the increase in fair value of the Group from the date of merger with Matalan Limited (formerly Matalan plc) and until either a specified exit event or liquidation occurs. The agreements have been treated as a share based payment transaction in accordance with IFRS 2. The fair value of the subscription agreement was valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, reviewed at each Balance Sheet date, with the resulting charge/(credit) accounted for as an employee expense. The key inputs into the original valuation were: expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of each subscription was calculated at £38.45 per share.

The charge in the period was £0.5m (2015: £0.5m).

The full disclosures required under IFRS 2 have not been included as the value of these employee benefits is not deemed to be material to the Group.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Cash flows from operating activities

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

	Group	
	2016	2015
	£'m	£'m
Cash generated from continuing operations		
Operating profit	16.9	61.1
Adjustments for:		
Depreciation	22.9	23.0
Amortisation of intangibles	7.0	7.0
Non cash exceptional items	2.1	7.3
Share based compensation charge	0.5	0.5
Hedge accounting	0.2	0.2
Operating cash flows before movements in working capital	49.6	99.1
Movements in working capital		
Decrease / (increase) in inventories	11.1	(10.4)
(Increase)/ decrease in trade and other receivables	(1.8)	7.9
(Decrease)/ increase in trade and other payables	(6.9)	14.0
Net cash flows from operating activities	52.0	110.6

24. Reconciliation of net debt

Net debt incorporates borrowings (together with related fair value movements of derivatives on the debt), less cash and cash equivalents.

Group	Net debt at 1 March 2015	Cashflows	Non cash movements	Net debt at 27 February 2016
	£'m	£'m	£'m	£'m
Cash and cash equivalents	93.5	(19.0)	-	74.5
Debt due after 1 year	(486.8)	-	(1.2)	(488.0)
	(393.3)	(19.0)	(1.2)	(413.5)

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Operating lease commitments

At 27 February 2016 the Group had total future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	2016	2015
	£'m	£'m
Within one year	109.0	109.5
Between two and five years inclusive	416.2	419.9
Over five years	530.6	572.7
	1,055.8	1,102.1

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. Average remaining lease terms are 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Company had £nil operating lease commitments during the period (2015: £nil).

26. Capital commitments

The capital expenditure for the Group that has been contracted for but not provided at 27 February 2016 was £2.5m (2015: £0.3m). The Company has no capital commitments at 27 February 2016 (2015: £nil).

27. Contingent liabilities

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank loans and overdrafts as disclosed in note 17 are secured by fixed and floating charges on all the assets of the Group.

28. Related party transactions

The Company has a related party relationship with other group undertakings and with its directors and executive officers.

The Company is party to a group cash pooling arrangement with other group companies. The Company does not settle transactions in cash, instead amounts are settled by other group companies on its behalf with a corresponding adjustment to intercompany receivables/ payables. £0.2m was settled on its behalf in the period (2015: £0.2m). The balance of the related transactions outstanding at 27 February 2016 is £29.9m (2015: £29.9m).

The Company considers the Hargreaves family to be the ultimate controlling party. During the period a member of the Hargreaves family was paid £nil for consultancy services provided to the Group (2015: £0.1m).

Key management is the directors of the Company. The compensation paid or payable to key management for employee services is included in note 6.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Related party transactions (continued)

During the period, the Group leased a building in London from a company associated with the Hargreaves family with the lease ending on 23 December 2015. A portion of the building was leased to companies associated with the Hargreaves family during this time. The rental paid in the period was £0.3m (2015: £0.7m). The rental income in the period was £0.1m (2015: £0.2m). £nil was outstanding at the year end (2015: £0.2m)

During the period the Group leased the northern distribution centre from a company associated with the Hargreaves family. On 9 December 2015 the lease was transferred to a third party company not associated with the Hargreaves family. The rental paid in the period to the related party was £1.2m (2015: £1.6m) of which £nil was prepaid at 27 February 2016 (2015 £0.1m). This company also provided construction services of £nil (2015: £1.5m).

The Group continues to lease a head office from a company associated with the Hargreaves family. The rental paid in the period was £2.0m (2015: £0.5m) of which £nil (2015 £0.2m) was prepaid at 27 February 2016.

The Group purchased and provided IT services with a company that is associated with the Hargreaves family. The expenditure incurred in the period was £5.3m (2015: £2.0m) of which £nil was outstanding at 27 February 2016 (2015: £nil). The services provided to the company in the period totalled £0.6m (2015: £nil) of which a debtor of £0.1m was outstanding at 27 February 2016 (2015 £nil).

The Group purchased clothing for resale from companies associated with the Hargreaves family. Purchases in the period totalled £1.5m (2015: £1.2m) of which £0.1m was outstanding at 27 February 2016 (2015: £0.1m).

The Group used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred in the period was £1.2m (2015: £0.5m) of which £0.5m was prepaid at 27 February 2016 (2015: £0.1m prepaid).

The Group incurred costs relating to the Hargreaves family and associated companies in the period of £0.2m, of which £0.1m was outstanding at 27 February 2016 (2015: £0.2m of which £nil was outstanding at 28 February 2015). The outstanding amount was settled post year end.

In a previous period, the Group used the sourcing agency services of a company associated with the Hargreaves family. This company is no longer a related party.

The Group settled start up costs of £0.9m relating to Matalan Direct to a company associated with a Director of Matalan Direct, a subsidiary within the Group. The Group has also purchased IT services from this company in the year. The expenditure incurred in the period was £0.2m (2015:£nil) of which £nil was outstanding at 27 February 2016 (2015: £nil)

All of the above transactions have taken place at levels not materially different to commercial terms.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Exceptional items

Exceptional items are comprised as follows:

	Group	
	2016	2015
	£'m	£'m
Closure of SportingPro division - revenue	3.6	-
Proceeds from sale of inventories to wholesale customer	0.9	-
Exceptional items - revenue	4.5	-
Closure of SportingPro division - cost of goods sold	(4.3)	-
Closure of SportingPro division - selling costs	(0.6)	-
Cost of inventories sold to wholesale customer	(4.8)	-
Exceptional items - cost of sales	(9.7)	-
Restructuring costs	(0.8)	(1.8)
Onerous contract provision	(0.1)	0.2
Variation of lease costs	(0.3)	-
Head office and distribution centre relocation - onerous contract provision	(0.1)	(2.3)
Supply chain costs	-	(1.0)
Dilapidations	(0.3)	(0.2)
Impairment of fixed assets	-	(4.1)
Closure of SportingPro division - administrative costs	(2.6)	-
Exceptional items - administrative expenses	(4.2)	(9.2)
Financing costs	-	(19.2)
Exceptional items - finance costs	-	(19.2)
Total exceptional items	(9.4)	(28.4)

Closure of SportingPro division

The Group closed the SportingPro division during the period and the costs incurred and income received following the closure have been treated as exceptional. This includes revenue of £3.6m, cost of goods sold of £4.3m, selling costs of £0.6m and administrative costs of £2.6m including £0.3m of termination payments.

Sale of inventories to wholesale customer

During the year, the company incurred significant disruption to its supply chain for the northern store estate following the transition to its new distribution centre in Liverpool. As a result of these issues, a significant volume of seasonal product was trapped in the distribution centre and could not be despatched before the end of season sale event. Consequently, this product has been sold to a wholesale customer for £0.9m. The cost of inventories sold through this channel was £4.8m.

Restructuring costs

Following a number of employment contracts being terminated in the period restructuring costs of £0.8m (2015: £1.8m) have been incurred in the year.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Exceptional items (continued)

Onerous contract provision

A lease previously assigned to another retailer was returned to the Company in 2009 on privity of contract after they entered administration. A provision was created at that time to recognise that the lease was onerous and this was treated as exceptional in nature. It is reviewed annually to ensure the carrying value is correct resulting in the prior period release.

In the current period, there is a £0.1m charge to exceptional items relating to a true-up of actual costs incurred during the year following the completion of those contracts. As the initial provision on these properties was created through exceptional items, the final true up was also recognised as exceptional.

Variation of lease costs

During the period, the Group paid £0.3m to vary the lease on a property which was included in the onerous lease provision. As the initial provision on this property was created through exceptional items, the costs to vary this lease have also been recognised as exceptional.

Head office and distribution centre relocation - onerous contract provision

In the prior period a £2.3m provision was recognised for properties no longer used by the business following the move to the new head office and distribution centre. This provision was treated as exceptional. This was reviewed at the end of the current period and a further £0.1m was provided.

Supply chain costs

During the prior period, the Group continued the redevelopment of its supply chain which resulted in the establishment of a temporary secondary site at its southern distribution centre. The costs associated with the temporary site were treated as exceptional. This project completed during the prior year.

Dilapidations

During a prior period, the Group established a provision for anticipated future dilapidations costs in relation to the closure of the old head office and distribution centre. In the current period we have increased the charge by £0.3m following surveys conducted in the current period.

Impairment of fixed assets

The Group relocated to the new head office and distribution centre in the prior period and, as a result, performed a review of the sites no longer used. Impairments on the carrying value of these sites were made in the prior period and were treated as exceptional.

Financing costs

Exceptional finance costs in the comparative year of £19.2m relate to the June 2014 refinancing exercise and include charges for the accelerated amortisation of issue costs relating to the Senior Notes and Senior Secured Notes previously in issue together with associated redemption costs.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Principal subsidiary companies and ultimate controlling party

	Principal activity	Ownership	Country of incorporation
UK companies			
Matalan Finance Plc	Holding company	100%	England and Wales
Matalan Group Limited	Holding company	100%	England and Wales
Matalan Limited	Holding company	100%	England and Wales
Matalan Retail Limited	Retail	100%	England and Wales
Jonmar Limited	Property	100%	England and Wales
Matalan Holding Company Limited	Holding company	100%	England and Wales
Matalan Investments Limited	Holding company	100%	England and Wales
Matalan Travel Limited	Travel services	100%	England and Wales
HP01 Nominees Limited	Distribution	100%	England and Wales
Matalan Direct Limited	Retail	75%	England and Wales

Except for Matalan Group Limited, which is a wholly owned subsidiary of Missouri Topco Limited, all other companies are held via subsidiary undertakings.

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