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# MATALAN

## BONDHOLDER REPORT

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May 13, 2014

## RISK FACTORS RELATING TO OUR BUSINESS

*Additional risks and uncertainties of which we are not aware or that we believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operations or prospects. If any of these events occurs, our business, financial condition, liquidity, results of operations or prospects could be materially and adversely affected.*

### ***Our industry is highly competitive.***

The UK retail clothing and homeware industry is highly competitive, particularly with respect to merchandise selection and quality, store location and design, inventory, price, customer service and advertising. We compete with a wide variety of retailers of varying sizes, covering different product categories across all geographic markets in which we operate. Our range of products is broader than most value apparel retailers and in our “Better” and “Best” products we compete with general retailers and other clothing retailers. In our “Good” products, we compete with supermarkets that are able to offer lower prices through larger volumes. We also compete more generally with local independent retailers, catalogs and various online retailers.

Some of our competitors may have greater financial resources, greater purchasing economies of scale and/or lower cost bases, any of which may give them a competitive advantage over us. Many of our competitors are also located in town centers or in primary retail parks which may have greater customer flow. See “Industry Overview—Competition in the UK Value Clothing Market”. Actions taken by our competitors, as well as actions taken by us to maintain our competitiveness and reputation, have placed and will continue to place pressure on our pricing strategy, margins and profitability. These factors have had in the past, and could have in the future, a material adverse effect on our business, results of operations and financial condition.

Our Matalan Reward loyalty card enables us to maintain an extensive customer database that we use as a key part of our marketing strategy. If our competitors were able to develop their own customer databases or loyalty programs on the same scale as ours then our competitive advantage may be eroded and our business, results of operations and financial condition may be adversely affected.

### ***Our revenue, profit results, cash flow, liquidity and access to capital are sensitive to, and may be adversely affected by, general economic conditions, consumer confidence and spending patterns.***

Our growth, sales and profitability may be adversely affected by negative local, regional, national or international political or economic trends or developments that reduce consumers’ ability or willingness to spend, including periods of economic stagnation or disruption, rising energy costs and the effects of other national and international events, including war, terrorism or the threat thereof.

Purchases of apparel and homeware products often decline during periods when economic or market conditions are unsettled or weak. Continued economic uncertainty, or a further deterioration in economic conditions, along with continued or increasing unemployment levels, food price inflation and tax increases, may affect consumer spending and customers’ use of credit by causing shifts in disposable income and discretionary purchasing, which may adversely affect our revenues and profits through reduced purchases of our products. In such circumstances, we may increase the number of promotional sales, and our business, financial condition and results of operations may be adversely affected.

In the past several years, the general economic and capital market conditions in the United Kingdom and other parts of the world have undergone significant turmoil. These conditions generally affected access to capital and increased the cost of capital. Our liquidity may be affected by changes in the financial markets, or our capital resources may at times be insufficient to satisfy our liquidity needs. If there is an interruption to the global economic recovery, our future cost of debt and equity capital and access to the capital markets could be adversely affected.

### ***Consumers may choose to reduce their purchases from value retailers.***

Growth in the value clothing market has outperformed growth in the overall clothing market in recent years. However, there is a risk that consumers may choose to reduce their purchases from value retailers. Among other factors, a global economic recovery could result in increases in disposable income of our customers, prompting a shift away from value retailers. In addition, if we fail to adapt to changing consumer preferences in our product offerings, consumers may choose to switch to mid-market retailers who tend to have a higher fashion content, and our business, financial condition and results of operations may be adversely affected.

***We are dependent upon the availability of raw materials and transportation and the ability of our third-party producers, substantially all of whom are located in foreign countries, to meet our requirements.***

We source substantially all of our products from non-exclusive, third-party independent manufacturers located in foreign countries. Generally we do not have long-term contracts with these suppliers but, instead, conduct business on an order-by-order basis. Therefore, we compete with other companies for the production capacity of these independent manufacturers. We regularly depend upon the ability of third-party producers to secure a sufficient supply of raw materials, adequately finance the production of goods ordered and maintain sufficient manufacturing and shipping capacity. We may experience operational difficulties with the manufacturers we depend on, such as a reduction in available production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines or increases in manufacturing costs. Such difficulties may negatively impact our ability to deliver quality products to our stores on a timely basis, which may, in turn, have a negative impact on our customer relationships and result in lower sales, materially adversely affecting our business, financial condition and results of operations.

Additionally, because most of our products are manufactured in Asia and Eastern Europe, we face a variety of risks generally associated with doing business in foreign markets and importing merchandise from these regions. Such risks include, among others, political instability, increased security requirements applicable to foreign goods, imposition of taxes and other charges, restrictions on imports, currency and exchange rate fluctuations, risks related to labor practices, or other issues in the foreign countries or factories in which our merchandise is manufactured, delays in shipping and increased costs of transportation. Any of these risks, in isolation or in combination, could adversely affect our business, financial condition and results of operations.

We and our third-party suppliers rely on the availability of raw materials and transportation at reasonable prices. The principal fabrics used in our business are cotton, linens, wools, other natural fibers, synthetics and blends of these materials. The prices paid for these fabrics depend on the market price for raw materials and the cost of labor used to produce them. The price and availability of certain raw materials, particularly cotton, and the cost and availability of transportation have fluctuated in the past and may fluctuate in the future, depending on a variety of factors, including crop yields, weather, supply conditions, foreign exchange rate fluctuations, labor costs, government regulation, war, terrorism, labor unrest, global health concerns, economic climate, the cost of petroleum and other unpredictable factors. Additionally, costs of our third-party providers are impacted by many of these same factors as well as energy costs. Energy costs have increased in recent years and further increases may result in an increase in our transportation costs for distribution, utility costs for our retail stores and costs to purchase product from our manufacturers. Any significant increase in the price of products sold to us, raw materials or transportation or a decrease in the availability of raw materials or cost-efficient transportation could cause an increase in our average unit cost and negatively impact our gross margins. For example, if cotton prices were to increase significantly, we may have to increase the price of our products in order to offset the increased cost of cotton. Price is a key driver in consumers' purchasing decisions in the value segment, and if we were unable to pass these cost increases on to our customers, we would expect our business, financial condition and results of operations to be adversely affected.

We also require third-party producers to meet certain standards, and have a management team in place to check the supply chain for working conditions, compliance with environmental regulations and other matters before placing business with them. As a result of costs relating to compliance with these standards, we may pay higher prices than our competitors, who may not insist on the same standards. In addition, the labor and business practices of independent apparel manufacturers have received increased attention from the media, non-governmental organizations, consumers and governmental agencies in recent years. Failure by us or our independent manufacturers (or any sub contractors hired by those manufacturers without our knowledge) to adhere to labor or other laws or business practices and standards accepted as ethical and may result in potential litigation, negative publicity and political pressure relating to any of these events, which could have a material adverse effect on our business, financial condition and results of operations.

***Global or local economic conditions could impair the solvency of our suppliers and other counterparties.***

There could be a number of effects from a challenging economic environment. The inability of suppliers to access liquidity, or the insolvency of suppliers, could lead to delivery delays or failures. In addition, failures of other counterparties, including banks, insurance providers and counterparties to contractual arrangements, could negatively impact our business.

***Any negative impact on the reputation of and value associated with our name could adversely affect our business.***

The Matalan name is an important asset of our business. Maintaining the reputation of, and value associated with, the Matalan name is central to the success of our business. If our business strategy and its execution fails to accomplish this objective our brand could be adversely impacted. In addition, the international nature of our supply base makes us dependent on third-party suppliers to operate their businesses effectively, on ethical and commercially

reasonable terms, and in a manner that does not negatively impact the reputation of the Matalan name. Substantial erosion in the reputation of, or value associated with, the Matalan name could have a material adverse effect on our business, financial condition and results of operations.

***If we are not able to respond to fashion trends in a timely manner or adjust our product offer successfully, we may be left with unsold inventory, decreased profits or losses.***

Our success depends in part on our designers' ability to anticipate and respond to changing fashion tastes and consumer demands and to translate market trends into an appropriate, saleable product offer. Customer tastes and fashion trends change rapidly. Since most of our products are manufactured in Asia and Eastern Europe, the lead times between ordering and delivery make it more important to accurately predict, and more difficult to fulfill, the demand for items. If we are unable to successfully identify or react to changing styles or trends and we misjudge the market for our product offer, our sales will be lower and we may be faced with a significant amount of unsold merchandise. We may be forced to increase our marketing promotions or price markdowns, which could have a material adverse effect on our financial condition and results of operations.

***Our business could be harmed if we fail to maintain proper inventory levels***

We seek to maintain appropriate inventory levels in our stores. Inventory levels in excess of customer demand may result in inventory markdowns or the sale of excess inventory at discounted prices. In the event that a product or group of products is successful, initial inventories will be sold and we will need to replenish our stock at one or more locations. Because a number of product ranges are continuing to be replenished in ratio packs, despite the implementation of single unit replenishment through the Singles supply chain program, we may not be able to replenish a particular store with the products, including sizes and colors, that need to be replenished and as a result we may end up with excess inventory in one location and insufficient inventory in another. In response, we may be forced to increase our marketing promotions or price markdowns, which could have a material adverse effect on our financial condition and results of operations. Conversely, we may experience inventory shortages, which might result in unfilled orders and lost revenues. Any failure to maintain appropriate inventory levels could have a material adverse effect on our financial condition and results of operation.

***If we are unable to successfully implement planned improvements to our supply chain architecture, our growth and profitability could be harmed.***

Over the past several years, we have significantly consolidated our supplier base in order to increase stock efficiency and improve our margins by lowering costs, while still maintaining a diversity of supply. We have also relocated elements of our quality assurance and control functions offshore and closer to our suppliers, which has resulted in reduced lead times and failure costs. In order to improve the availability of stock, we are in the process of rolling out the Singles supply chain program, which will allow a portion of our stock to be replenished in specified sizes, thereby reducing the quantity of stock per store and frequency and size of markdowns.

Our implementation of the Singles supply chain program is dependent upon our distribution centers being ready to manage the receipt and processing of single unit items. It is possible that the new capability required at the distribution centers will not be fully operational at the point stock begins to arrive in the new format. Failure to adequately prepare our distribution centers by that time may necessitate the reprocessing of stock at additional cost to the business and cause a time delay in stock reaching stores. This could impact the availability of stock at stores, which could lead to dissatisfied customers, a loss of sales and damage to our reputation.

Failure to successfully complete the implementation of our planned improvements could have a material adverse effect on our business, financial condition and results of operations.

***We depend on a limited number of facilities for distribution of our products to our stores and to our online customers which, if affected, could have a material adverse effect on our operations.***

We have two distribution centers, one is in West Lancashire (Skelmersdale) and one is in Northamptonshire (Corby). Any major breakdown of plant or equipment, or an accident such as a serious flood or fire, in either or both of our distribution centers might significantly impact both our ability to distribute products to our stores and maintain an adequate product supply chain and our ability to meet the requirements of our online customer orders. Such disruption could have an adverse effect on our in-store inventory and our online sales and therefore could materially adversely affect our revenue, results of operations and financial condition.

We currently lease our distribution center locations. If we are unable to renew our leases, our ability to lease a suitable replacement location on favorable terms is subject to many factors which are not within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and

prospective landlords. If our lease payments increase or we are unable to renew existing leases or lease suitable alternative locations, our profitability may be significantly harmed.

We are currently in the process of relocating our Skelmersdale distribution center to Knowsley. We are undertaking the management of this project in line with best practice program management principles and supported by third-party experts. The program of change includes a phased transition into the new facility, with specific milestone points to review progress that are intended to manage the associated risks of change. If we are unable to transition to these new premises without significant delays, our business, financial condition and results of operations may be materially adversely affected.

***Any disruption or other adverse event affecting our relationship with our key operational suppliers could adversely affect our business.***

We depend on Capgemini and other operational suppliers for information technology and other forms of support. Any significant disruption or other adverse event affecting our relationship with this service provider could have a material adverse effect on our business, financial condition and results of operations. If such events lead us to replace Capgemini, or our other operational suppliers, we may face risks and costs associated with a transfer of operations to different suppliers.

***A disruption in our information technology systems could adversely affect our operations.***

Our business activities rely to a significant degree on the efficient and uninterrupted operation of our various computer and communications systems and those of third parties. We have outsourced many of our information technology functions. Any significant breakdown of plant or equipment, accident such as a serious flood or fire or other significant disruption to the operations or the operations of our third-party vendor could significantly affect our ability to manage our information technology systems, which in turn could have a material adverse effect on our business, financial condition and results of operations.

One of our strategies is to increase the amount of online sales of our products. Any disruption to our computer or communications systems could have a disproportionate effect on online sales and negatively affect our reputation in this area.

We may be unable to maintain and upgrade our information technology systems in a manner that will avoid interruptions or disruptions of such systems. A failure or inability to maintain and upgrade our information technology systems may have an adverse effect on our business.

***The majority of our sales depend on customers specifically travelling to our stores.***

Most of our stores are located outside of town or city centers and thus require our customers to travel to our stores. Sales at our stores are derived, in part, from the high volume of traffic and, unlike stores in city centers or in retail parks, we must make our stores attractive destinations. Our stores must compensate for the ability of many of our competitors to generate consumer footfall due to the location of their stores. Because our customers have to travel to our stores, we have a higher level of conversion than high street retailers and our success is partly dependent on our ability to retain these higher conversion rates. Sales volume and retail traffic may be adversely affected by economic downturns in a particular area, higher transportation costs, competition from other retail and non-retail attractions and the perceived or actual difficulty in visiting our locations. Failure to make our stores an attractive “destination” or a significant decline in the volume of customer traffic or in the conversion rates associated with our customers would have a material adverse effect on our business, financial condition and results of operations.

***We depend on the ability to lease space for our stores.***

We currently lease all of our store locations. Our current leases expire at various dates ranging from less than one year to more than 15 years. Our leases provide for rent reviews, generally every five years, at which time our rents could increase. Our ability to maintain our existing rental rates during renewals or to renew any expired lease on favorable terms will depend on many factors which are not within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew our leases, our ability to lease a suitable replacement location on favorable terms is subject to the same factors. If our lease payments increase or we are unable to renew existing leases or lease suitable alternate locations, this could have a material adverse effect on our business, financial condition and results of operations.

***Our high street and Sporting Pro concept expansion program and plan to develop online sales may be unsuccessful.***

An aspect of our growth strategy is to open high street and Sporting Pro stores in the United Kingdom. The success of this strategy will depend, in part, upon our ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at our existing stores. The opening of new stores could result in the diversion of sales from our existing stores in certain cases, which may cause reductions in our operating profit and like-for-like sales. Additionally, our ability to enter the sportswear market successfully is underpinned by our ability to capitalize on our existing customer base and brand awareness.

Our ability to successfully open new stores also depends upon a number of other factors, including the identification of sites suitable for our stores in terms of proximity to our target demographic and distance from existing stores; the negotiation of acceptable lease terms; the hiring, training and retention of qualified personnel; the level of existing and future competition in areas where new stores are to be located; our ability to integrate new stores into our operations on a profitable basis; and the capability of our existing distribution system to accommodate new stores. In addition, the process of locating, fitting-out and opening new stores will require significant management time and attention, which may be diverted from other important activities. Because of these requirements we may be unable to open new stores on a timely or profitable basis, or be unable to secure store sites on acceptable terms. Failure to successfully implement our new store rollout strategy could have a material adverse effect on our business, financial condition and results of operations.

***We may be unable to successfully implement our planned strategies to grow our online sales and our multi-channel customer base.***

Our ability to develop our online sales depends on a number of factors, including: successfully marketing our website; hiring, training and retaining qualified personnel; integrating our growing online operations on a profitable basis; our existing distribution centers accommodating our growing online operations; addressing the effect of any competition our online operations may have with our existing stores; reacting to increased competition from other clothing retailers as they introduce transactional websites or expand their existing online presence; and stocking an appropriate selection of products and sizes for online consumers, who tend to have different shopping needs than customers in our physical stores. Our efforts to expand online sales may not result in increased sales or profits. Failure to successfully implement our plan to develop online sales could have a material adverse effect on our business, financial condition and results of operations.

We intend to add to our multi-channel customer base by transitioning store and online-only customers into multi-channel customers. In order to achieve an effective transition of customers to our multi-channel customer base, we rely heavily on advertising and promotional campaigns to drive growth in our click and collect channel which in turn generates footfall in stores from online customers. These campaigns may not be as successful as expected, and customers may not transition to multi-channel at the desired rate, impacting the future growth of sales and profit and having a material adverse effect on our business, financial condition and results of operations.

***Our growth strategy will require us to expand and improve our operations and could strain our existing resources and cause the performance of our existing stores to suffer.***

Our operating complexity will increase as our store base grows and our online sales increase. Such increased complexity will require that we continue to expand and improve our operating capabilities, and grow, train and manage our employee base. We will need to continually evaluate the adequacy of our information and distribution systems and controls and procedures related to financial reporting. Implementing new systems, controls and procedures and any changes to existing systems, controls and procedures could present challenges we do not anticipate and could negatively impact us.

In addition, we may be unable to hire, train and retain a sufficient number of personnel to successfully manage our growth. Moreover, our planned expansion will place increased demands on our existing operational, managerial, administrative and other resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores or our overall business. Furthermore, new stores and our growing transactional website could compete with our existing stores for customers, causing the number of customers who visit our existing stores to decline and the reduction of like-for-like sales.

Our growth could also make it difficult for us to adequately predict the expenditures we will need to make in the future. This growth may also place increased burdens on our suppliers, as we will likely increase the size of our merchandise orders. In addition, increased orders may negatively impact our approach of generally striving to minimize the time from purchase order to product delivery, and may increase our markdown risk. If we do not make the necessary capital or other expenditures necessary to accommodate our future growth, we may not be successful in our growth strategy. We may not be able to anticipate all of the demands that our expanding operations will impose on our business,

personnel, systems and controls and procedures, and our failure to appropriately address such demands could have a material adverse effect on our business, financial condition and results of operations.

***Our future growth and profitability could be adversely affected if our advertising and marketing programs are not effective in generating sufficient levels of customer awareness and traffic.***

We rely heavily on print advertising, especially direct mail, to promote new store openings, to increase consumer awareness of our product offer and pricing and to drive store and online traffic. In addition, we rely and will increasingly rely on other forms of media advertising including email communications. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our advertising and marketing programs. In order for our advertising and marketing programs to be successful, we must manage advertising and marketing costs effectively in order to maintain acceptable operating margins and return on our marketing investment and convert customer awareness into actual store visits and product purchases.

Our advertising and marketing expenditures, including those associated with advertising campaigns, may not result in increased total or comparable sales or generate sufficient levels of product awareness. We may not be able to manage our advertising and marketing expenditures on a cost-effective basis.

There are a limited number of companies capable of distributing our direct mail advertising at the volume levels that we require. If any of these companies cease operations, or if their expenses (e.g., postage, printing and paper costs) increase substantially, then it is likely that our advertising expenses will increase, which will have a material adverse effect on our business, financial condition and results of operations.

***Higher labor costs could adversely affect our business.***

We compete with other retailers for good and dependable employees. The supply of such employees is limited and competition to hire and retain them could result in higher labor costs. In addition, our labor costs would be affected by changes in minimum wage laws, and an increase in the minimum wage in the United Kingdom would result in higher labor costs. If this happens and we are not able to pass on higher costs to our consumers, these higher labor costs could have a material adverse effect on our business, financial condition and results of operations.

***Currency fluctuations and hedging risks could adversely affect our earnings and cash flow.***

Our business is subject to risks due to fluctuations in currency exchange rates primarily related to U.S. dollars. A majority of our purchases from suppliers are denominated in U.S. dollars. Substantially all of our revenue is denominated in pounds sterling. The exchange rates between the U.S. dollar and other world currencies have fluctuated significantly in recent years and may continue to fluctuate significantly in the future. Although we may benefit from any future weakening in the exchange rate of the U.S. dollar against the pound sterling, we could be adversely affected by future unfavorable shifts in currency exchange rates. We engage in foreign exchange hedging transactions, but our hedging strategies may not adequately protect our operating results from the effects of exchange rate fluctuations or may limit any benefit that we might otherwise receive from favorable movements in such rates. See “Operating and Financial Review and Prospects—Critical Accounting Policies—Derivative Financial Instruments”.

***Our business could suffer as a result of weak sales during extreme or unseasonable weather conditions.***

Our results are affected by periods of abnormal, severe or unseasonable weather conditions. Exceptionally cold or hot temperatures or other extreme weather conditions, such as storms or floods, may make it difficult for our employees and customers to travel to our stores located out-of-town. Temporary severe weather during one of our peak trading seasons, such as late spring or early summer, could adversely affect our sales and, in turn, have a material adverse effect on our business, financial condition and results of operations.

Periods of unseasonably warm or cold weather could render a portion of our inventory incompatible with the prevailing weather conditions, leading to a slowdown in sales at full margin followed by more extensive markdowns at the end of the season. An extended period of unpredictable and unseasonal weather could have a material adverse effect on our business, financial condition and results of operations.

***Our business could suffer as a result of weak sales during our peak selling seasons***

Our business is subject to seasonal peaks. We traditionally perform well in terms of revenue, operating results and cash flow during late spring and early summer. We also have a material percentage of our sales in the Christmas season, although we are less dependent than high street retailers on the Christmas season. We incur additional expenses in anticipation of higher sales during that period, including for acquiring additional inventory and hiring additional employees. If revenue during our peak seasons is significantly lower than we expect for any reason, we may be unable to

adjust our expenses in a timely fashion and may be left with a substantial amount of unsold inventory, especially in seasonal merchandise that is difficult to liquidate. In that event, we may be forced to rely on permanent markdowns or promotional sales to dispose of excess inventory, which could have a material adverse effect on our business, financial condition and results of operations. At the same time, if we do not have sufficient liquidity to increase our inventory, or if we otherwise fail to purchase a sufficient quantity of merchandise, we may not have an adequate supply of products to meet consumer demand. This may cause us to lose sales and could have a material adverse effect on our business, financial condition and results of operations.

***We hold licenses for the use of other parties' brands which may not be renewed.***

We have entered into license and design agreements to use certain trademarks and trade names, such as *Disney* characters, to market and sell our products. These license and design agreements will expire at various dates in the future. We may be unable to renew these licenses on acceptable terms upon expiration or unable to acquire new licenses to use other popular trademarks. The termination or expiration of a license agreement could cause us to lose the sales and any associated profits generated pursuant to such license and in certain cases could result in an impairment charge for damages which could result in a material adverse effect to our business, financial condition and results of operations.

In addition to certain obligations to comply with the terms of the license agreement, most of our significant licenses provide minimum payment thresholds for royalty payments that we must pay regardless of the sales we are able to make of the licensed products. If these thresholds are not met, our licensors may be permitted contractually to terminate these agreements or seek payment of minimum royalties even if the minimum sales are not achieved. In addition, our licensors may license their trademarks to other third parties, and we are unable to control the quality of these goods that others produce. If licensors or others do not maintain the quality of these trademarks or if the brand image deteriorates, our sales and any associated profits generated by such brands may decline.

***We may be unable to protect our trademarks and other intellectual property or may otherwise have our brand names harmed.***

We believe that our registered and common-law trademarks and other intellectual property, as well as other contractual arrangements, including licenses and other proprietary intellectual property rights, have significant value and are important to our continued success and our competitive position due to their recognition by retailers and consumers. Over 55% of our sales during the 2014 Fiscal Year were attributable to branded products for which we own the trademark. Therefore, our success depends to a significant degree upon our ability to protect and preserve our intellectual property. We rely on the enforcement of laws in the United Kingdom and other countries to protect our proprietary intellectual rights. We may not be able to sufficiently prevent third parties from using our intellectual property without our authorization, particularly in those countries where the laws do not protect our intellectual property rights as fully as in the United Kingdom. The use of our intellectual property or similar intellectual property by others could reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm the reputation of our brands.

Additionally, in the past third parties have claimed that products we sell infringe their intellectual property rights. The actions that we have taken may not be sufficient to prevent others from seeking to block sales of our products as violations of proprietary rights. Although we have not been materially inhibited from selling products in connection with trademark disputes, as we extend our brands into new product categories and new product lines, we could become subject to litigation based on allegations of the infringement of intellectual property rights of third parties. In the event a claim of infringement against us is successful, we may be required to pay damages, royalties or license fees to continue to use intellectual property rights that we had been using, or we may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable time. Litigation and other legal action of this type, regardless of whether it is successful, could result in substantial costs to us and diversion of our management and other resources.

***We are subject to numerous statutes and regulations and complaints from customers and other third-parties that could affect us.***

We are subject to certain customs, truth-in-advertising, product safety, intellectual property protection, employee, health and safety, and other laws and regulations, including consumer credit and consumer protection regulations and zoning and occupancy ordinances, that regulate retailers generally and/or govern the importation, promotion and sale of merchandise. If we fail to comply with these laws and regulations, or to promptly implement any action required by any change in these laws or regulations, we could be subject to temporary or permanent closure of the affected stores, fines or other penalties under the controlling laws and regulations. In addition, if any such laws or regulations are violated by third-parties that supply goods or services to us, we could experience delays in shipments and receipt of goods. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We are also subject to numerous national and local environmental laws and regulations in the United Kingdom. These environmental laws and regulations are constantly changing, as are the priorities of those who enforce them. Environmental conditions relating to prior, existing or future properties may have a material adverse effect on our business, financial condition and results of operations.

We are also the subject of complaints and litigation from our customers, employees or other third parties, alleging health, environmental, safety or operational concerns, nuisance, negligence, or failure to comply with applicable laws and regulations. These claims, even if successfully disposed of without direct adverse financial effect, could have a material adverse effect on our reputation and divert our financial and management resources from more beneficial uses. If we were to be found liable under any such claims, it could result in a material adverse effect on our business, financial condition and results of operations. See “Business—Legal Proceedings”.

Legal requirements are subject to frequent changes and differing interpretations, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

***We collect extensive non-public data from customers, business contacts and employees, and the failure to adequately maintain and protect such information, or failure to comply with applicable data protection law, could have a material adverse effect on our business, financial condition and results of operations.***

We regularly collect, process, store and handle non-public data (including name, address, date of birth and other personal data) from our customers, business contacts and employees as part of the operation of our business, and therefore we must comply with data protection laws in the United Kingdom and the European Union. Those laws impose certain requirements upon us in respect of the collection, use and processing of such personal data. Failure to comply with data protection laws could potentially lead to regulatory censure, fines, civil and criminal liability, as well as reputational and financial costs. In addition, the laws that would be applicable to such a failure are rapidly evolving and may become more burdensome and costly to comply with. The scope of the notification made to, and consents obtained from, data subjects may limit our ability to deal freely with the personal data in our databases. It may not be possible for us to lawfully use that data for purposes other than those notified to data subjects, or for which they have provided consent.

We are also exposed to the risk that the personal data we control could be wrongfully accessed or used, whether by employees or third parties, or otherwise lost or disclosed or processed in breach of applicable data protection law. There can be no assurance that no such breach has occurred in the past without our knowledge or may not occur in the future. If we, or any of the third-party service providers on which we rely, fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, we could face liability under data protection laws. This could also result in damage to our brand and reputation, as well as the loss of new or exiting personal members or customers, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Organized strikes or work stoppages by unionized employees may have a material adverse effect on our business, financial condition and results of operations.***

We have three agreements in place with the GMB union; one which covers the Skelmersdale distribution center and Knowsley warehouse, one which covers the Corby distribution center and the other which covers transport personnel. The agreements have been in place since 2003 and although they do not have expiry dates, we periodically review the terms for potential updates. Our inability to renegotiate acceptable terms with the GMB union could result in strikes by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. We believe our relations with our employees and the GMB union are both good and we have not experienced any significant labor disputes or work stoppages, however, our operations may be affected by problems in the future. If the unionized workers were to engage in a strike or other work stoppage, we could experience a significant disruption of operations and/or higher ongoing labor costs, which may have a material adverse effect on our business, financial condition and results of operations.

***We depend upon key management and other personnel, and the departure of any of such management or personnel could adversely affect our business.***

We are currently managed by certain key senior management personnel, particularly Allan Leighton, Jason Hargreaves, John Mills, Stephen Hill and Arnu Misra, and other members of our senior management. These personnel have extensive experience and knowledge of our industry and its potential, as well as of companies in our industry. Our business also requires us to hire and retain skilled employees, particularly designers and buyers, and our success depends in part on our ability to continue to attract, motivate and retain highly qualified employees. The location of our headquarters in Skelmersdale can have a negative impact on our ability to do so. This risk will not be removed by the

relocation to our new headquarters in Knowsley. The loss of services of key personnel, or a failure to attract and retain qualified new personnel, could adversely affect our business.

***We may not be able to retain all personnel on relocation of our head office and distribution center from Skelmersdale to Knowsley.***

Our head office and distribution function, currently located in Skelmersdale, is relocating to Knowsley during the 2014 Fiscal Year. Knowsley is located less than 10 miles from our current Skelmersdale location, however, a number of our staff reside locally to the Skelmersdale site and we acknowledge that they may choose not to transfer resulting in redundancy payments. There is a risk that the failure to transfer a large portion of our staff may lead to disruption in the operations of the business, resulting in additional recruitment efforts and costs. We are consulting with our employees and working with the unions to put in place measures to minimize this risk, including the provision of transport for staff from our current site to our new site. We currently do not anticipate that this risk will impact any of our senior management team or other key personnel.

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion and analysis should be read in conjunction with the audited consolidated financial statements as of and for the 52 weeks ended February 25, 2012, the 52 weeks ended February 23, 2013 and the 53 weeks ended March 1, 2014 and the related notes thereto. Our financial statements are prepared in accordance with the IFRS.*

*The following discussion contains forward-looking statements. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Bondholder Report, particularly under “Risk Factors”.*

### Introduction

We are one of the leading value clothing, footwear and homeware retailers in the UK. We focus on providing a unique blend of attractive design, quality, value and a compelling customer shopping experience across our broad range in our “out-of-town” store locations. We define these locations as off the high street but within an easily accessible location to major town centers and based in a retail park with other brand name tenants or stand-alone locations. We operate the UK’s largest portfolio of out-of-town clothing retail stores comprising of 227 stores with over six million square feet of retail trading space. In 2013, we had an estimated 8.7%<sup>1</sup> share of the £12.0 billion UK value clothing market<sup>2</sup>. In the 2014 Fiscal Year, we generated revenue of £1,122.9 million and EBITDA of £95.4 million at an EBITDA margin of 8.5%.

Our range appeals to a broad spectrum of the UK population, with approximately one-third of UK households shopping in Matalan in the last 12 months. We cater to a broad range of ages, although our typical customer is female, aged 30+, who visits Matalan regularly to buy products for herself, her family and her home. Our customers are fashion-conscious but not demanding of leading edge “fast fashion”. We maintain a customer database of nearly twelve million active customers who have transacted with Matalan in the last year through our Matalan Reward loyalty card, our loyalty card that offers customers a range of benefits, including exclusive promotional discounts on merchandise. Purchases by cardholders account for over 90% of our revenue and as such our card is an important element of our loyalty and marketing strategies and also supports our growing multi-channel business.

We offer a wide and authoritative range of clothing, footwear and homeware, uniquely covering a broad range of price points. In accordance with our quality, design, value and experience philosophy, we sell primarily our own branded products and to a lesser extent, third-party branded or licensed products. Our opening price point is in line with supermarkets for our “Good” products, while our “Better” and “Best” products are generally priced at a significant discount to mid-market high street retailers, with what we believe to be comparable or higher quality and design. As a result, we attract a broad range of customers and compete successfully with a wide range of retailers, including supermarkets and discount and mid-market clothing retailers. Across our six main product categories we sell primarily our own branded products and, to a lesser extent, third-party branded or licensed products, which accounted for 8.1% of total sales in 2014 Fiscal Year. Our own branded products have been carefully constructed to support our broad price architecture focused on the entry and mid-level price points. For the 2014 Fiscal Year, approximately 38% of our revenue was generated by ladieswear, 23% by menswear, 19% by kidswear, 7% by footwear, 13% by homeware and less than 1% by our new Sporting Pro products launched in autumn 2013. For the 2014 Fiscal Year, the average selling price of our products and average basket value were £6.00 and £21.55, respectively.

The majority of our sales are carried out in store, although we also sell a growing percentage of our products online via our website. We have 227 stores in the UK, of which 213 are full-price Matalan stores, five are Matalan clearance stores and nine are standalone Sporting Pro stores. The average Matalan store size is 29,000 square feet. Average revenue and EBITDA per store (excluding clearance stores) for the 2014 Fiscal Year was £5.0 million and £0.9 million, respectively. Additionally, a growing proportion of our sales are made via our website with online sales in the 53 weeks ended March 1, 2014 increasing by 32.9% to £43.6m, supported by the roll out of online ordering for collection in store (which we refer to as “click and collect”) in early 2013 (50% of online purchases are now collected in store). Our online sales accounted for 3.9% of our total turnover, with 9.4% of our customers shopping across multiple channels in the 53 weeks ending March 1, 2014. Customers who shopped across multiple channels spent an average of 81% more than store only shoppers. We have recently introduced two new store formats, a high street Matalan store and a new Sporting Pro concept which focuses on sporting apparel, footwear and equipment. As of March 1, 2014 we also had 14 franchise stores in the Middle East which, for the 2014 Fiscal Year accounted for 1.3% of our revenue. These franchise stores operate under a wholesale supply arrangement, selling ranges sourced by Matalan and supplied at a mark-up.

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## Factors Affecting Our Results of Operations

### *Focus on Stabilization and Resilience of Operating Performance*

Since 2011 the management team have focused on stabilizing and creating a resilience to business performance while establishing a clear growth strategy designed to further improve our operational effectiveness, market position, revenue and profitability. We have focused on the following areas:

- We began our supply base consolidation in 2011 and saw a reduction in the number of suppliers from 433 in 2011 to 335 by March 2014. A leaner supply base allows us to better leverage our volume during the buying process while maintaining sufficient flexibility to adapt to the needs of our customers. This exercise created the supplier and product agility necessary to be able to react to significant market shocks such as the spike in cotton prices in 2010 and 2011. Deeper strategic relationships position the business to work collaboratively and proactively with suppliers to manage such issues via product cost engineering, process efficiency, and product design enhancement.
- Re-organization of the internal buying process. Consolidated buying was introduced on our trading floor in 2013 enabling us to complete the entirety of the potential buy from each supplier in a single transaction. We believe that this will increase the effectiveness and results of the negotiation process. We have also implemented a more standardized approach to the management of product costing in order to provide better visibility of the individual cost components across comparable garments when determining the cost price architecture.
- Delivery of a clearer, more consistently designed ladieswear offer. By consolidating and re-organizing the senior management team in our trading function, we reduced complexity and duplication and began an option rationalization process. These changes took place between 2011, when our London ladieswear brands buying office was closed, and early 2013 with the elimination of the Commercial Director role. The structural changes and option reduction delivered an improvement in availability in our core ranges and also in the design and consistency in the “Better” and “Best” elements of the ladieswear range. This resulted in several categories performing well in 2013 including outerwear which delivered sales growth of 98% versus the previous year at an ASP of £20.81. Improvements at the upper end of our price architecture create a greater resilience to cost price movements as we migrate the weight of buy towards products at the upper end of our price architecture and have greater flexibility at these price points in managing our blended margins. These changes have been pivotal in delivering improvements in the clarity and performance of the ladieswear range in autumn 2013.
- Further development of our CRM capability. We extended our Matalan Reward loyalty card program, creating a tiered scheme via the Matalan “Black Card”, launched in 2012. The Black Card is awarded to our most valuable customers who pass a specific annual spend threshold, providing additional benefits and features over and above the standard Matalan Reward loyalty card. While further supporting the retention, frequency and value of those customers it also provides an incentive for customers to trade up in value to progress to Black Card status and privileges.
- Improvement in operational efficiency. Particular focus has been placed on the warehouse and transport functions and in-store labor model. In 2012 the operation and management of our Corby warehouse and transport function was brought in-house having previously been outsourced to a third-party. These changes delivered significant cost efficiencies. Within our stores we have focused heavily on improving labor productivity and mitigating the impacts of increases in the national minimum wage by changes to our back-of-house stock management operations and by reducing the frequency of changes in shop floor layout and configuration. This, along with upgraded point of sale systems and checkout hardware, has successfully maintained the store wage to sales ratio over the last three years despite inflation in the national minimum wage.

While stabilizing performance via the above strategies, we have also been developing a clear growth strategy based upon the following key pillars:

1. consistently execute our offer and further develop our product range;
2. complete and capitalize on our Singles supply chain program;
3. deliver sustainable margin enhancement; and
4. establish and leverage an ability to operate across multiple channels and formats.

The commencement of our Singles supply chain program, being a key part of our strategic program, has resulted in a net cash outflow in the 2014 Fiscal Year, with associated capital expenditure of £31.8 million (as compared to £3.3 million in the 2013 Fiscal Year). The scale of capital investment made in the past year is anticipated to be one-off in nature, and we intend to return capital investment to a more normalized level in the current year, which we expect will result in a net cash inflow for the year ending February 28, 2015.

### ***Fixture Innovation, Refurbishment and Store Openings***

As a result of our decision to invest in the Singles supply chain program, we slowed the rate of investment in store fixture and refurbishment, as well as new store openings in 2012 and 2013. The following tables show our store capital expenditure by category and number of stores for each of the periods indicated.

	53 weeks ended February 25, 2012	52 weeks ended February 23, 2013	52 weeks ended March 1, 2014
(in £ millions, except as otherwise indicated)			
<b>Capital Expenditure by Category:</b>			
New store openings.....	5.4	2.0	2.9
Extensions/resize/re-sites.....	1.4	—	1.8
Refurbishment and fixture innovation .....	5.4	5.1	3.8
Sporting Pro concept.....	—	—	6.8
<b>Total store development capital expenditure .....</b>	<b>12.2</b>	<b>7.1</b>	<b>15.3</b>
<b>Number of Stores:<sup>(1)</sup></b>			
New store openings.....	3	3	11
Total number of stores .....	214	216	227

(1) Excludes overseas franchises.

Store refurbishment and fixture innovation typically drive revenue growth at a faster rate than stores that have not received investment. While we still believed this to be the case, we deemed it necessary to focus on capital investments in other areas given the completion of an estate-wide refurbishment program in 2010 and the strategic importance of our Singles supply chain program. We intend to refocus material investment in store fixtures and refurbishment in 2015 and 2016 following the completion of the Singles supply chain program.

New stores are fitted out to what we believe is the optimum standard given their space and building configuration. New stores typically benefit from additional advertising and marketing support associated with their opening and then experience modest decline in their revenues throughout the first year after opening as this advertising and marketing support is gradually normalized. After the first anniversary of the store's opening, the customer database for the new store has usually grown large enough such that we are then able to use it to drive revenue growth.

### ***Variations in Quarterly Results, Seasonality and Weather***

Our business is subject to seasonal peaks, although not to the same extent as retailers who are located predominantly on the high street or in shopping centers. During the four periods in our 2014 Fiscal Year, we generated 23%, 25%, 29% and 23% of our full year revenue, respectively, the period to August 31, 2013, being a 14 week period. Approximately 24% of our revenues for the 2014 Fiscal Year were generated from the beginning of November 2013 to the end of December 2013.

As is common among retailers, our results can be affected by periods of abnormal, severe or unseasonable weather conditions. For example, we and other retailers were adversely affected by the unusually cold weather that affected the UK in spring 2013. See "Risk Factors Relating to Our Business—Our business could suffer as a result of weak sales during extreme or unseasonable weather conditions". Due to our out-of-town locations, we were somewhat more affected than retailers with stores that are more centrally located. In addition, extended periods of warm or cold weather could render a portion of our inventory incompatible with such unseasonable conditions.

### ***Inflation***

Inflation generally affects us by increasing our payroll costs, direct merchandise costs, including our supply and transportation costs, and the costs of goods and services not for resale that we purchase. Our leases provide for rent reviews. Many require such a review every five years, at which time our rents could increase (but not decrease) due to changes in market rental rates and other expenses. In the 2014 Fiscal Year, 30 rent reviews were agreed and settled with

£nil increase in the rents reviewed and 1 lease was subject to a fixed rental uplift of 15.9%. The average rental increase at the review points has reduced in recent years from the levels seen prior to the economic recession.

The general rate of inflation in the UK has been relatively low during the periods presented and we do not believe that inflation has had any identifiable effect on our results for the 2012 Fiscal Year, the 2013 Fiscal Year and the 2014 Fiscal Year. We have in the past been significantly impacted by material variations in the prices of certain commodities, particularly cotton. We believe that consolidating our supply base and improving our range quality and the upper end of our price architecture, offers us more opportunity to mitigate or pass on commodity driven cost increases going forward, thereby leaving us better placed to manage any similar commodity price pressure in the future. As a value retailer, we look to follow rather than establish sales prices in our opening price points. While this can restrict price flexibility at the opening end of our range, there is room to exhibit value more than simply price further up the price architecture. We also believe that a period of sales price inflation would potentially benefit our business by increasing the absolute differential between some of our competitors' prices and our own, thus strengthening our competitive position. If inflation causes consumers to have less disposable income, they may reallocate their purchases to value retailers such as Matalan. However, if we are unable to pass on our increased costs to our customers, or are unable to increase our sales volumes, then our results of operations could be negatively impacted.

### ***Financial Periods***

We present our annual accounts as of the Saturday closest to February 28 of each year, which occasionally results in a 53 week financial year. This was the case in the 2014 Fiscal Year, which means that results for that year are not directly comparable to results for the 2013 Fiscal Year. We present our quarterly accounts as of the Saturday closest to May 31, August 31 and November 30 of each year. Occasionally, our quarterly financial period may include a public holiday that is not included in other comparable periods. Therefore, results for the financial periods presented may not always be directly comparable to results for other financial periods. For the 2014 Fiscal Year, we estimate the EBITDA impact of the 53<sup>rd</sup> week of trading to be £1.1 million.

### **Explanation of Key Income Statement Items**

#### ***Revenue***

Unless otherwise indicated, revenue represents the value of goods sold in our stores and online and to a lesser extent sales to our international franchise partners, net of returns, value added tax, markdowns and staff discounts. Retail revenue is recognized in the financial statements when the risks and rewards of ownership have passed to the customer. Substantially all of our revenue is derived from the UK.

Both in our stores and online, we primarily sell our own bought products, purchased by our buying teams where we take all of the risks and rewards of stock ownership. These products predominantly include our own brands but to a lesser extent also include third-party brands, in particular in the Sporting Pro stores. Occasionally, we may buy product and apply a third-party brand for which we hold a license for certain product categories and territories. The key product categories in our business are: ladieswear, menswear, kidswear, footwear and essentials and homeware.

Changes in revenue from period to period are generally affected by:

- the prices at which we sell our merchandise, which equal the original selling price less any price reductions and discounts (together referred to as “markdowns”);
- the volume of merchandise sold and changes in the mix of products sold;
- the price architecture under which we offer our merchandise and the mix of customer purchases across this architecture;
- the level and effectiveness of our advertising, marketing and promotions;
- the opening of new stores, store refurbishments, fixture innovation and allocation of space across product categories (see “—Factors Affecting Our Results of Operations—Fixture Innovation, Refurbishment and Store Openings”);
- general economic and market conditions;
- competition from our retail competitors, which may impact sales of our merchandise and our pricing policies;

- local events that restrict access to our stores, such as road works; and
- seasonality and weather.

### ***Cost of Goods Sold and Gross Merchandise Margin***

Our cost of goods sold consists of the cost of purchasing our own bought merchandise from our international and domestic suppliers, including freight and delivery charges, taxes and foreign exchange gains or losses. Sales of branded concessions, where we pay a fixed commission and have no stock ownership risk, are on the whole not material to our business. Our gross merchandise margin consists of our revenue less cost of goods sold and reflects the direct profit made from the sale of our products.

Changes in our gross merchandise margin and corresponding changes in our gross merchandise margin as a percentage of our revenue, from period to period, are primarily affected by the following factors:

- the price we negotiate with our suppliers, which in turn may be impacted by the volume of products we purchase from such suppliers and the territories in which the suppliers are located;
- the level of our markdowns, which include temporary promotional reductions designed to increase customer visits and growth in like-for-like revenue and clearance markdowns which are permanent reductions in price used to clear slower selling stock;
- changes in the mix of the product types that we sell, which produce different margins;
- the mix of suppliers from whom we purchase our products, especially as it relates to the lead times required to secure merchandise from, and the geographical location of, such suppliers;
- fluctuations in the exchange rates of the U.S. dollar, the currency in which we purchase over 70% of our products, against the pound sterling. On a relative basis, the value of our purchases in U.S. dollars has increased in recent periods. We set internal exchange rates at levels that we believe are sustainable for at least the next two seasons and hedge approximately 90% (of forecast purchases within 12 months) and approximately 60% (of purchases from 12 months to 24 months) of anticipated cash flows in respect of the purchase of inventory in U.S. dollars;
- freight and shipping costs for transport of merchandise to our distribution centers and, occasionally, directly to our stores; and
- other factors such as duties, import quotas, supplier discounts for settlement and distribution, and stock loss or shrinkage, which refers to our provision for theft, breakage and other stock losses.

We view gross merchandise margin and gross merchandise margin as a percentage of revenue as key measures of our performance. However, our statutory accounts only reflect gross profit, which is equivalent to revenue less total cost of sales, and total cost of sales, which is the sum of cost of goods sold and selling and distribution expenses.

### ***Selling and Distribution Expenses and Gross Profit***

Selling and distribution expenses include the costs of occupying and running our stores including establishment costs such as rent, amortization of landlord contributions received and rent free periods, rates, service charges and utility costs (which accounted for 41% of total overheads in the 2014 Fiscal Year); store labor (including wages and salaries, bonuses and social security costs) and depreciation charges; advertising and marketing costs; and distribution costs such as costs involved in operating our two distribution centers and warehouse facility transporting our product to our stores, fuel and depreciation charges.

Changes in our selling and distribution expenses from period to period are affected by the following factors:

- changes in the number of staff employed in our stores or at our distribution centers and warehouse;
- the mix between directly employed permanent staff and staff employed directly but on temporary contracts, typically during peak trading periods;
- the general level of payroll and benefit increases given to our employees in our stores and distribution centers;

- the impact on store labor of the volume and mix of products sold, the volume of till transactions, the number and timing of promotional events, the number of sales events, the extent of and number of changes to store layouts;
- costs relating to the volume and mix of products sold, particularly distribution and store labor, fuel and the number of cages, trailers and tractor units required by our distribution fleet;
- rental increases on our stores and distribution centers and warehouse negotiated with landlords;
- changes in the costs of heating and lighting our stores and distribution centers;
- the cost of opening new stores, including the related impact of amortization of rent free periods and other incentives received from landlords, as well as store refurbishments and fixture innovation;
- the level and type of advertising and marketing expenditure, including costs associated with market research; and
- the method of transport and distance traveled by our merchandise.

Our gross profit consists of revenue less total cost of sales. Total cost of sales consists of cost of goods sold and selling and distribution expenses.

### ***Administrative Expenses***

Administrative expenses consist primarily of the following:

- payroll for employees of selected head office departments, including wages and salaries, bonuses and social security costs;
- charges or credits associated with share based payments accounted for in accordance with IFRS 2;
- various corporate overhead costs associated with our personnel, finance, legal, information technology and secretarial departments;
- depreciation expense related to our head office and the amortization of goodwill and other intangible assets;
- depreciation and maintenance expense related to certain information technology systems; and
- other head office facility costs.

Changes in our administrative expenses from period to period are affected primarily by:

- the general level of payroll and benefits given to selected head office employees, including accruals of employee bonuses; and
- expenses related to new and revised information technology systems.

### ***Total Trading Profit***

We view total trading profit, which is equivalent to our operating profit before exceptional items, as a key measure of our performance. Total trading profit refers to gross merchandise margin less other direct cost of sales and administrative expenses.

### **Results of Operations**

#### ***Results of operations for the 52 weeks ended February 23, 2013 compared to the 53 weeks ended March 1, 2014***

The following table sets forth our main operating results extracted from our historical consolidated statements of operations for the 2013 Fiscal Year compared to the 2014 Fiscal Year:

	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014	% change
	(in £ millions)		
Revenue .....	1,125.4	1,122.9	(0.2)
Cost of goods sold .....	(626.6)	(627.6)	0.2
<b>Gross merchandise margin</b> .....	<b>498.8</b>	<b>495.3</b>	(0.7)
Selling and distribution expenses.....	(371.2)	(373.7)	0.7
<b>Gross profit</b> .....	<b>127.6</b>	<b>121.6</b>	(4.7)
Administrative expenses .....	(60.4)	(55.3)	(8.4)
<b>Total trading profit</b> .....	<b>67.2</b>	<b>66.3</b>	(1.3)
Exceptional items.....	(2.0)	(6.9)	n.m.
<b>Operating profit</b> .....	<b>65.2</b>	<b>59.4</b>	(8.9)
Net finance costs.....	(47.4)	(47.4)	0.0
<b>Profit before taxation</b> .....	<b>17.8</b>	<b>12.0</b>	(32.6)
Taxation .....	(4.3)	(2.1)	(51.2)
<b>Profit for the period</b> .....	<b>13.5</b>	<b>9.9</b>	(26.7)

*Revenue.* Revenue fell by 0.2% to £1,122.9 million in the 2014 Fiscal Year, compared to £1,125.4 million in the 2013 Fiscal Year. Revenues were negatively impacted by the adverse weather conditions experienced in early spring with like-for-like sales declining by 7.4% in the first quarter of 2014 compared with the first quarter of 2013. Revenues steadily recovered from this challenging start to the 2014 Fiscal Year with smaller declines in like-for-like sales of 2.6% in the second quarter of 2014 and 0.4% in the third quarter of 2014, each compared to the corresponding period in the prior year. Within ladieswear, the removal of the Be Beau and Et Vous sub-brands and range improvement in some key areas, helped to clarify the offer and deliver positive revenue growth in ladies clothing. Dresses and outerwear performed particularly well. Revenue growth in ladies clothing and kidswear shifted the product mix, with homeware, menswear and ladies accessories taking a smaller percentage of revenue. The menswear range contributed to improved cash margins from reduced volumes. Strong Christmas performance delivered positive like-for-like growth of 0.5% in the final quarter coupled with incremental revenue growth driven by the opening of the Liverpool city center store. Online revenue growth was 32.9% in the 2014 Fiscal Year, with the channel contributing 3.9% of total revenue compare to 2.9% in the 2013 Fiscal Year. The introduction of the Sporting Pro concept contributed incremental revenue versus last year, following the opening of nine new standalone stores, five further stores within existing space and the launch of the Sporting Pro website. The additional week in the 2014 Fiscal Year also contributed towards incremental revenue compared to the 2013 Fiscal Year.

*Cost of goods sold and gross merchandise margin.* Cost of goods sold increased by 0.2% to £627.6 million in the 2014 Fiscal Year, from £626.6 million in the 2013 Fiscal Year, while our gross merchandise margin decreased by 0.7% to £495.3 million in the 2014 Fiscal Year from £498.8 million in the 2013 Fiscal Year. Our gross merchandise margin as a percentage of our revenue decreased to 44.1% in the 2014 Fiscal Year from 44.3% in the 2013 Fiscal Year. Reductions in cost of goods sold during the year were reflected through bought-in margin rate improvements facilitated by the supply base consolidation initiatives and, to a lesser extent, reduced freight charges following a reduction in the use of more expensive air and trailer freight in the supply chain. Foreign exchange gains in respect of our U.S. dollar purchases also increased. These margin gains were offset by increased product markdowns required to clear stock following the challenging spring season and deliver an improved closing terminal stock position. Additional markdown costs were also incurred to accelerate the removal of several sub-brands. The additional week in the 2014 Fiscal Year also contributed to an increase in cost of goods sold.

*Selling and distribution costs and gross profit.* Selling and distribution costs increased to £373.7 million in the 2014 Fiscal Year, from £371.2 million in the 2013 Fiscal Year. The increase is largely attributable to new store openings in Liverpool and Exeter, the two store relocations and the opening of the Sporting Pro stores. Personnel costs increased year on year due to increases in the national minimum wage. Other store costs increased as a result of provisions for outstanding rent reviews and inflationary increases for rates, computer costs and energy prices. There were further volume related cost increases driven by the growth of the online channel and the additional week in the 2014 Fiscal Year. Savings within the year came from labor efficiency gains in stores, as a result of improved back-of-house operations and fewer shop floor layout changes. Further savings were attributable to fuel, as a result of favorable fuel hedge rates as well as a reduction in repairs for the distribution centers. Our gross profit decreased by 4.7% to £121.6 million in the 2014 Fiscal Year from £127.6 million in the 2013 Fiscal Year. Our gross profit as a percentage of revenue decreased to 10.8% in the 2014 Fiscal Year from 11.3% in the 2013 Fiscal Year.

*Administrative expenses.* In the 2014 Fiscal Year, administrative expenses decreased by 8.4% to £55.3 million, from £60.4 million in the 2013 Fiscal Year. The decrease was driven by an accounting adjustment which resulted in a

credit within personnel costs following a revision of the expected B share vesting period in relation to IFRS 2. In addition, there was a saving as a result of an asset write off in the previous financial year.

*Total trading profit.* As a result of the factors discussed above, total trading profit decreased by 1.3% to £66.3 million in the 2014 Fiscal Year, from £67.2 million in the 2013 Fiscal Year.

*Exceptional items.* Exceptional items were a charge of £6.9 million in the 2014 Fiscal Year compared to a charge of £2.0 million in the 2013 Fiscal Year. The exceptional items in the 2014 Fiscal Year included a provision of £2.9 million for anticipated future dilapidations costs, relating to the existing distribution center and head office site in Skelmersdale, an acceleration of IFRS 2 charges of £1.8 million following a board director resignation in the period, restructuring costs of £1.6 million and costs associated with the redevelopment of the supply chain of £1.1 million. The 2014 Fiscal Year includes a credit of £0.5 million relating to rental income received during the period and a revision of anticipated future costs, both in respect of properties on which onerous lease contracts were previously provided for. In the 2013 Fiscal Year, the Group incurred £1.3 million of restructuring costs and £1.5 million of refinancing costs relating to the settlement of a dispute with the holders of an interest rate swap that the Group has previously entered into. The 2013 Fiscal Year includes a credit of £0.8 million relating to rental income received during the period and a revision of anticipated future costs, both in respect of properties on which onerous lease contracts were previously provided for.

*Operating profit.* Operating profit decreased by 8.9% to £59.4 million in the 2014 Fiscal Year, from £65.2 million in the 2013 Fiscal Year. The change in operating profit reflects the fall in total trading profit and the increase in exceptional items explained above.

*Net finance costs.* Net finance costs increased to £47.4 million in the 2014 Fiscal Year, compared to £46.9 million in the 2013 Fiscal Year (excluding refinancing exceptional items of £0.5 million). Net finance costs predominately relate to interest costs associated with our existing £250 million aggregate principal amount of 8% Senior Secured Notes due 2016 (the "Existing Secured Notes") and £225 million aggregate principal amount of 9% Senior Notes due 2017 (the "Existing Senior Notes" and together with the Existing Secured Notes, the "Existing Notes") and amortization of costs associated with the Existing Notes.

Financing exceptional items of £0.0 million were incurred in the 2014 Fiscal Year compared to £0.5 million in the 2013 Fiscal Year relating to a change in the discount rate applied to the onerous lease provision calculation.

*Profit before taxation.* As a result of the factors discussed above, profit before taxation reduced by 32.6% to £12.0 million in the 2014 Fiscal Year, compared to £17.8 million in the 2013 Fiscal Year.

*Taxation.* Taxation decreased to £2.1 million in the 2014 Fiscal Year, compared to £4.3 million in the 2013 Fiscal Year. The reduction was primarily due to the lower profit before taxation in the 2014 Fiscal Year. Taxation as a percentage of profit before taxation decreased to 17.5% in the 2014 Fiscal Year, from 24.2% in the 2013 Fiscal Year due to the impact of the change in the corporation tax rate coupled with prior period adjustments.

*Profit for the period.* For the reasons set forth above, profit for the period decreased by 26.7% to £9.9 million in the 2014 Fiscal Year, compared to £13.5 million in the 2013 Fiscal Year.

**Results of operations for the 52 weeks ended February 25, 2012 compared to the 52 weeks ended February 23, 2013**

The following table sets forth our main operating results extracted from our historical consolidated statements of operations for the 2012 Fiscal Year compared to the 2013 Fiscal Year:

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	% change
	(in £ millions)		
Revenue .....	1,117.5	1,125.4	0.7
Cost of goods sold .....	(647.5)	(626.6)	(3.2)
<b>Gross merchandise margin .....</b>	<b>470.0</b>	<b>498.8</b>	6.1
Selling and distribution expenses.....	(353.3)	(371.2)	5.1
<b>Gross profit .....</b>	<b>116.7</b>	<b>127.6</b>	9.3
Administrative expenses .....	(54.9)	(60.4)	10.0
<b>Total trading profit.....</b>	<b>61.8</b>	<b>67.2</b>	8.7
Exceptional items.....	(4.0)	(2.0)	n.m.
<b>Operating profit.....</b>	<b>57.8</b>	<b>65.2</b>	12.8
Net finance costs.....	(55.7)	(47.4)	14.9
<b>Profit before taxation.....</b>	<b>2.1</b>	<b>17.8</b>	747.6
Taxation .....	0.9	(4.3)	(577.8)
<b>Profit for the period.....</b>	<b>3.0</b>	<b>13.5</b>	350.0

*Revenue.* Revenue increased by 0.7% to £1,125.4 million in the 2013 Fiscal Year, compared to £1,117.5 million in the 2012 Fiscal Year. Three new store openings contributed incrementally to this revenue growth, which was further enhanced by growth of 45.2% in the online channel. From a range perspective, kidswear contributed the strongest year on year growth with menswear also experiencing growth. The sub-brand architecture review and consolidation process began in the period, particularly in ladieswear. Revenue in ladieswear declined in the period, a reduction in the level of markdown costs delivered an improved margin. Homeware also saw revenue decrease, although similarly to ladieswear, margin rate improvements were delivered, as range consolidation began in a market slowly recovering from the recession. Following its launch in 2011, the expansion of the “Matalan Black Card” continued to drive increased customer frequency and value, contributing customer-driven revenue growth. Like-for-like sales decreased by 1.4% in the 2013 Fiscal Year.

*Cost of goods sold and gross merchandise margin.* Cost of goods sold decreased by 3.2% to £626.6 million in the 2013 Fiscal Year from £647.5 million in the 2012 Fiscal Year. Gross merchandise margin increased by 6.1%, to £498.8 million, in the 2013 Fiscal Year from £470.0 million in the 2012 Fiscal Year. Gross merchandise margin as a percentage of revenue increased to 44.3% in the 2013 Fiscal Year from 42.1% in the 2012 Fiscal Year. The increase in gross merchandise margin was primarily due to a significant reduction in markdown costs. Bought-in margin rate improvements were delivered in the year, benefiting from reduced cost prices and the product mix shifting into kidswear and footwear. Further improvements came from carrying less terminal stock and foreign exchange rate changes which resulted in larger realized gains for the period. These were offset against increased freight charges and a reduction in volume-related rebates from our suppliers.

*Selling and distribution expenses and Gross profit.* Selling and distribution expenses increased by 5.1% to £371.2 million in the 2013 Fiscal Year from £353.3 million in the 2012 Fiscal Year. This increase was due to a number of factors including the launch of a national TV advertising campaign and the test of a seasonal catalog that was subsequently discontinued. Personnel costs increased due to an increase in the national minimum wage, new store openings and online growth. Rent costs saw increases, due to new store openings and the annualization of the lease commencement at the new Knowsley distribution center. Other property cost increases came from inflationary increases in business rates and energy prices. These increased costs have been partially offset against savings as a result of bringing the management of our transport function and the Corby Distribution center in house. For the reasons set forth above, gross profit increased by 9.3% to £127.6 million in the 2013 Fiscal Year from £116.7 million in the 2012 Fiscal Year. Gross profit as a percentage of revenue increased to 11.3% in the 2013 Fiscal Year from 10.4% in the 2012 Fiscal Year.

*Administrative expenses.* Administrative expenses increased by 10.0% to £60.4 million in the 2013 Fiscal Year from £54.9 million in the 2012 Fiscal Year. The increase was primarily due to an accelerated amortization charge relating to the commencement of systems architecture rationalization ahead of the launch of the Singles supply chain program. In addition, administrative expenses in the 2012 Fiscal Year included a credit associated with proceeds received from an insurance claim following a fire at a store in Grimsby.

*Total trading profit.* Total trading profit increased by 8.7% to £67.2 million in the 2013 Fiscal Year, from £61.8 million in the 2012 Fiscal Year. The increase in total trading profit reflects generally the increase in revenue and gross profit.

*Exceptional items.* Exceptional items were a charge of £2.0 million in the 2013 Fiscal Year, compared to a charge of £4.0 million in the 2012 Fiscal Year. In the 2013 Fiscal Year, £1.3 million of restructuring costs were incurred, together with £1.5 million of refinancing costs relating to the settlement of a dispute with the holders of an interest rate swap that the Group entered into previously. These exceptional charges were partially offset by a credit of £0.8 million relating to rental income received during the period and a revision of anticipated future costs, both in respect of properties on which onerous lease contracts were previously provided for. In the 2012 Fiscal Year, a charge of £2.4 million was incurred relating to the recognition of a provision for an onerous lease on a property no longer used by the business. In addition, £1.5 million of restructuring costs and £0.1 million of refinancing costs were incurred in the period.

*Operating profit.* Operating profit increased by £7.4 million to £65.2 million in the 2013 Fiscal Year, from £57.8 million in the 2012 Fiscal Year. The increase in operating profit reflects generally the improvement in gross profit and the change in exceptional items both of which are explained above.

*Net finance costs.* Net finance costs decreased to £47.4 million in the 2013 Fiscal Year, compared to £55.7 million in the 2012 Fiscal Year. This reduction was driven by exceptional financing costs incurred in the 2012 Fiscal Year, relating to the acceleration of the amortization of the outstanding loan issue costs of the senior debt facilities repaid as part of the April 2011 refinancing and the costs incurred in relation to the termination of interest rate swaps held by the Group.

*Profit before taxation.* As a result of the factors discussed above, profit before taxation increased by 747.6% to £17.8 million in the 2013 Fiscal Year, compared to £2.1 million in the 2012 Fiscal Year.

*Taxation.* Taxation increased to £4.3 million in the 2013 Fiscal Year, compared to a tax credit of £0.9 million in the 2012 Fiscal Year. The increase was primarily due to the higher profit before taxation in the 2013 Fiscal Year. Taxation as a percentage of profit before taxation increased to 24.2% in the 2013 Fiscal Year, from (42.9)% in the 2012 Fiscal Year. The increase is largely attributable to adjustments relating to prior periods recognized in the 2012 Fiscal Year.

*Profit for the period.* For the reasons set forth above, profit for the period increased to £13.5 million in the 2013 Fiscal Year, compared to £3.0 million in the 2012 Fiscal Year.

## Liquidity and Capital Resources

During the periods presented, our primary sources of liquidity were cash generated from operations and drawings under the our existing revolving credit facility (the “Revolving Credit Facility”), which provided for aggregate drawings of up to £30.0 million (£50.0 million under our prior revolving credit facility which terminated in February 2012), in each case in the form of revolving loans, letters of credit and certain ancillary facilities including overdraft, guarantee and short-term loan facilities. The only drawings under the revolving facility during the periods related to letters of credit and guarantees. Our principal uses of funds are the payment of operating expenses, capital expenditures and the servicing of debt.

The following table summarizes our consolidated statements of cash flow for the periods indicated. Please refer to the relevant statements of cash flow included elsewhere in this Bondholder Report for more detailed information.

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014
	(in £ millions)		
Net cash generated from operating activities.....	30.1	45.5	7.6
Net cash used in investment activities.....	(20.4)	(21.0)	(56.4)
Net cash used in financing activities.....	3.4	—	—
Net increase/(decrease) in cash and cash equivalents.....	13.1	24.5	(48.8)
Cash and cash equivalents at the beginning of the period.....	83.1	96.2	120.7
<b>Cash and cash equivalents at the end of the period.....</b>	<b>96.2</b>	<b>120.7</b>	<b>71.9</b>

### Net Cash Flow from Operating Activities

The following table summarizes the principal components of our net cash flow from operating activities and taxation paid for the periods indicated:

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014
	(in £ millions)		
<b>Cash flows from operating activities:</b>			
Operating profit before exceptional items .....	61.8	67.2	66.3
Exceptional items .....	(4.0)	(2.0)	(6.9)
<b>Operating profit</b> .....	<b>57.8</b>	<b>65.2</b>	<b>59.4</b>
Depreciation .....	22.6	23.3	22.6
Amortization of intangibles .....	6.7	9.9	6.5
Non cash exceptionals .....	2.4	(0.7)	2.4
Share based compensation charge .....	2.3	0.7	(0.5)
Hedge accounting .....	(0.1)	(0.1)	0.3
(Gain)/loss on disposal of property, plant and equipment .....	(1.2)	—	—
(Increase)/decrease in inventories .....	(11.8)	(9.2)	6.1
Increase in trade and other receivables .....	(2.2)	(3.3)	(10.5)
Increase/(decrease) in trade and other payables .....	0.3	9.1	(28.7)
<b>Total cash flow from operating activities</b> .....	<b>76.8</b>	<b>94.9</b>	<b>57.6</b>
Interest paid .....	(38.6)	(44.7)	(43.4)
Taxation paid .....	(8.1)	(4.7)	(6.6)
<b>Net cash generated from operating activities</b> .....	<b>30.1</b>	<b>45.5</b>	<b>7.6</b>

The principal factors affecting our net cash flows from operating activities in the periods presented are the movement in our profit from trading before exceptional items, the impact of exceptional items and changes in working capital.

The decrease in cash generated from operating activities from £45.5 million in the 2013 Fiscal Year to £7.6 million in the 2014 Fiscal Year was due to a decrease in trade and other payables as a result of a monthly supplier payment in February 2013 falling into the 2014 Fiscal Year rather than the 2013 Fiscal Year (see “Operating and Financial Review and Prospects—Financial Periods”). In addition, the increase in trade and other receivables includes an outflow associated with a restricted cash deposit placed in the period to secure additional forward foreign exchange contract facilities. An increase in exceptional items also contributed to the decrease in cash generated from operating activities.

The increase in cash generated from operating activities from £30.1 million in the 2012 Fiscal Year to £45.5 million in the 2013 Fiscal Year was largely due to the increased profit in the period coupled with an increase in trade and other payables as a result of a monthly supplier payment in February 2013 falling into the 2014 Fiscal Year as outlined above. This was partially offset by an increase in interest paid.

### Net Cash Flow from Investment Activities

The following table summarizes the principal components of our net cash flow from investing activities for the periods indicated:

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014
	(in £ millions)		
<b>Cash used in investment activities:</b>			
Payments to acquire property, plant and equipment .....	(17.9)	(15.3)	(46.1)
Payments to acquire intangible assets .....	(4.3)	(6.4)	(10.9)
Proceeds from the sale of property, plant and equipment .....	1.2	—	—
Interest received .....	0.6	0.7	0.6
<b>Net cash used in investment activities</b> .....	<b>(20.4)</b>	<b>(21.0)</b>	<b>(56.4)</b>

Proceeds from the sale of property, plant and equipment in the 2012 Fiscal Year reflect the proceeds from an insurance claim following a fire at a store in Grimsby.

Further details of capital expenditure are included below.

## Capital Expenditure

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014
(in £ millions)			
<b>Capital Expenditure by Category:</b>			
New store openings.....	5.4	2.0	2.9
Extensions/resize/re-sites.....	1.4	—	1.8
Refurbishment and fixture innovation .....	5.4	5.1	3.8
Sporting Pro concept.....	—	—	6.8
Singles supply chain program.....	—	3.3	31.8
IT initiatives.....	5.1	5.3	7.1
Other .....	4.9	5.9	2.8
<b>Total capital expenditure .....</b>	<b>22.2</b>	<b>21.7</b>	<b>57.0</b>

During the 2012 Fiscal Year, the 2013 Fiscal Year and the 2014 Fiscal Year, our total capital expenditure payments were £22.2 million, £21.7 million and £57.0 million, respectively. The principal components of our capital expenditure were store refurbishments, fixture innovation, information technology systems and, more recently, the Singles supply chain program, the launch of the Sporting Pro concept and the opening of a store in Liverpool city center.

The expenditure on the Singles supply chain program of £3.3 million and £31.8 million in the 2013 and 2014 Fiscal Year respectively relate to the move to a “single unit” replenishment capability. The expenditure incorporates the associated information technology systems and physical distribution center, at both the existing site in Corby and the new distribution center in Knowsley. A further £14.9 million of expenditure is anticipated to bring the Singles supply chain program to completion resulting in a total capital outlay on the project of £50.0 million.

The expenditure on the Sporting Pro concept of £6.8 million in the 2014 Fiscal Year saw the launch of nine standalone stores in the period and a further five stores where space has been converted in existing Matalan stores. A fully transactional Sporting Pro website was also developed in the 2014 Fiscal Year.

Our capital expenditure varies from period to period, primarily based on the number of stores we refurbish or open in that period and, more recently, our investment in the Singles supply chain program.

Consistent with our strategy, following the completion of the Singles supply chain program, we anticipate that the mix of capital expenditure will shift toward more directly customer facing projects, including a prudent opening program of new high street and Sporting Pro stores in addition to an increased level of store refurbishments. We anticipate that the level of capital expenditure will reduce to a level that is financed by operational cash flows, supporting our underlying strategy of the business which includes financial de-leveraging.

## Net Cash Flow from Financing Activities

The following table summarizes the principal components of our net cash flow from financing activities for the periods indicated:

	52 weeks ended February 25, 2012	52 weeks ended February 23, 2013	53 weeks ended March 1, 2014
(in £ millions)			
<b>Cash used in financing activities:</b>			
Proceeds from borrowings.....	250.0	—	—
Fees associated with refinancing .....	(15.6)	—	—
Loan repayments.....	(231.0)	—	—
<b>Net cash used in financing activities.....</b>	<b>3.4</b>	<b>—</b>	<b>—</b>

The cash generated from (used by) financing activities in the 2012 Fiscal Year reflects the issuance of £250.0 million senior secured notes to repay senior secured facilities of £231.0 million.

### Contractual Obligations

The following table summarizes our contractual obligations as at March 1, 2014:

	Less than 1 year	2-5 years	More than 5 years	Total
	(in £ millions)			
<b>Contractual Obligations:</b>				
Existing Secured Notes .....	—	250.0	—	250.0
Existing Senior Notes .....	—	225.0	—	225.0
Operating lease obligations .....	105.4	400.2	585.3	1,090.9
<b>Total contractual obligations .....</b>	<b>105.4</b>	<b>875.2</b>	<b>585.3</b>	<b>1,565.9</b>

### Available Liquidity

We maintain cash balances to fund the daily cash requirements of our business. As of March 1, 2014, we held £71.9 million of unrestricted cash. In addition, we had undrawn availability under the Revolving Credit Facility of £19.0 million as at March 1, 2014.

In addition to the Revolving Credit Facility, we anticipate that the principal source of our liquidity will be net cash generated from operating activities and, as a result, significant risks to our sources of liquidity include operational risks, such as the risk of stagnant or declining revenues. See “Risk Factors Relating to our Business”. We anticipate generating positive cash flow after deducting interest and taxes, but cannot assure you that this will be the case.

Following the Transactions, our principal uses of funds are anticipated to be for operating expenses, capital expenditures and debt service. Generally speaking, our need for working capital is greater at the beginning of each quarter when rent on our stores is typically paid. Our inventory level peaks in August and September each year as the autumn and winter stock is added to our inventory at a faster rate than we sell off our existing inventory. Our ability to fund our working capital and other funding needs will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings will be adequate to meet our future liquidity needs for the foreseeable future.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to repay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

### Off-Balance Sheet Arrangements

Historically, we have not used special purpose vehicles or similar financing arrangements. As of March 1, 2014, none of TopCo or any of its subsidiaries is a party to any off-balance sheet transaction other than operating leases as described above under “—Contractual Obligations”.

### Quantitative and Qualitative Disclosure about Market Risk

The following discussion should be read in conjunction with the notes to our consolidated financial statements contained elsewhere in this Bondholder Report, which summarize our significant accounting policies with respect to, among other things, derivative financial instruments and credit risk, and provide certain information with respect to derivative financial instruments held by us.

In the normal course of business, the financial position of the Group is routinely subjected to interest rate and foreign exchange rate risks. These foreign exchange rate risks principally relate to our purchase of merchandise from suppliers. We enter into derivative contracts to hedge partially the foreign exchange rate risk.

### ***Market Risk Policy***

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Our policy requires all Group companies to manage their foreign exchange risk against their functional currency. Our functional currency is sterling. We substantially hedge our foreign exchange risk exposure with Group treasury. To manage our foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, we use forward contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

We hedge future seasons' purchases that are denominated in a foreign currency. Our Group treasury's risk management policy is to hedge approximately 90% of forecast purchases within 12 months and approximately 60% of purchases from 12 to 24 months, in each case of anticipated cash flows in respect of the purchase of inventory in U.S. dollars.

### ***Interest Rate Risk***

As interest rates are currently low in respect of the cash and cash equivalents on the balance sheet and we have no other significant interest-bearing assets, our income and operating cash flows are substantially independent of changes in market interest rates. Our interest rate risk arises from long-term borrowing. The Group's exposure to interest rate risk is significantly reduced due to the Existing Notes being issued at a fixed rate of interest.

Our policy is to maintain a minimum of 60% of our borrowings in fixed rate instruments using interest rate swaps to achieve this when necessary.

### ***Critical Accounting Policies***

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted under IFRS. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, turnover and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies described below.

### ***Stock Valuation***

We make various estimates that impact the value of our stock at the end of each financial period, and consequently, our cost of sales during that period.

Inventories are stated at the lower of cost and net realizable 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. These costs include certain warehousing and distribution costs.

Net realizable value is the price at which stocks can be sold in the normal course of business after deducting costs of realization. Provisions are made as appropriate for obsolescence, markdown and shrinkage. Provisions for obsolescence and markdown are made after giving consideration to factors such as current and anticipated demand, customer preferences, age of the merchandise and fashion trends. We also estimate shrinkage, or stock loss, which refers to our provision for theft and losses, based on our past store experience and the results of our most recent physical stock counts. While it is not possible to quantify the impact of each cause of shrinkage, we have comprehensive loss prevention programs and policies that minimize shrinkage. Physical stock inventories are taken within each store at least once within a fifteen-month period and stock records are adjusted accordingly.

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.

### ***Derivative Financial Instruments***

The Group uses derivative financial instruments to manage its exposure to foreign exchange risks arising from operational activities. These instruments include forward contracts and options. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

Derivative financial instruments are initially recognized and measured at fair value on the date a derivative financial contract is entered into and subsequently measured at fair value at each balance sheet date. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument under IAS 39 in which case fair value changes are initially recognized directly in equity and then recycled to the income statement when the underlying hedged cash flow arises.

The Group accounts for those derivative financial instruments used to manage its exposure to foreign exchange risk on foreign currency stock purchases as cash flow hedges under IAS 39. In order to qualify for this hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument and its risk management objectives and strategy for undertaking various hedging transactions. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. The assessment of the effectiveness of each hedge is re-performed at each period end to ensure that the hedge remains highly effective. In addition the Group is also required to document its risk management objectives and strategy for undertaking various hedging transactions.

Gains or losses on cash flow hedges that are regarded as highly effective are recognized in equity. On completion of the forecast purchase transaction, the effective part of any gain or loss previously deferred in equity on the derivative instrument is recognized as part of the carrying amount of the underlying non-financial asset, the ineffective part is recognized immediately in the income statement. The effective gain or loss is recognized in cost of sales in the income statement in the same period during which the underlying asset affects the income statement.

If the hedged transaction is no longer expected to take place, then the cumulative unrealized gain or loss is recognized immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, previous gains and losses remain in equity and are then recognized when transactions are ultimately recognized in the income statement; future gains and losses are recognized immediately in cost of sales in the income statement as they arise.

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

## BUSINESS

### Our Business

We are one of the leading value clothing, footwear and homeware retailers in the UK. We focus on providing a unique blend of attractive design, quality, value and a compelling customer shopping experience across our broad range in our “out-of-town” store locations. We define these locations as off the high street but within an easily accessible location to major town centers and based in a retail park with other brand name tenants or stand-alone locations. We operate the UK’s largest portfolio of out-of-town clothing retail stores comprising of 227 stores with over six million square feet of retail trading space. In 2013, we had an estimated 8.7%<sup>3</sup> share of the £12.0 billion<sup>4</sup> UK value clothing market. In the 2014 Fiscal Year, we generated revenue of £1,122.9 million and EBITDA of £95.4 million at an EBITDA margin of 8.5%.

Our range appeals to a broad spectrum of the UK population, with approximately one-third of UK households shopping in Matalan in the last 12 months. We cater to a broad range of ages, although our typical customer is female, aged 30+, who visits Matalan regularly to buy products for herself, her family and her home. Our customers are fashion-conscious but not demanding of leading edge “fast fashion”. We maintain a customer database of nearly twelve million active customers who have transacted with Matalan in the last year through our Matalan Reward loyalty card, our loyalty card that offers customers a range of benefits, including exclusive promotional discounts on merchandise. Purchases by cardholders account for over 90% of our revenue and as such our card is an important element of our loyalty and marketing strategies and also supports our growing multi-channel business.

We offer a wide and authoritative range of clothing, footwear and homeware, uniquely covering a broad range of price points. In accordance with our quality, design, value and experience philosophy, we sell primarily our own branded products and to a lesser extent, third-party branded or licensed products. Our opening price point is in line with supermarkets for our “Good” products, while our “Better” and “Best” products are generally priced at a significant discount to mid-market high street retailers, with what we believe to be comparable or higher quality and design. As a result, we attract a broad range of customers and compete successfully with a wide range of retailers, including supermarkets and discount and mid-market clothing retailers. Across our six main product categories we sell primarily our own branded products and, to a lesser extent, third-party branded or licensed products, which accounted for 8.1% of total sales in 2014 Fiscal Year. Our own branded products have been carefully constructed to support our broad price architecture focused on the entry and mid-level price points. For the 2014 Fiscal Year, approximately 38% of our revenue was generated by ladieswear, 23% by menswear, 19% by kidswear, 7% by footwear, 13% by homeware and less than 1% by our new Sporting Pro products launched in autumn 2013. For the 2014 Fiscal Year, the average selling price of our products and average basket value were £6.00 and £21.55, respectively.

The majority of our sales are carried out in store, although we also sell a growing percentage of our products online via our website. We have 227 stores in the UK, of which 213 are full-price Matalan stores, five are Matalan clearance stores and nine are standalone Sporting Pro stores. The average Matalan store size is 29,000 square feet. Average revenue and EBITDA per store (excluding clearance stores) for the 2014 Fiscal Year was £5.0 million and £0.9 million, respectively. Additionally, a growing proportion of our sales are made via our website with online sales in the 53 weeks ended March 1, 2014 increasing by 32.9% to £43.6m, supported by the roll out of online ordering for collection in store (which we refer to as “click and collect”) in early 2013 (50% of online purchases are now collected in store). Our online sales accounted for 3.9% of our total turnover, with 9.4% of our customers shopping across multiple channels in the 53 weeks ending March 1, 2014. Customers who shopped across multiple channels spent an average of 81% more than store only shoppers. We have recently introduced two new store formats, a high street Matalan store and a new Sporting Pro concept which focuses on sporting apparel, footwear and equipment. As of March 1, 2014 we also had 14 franchise stores in the Middle East which for the 2014 Fiscal Year accounted for 1.3% of our revenue. These franchise stores operate under a wholesale supply arrangement, selling ranges sourced by Matalan and supplied at a mark-up.

### Our History

We were founded by John Hargreaves in 1985 based on an out-of-town value retail store model from the U.S. Mr. Hargreaves pioneered the same retail concept in the UK and opened the first Matalan store in Preston, England in 1985. We grew significantly following our foundation and by 1995 had opened 50 stores across the U.K. In order to manage our growing operations, we relocated our headquarters from Preston to Skelmersdale in 1997 and opened a new

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distribution center at the same premises. We became a public company in May 1998 when we commenced trading our shares on the Main Market of the London Stock Exchange. Matalan was taken private in October 2006 in a transaction led by our founder John Hargreaves, who remains our largest shareholder.

Over the last three years, we have focused on structural investments in the supply chain in order to underpin a future growth strategy across multiple channels and formats. In the last twelve months, we have particularly focused on the consistency of our execution, clarification and improvement of the product offering which included the creation of a Chief Operating Officer role.

Matalan now trades from over six million square feet in 227 UK retail stores and had approximately 15,500 employees at March 1, 2014. We have expanded our product offering beyond clothing to include homeware and other non-clothing items, more recently sports equipment through our Sporting Pro brand. Our store opening program has been selective in the 53 weeks to March 1, 2014, with the opening of our first city center concept store in Liverpool, a new Matalan store in Exeter and nine standalone Sporting Pro stores. We also have a franchise agreement with Business Trading Company that, as of March 1, 2014, owned and operated 14 Matalan stores across several Middle Eastern countries, with the intention to increase this number. Our online presence, which started to trade in November 2008, now offers both click and collect and delivery to home.

The established out-of-town value retail store concept, our direct sourcing model and core retail philosophy continue to be as relevant in today's value retail market as when the business was founded. The key strengths of our business coupled with our clear strategy underpin growth opportunities.

### ***Business Strengths***

We believe that we benefit from the following key strengths:

#### *Scale position in a growing market*

We are one of the UK's leading value clothing, footwear and homeware retailers, capturing an estimated 8.7%<sup>5</sup> share of the £12.0 billion<sup>6</sup> UK value clothing market in the year ended December 31, 2013. Our scale allows us to compete effectively in a relatively consolidated market, in which the top five operators have a combined 63.2% market share. The UK value clothing market has experienced strong growth in recent years. In the five-year period to 2013 the value market grew by an estimated £2.5 billion to £12.0 billion, representing 30.0% of total clothing expenditure in the UK. This equates to growth of 27.1%, outperforming the total UK clothing market by 14.6 percentage points. Independent forecasts predict value clothing market annual growth of between 3.9% and 4.6% between 2014 and 2019. We believe that the growth seen in the value clothing market is a structural change in the market driven by increases in trading space, expansion in the range of products offered and improved quality. Additionally, we believe that consumers have realized that value retailers like Matalan deliver quality products at low price points while offering opportunities to step up to "Better" and "Best" products.

#### *Strong, resilient brand and product authority combining value with quality and design*

We have serviced the UK value fashion and homeware retail market since 1985 and have created an active customer database of nearly twelve million individuals, covering approximately a third of UK households. Our retail philosophy focuses on three dimensions: quality, design and value. We have specifically tailored offerings for different price points allowing us to compete with a range of different retailers that vary from supermarkets to specialist value and mid-market clothing retailers. We believe we offer better quality at a comparable price to our main competitors for core basic items, appealing designs at a competitive price for the more fashion-oriented ranges, and a price point that entices mid-market customers attracted by the quality and design of our products. In two CSI reports on the clothing sector and the footwear sector, published by Verdict on April 23, 2014, we were awarded first overall for customer satisfaction in footwear<sup>7</sup> and second overall for customer satisfaction in clothing<sup>8</sup>, up from seventh place in the previous year. The CSI is based on customer satisfaction across range, price, convenience, quality, service, ambience, facilities and layout, with our position across a wide range of factors illustrative of our balanced proposition.

We believe that our quality and value positioning creates a resilience to this proposition, as demonstrated by the growth of our active cardholder base from 10.1 million at March 1, 2010 to 11.9 million at March 1, 2014.

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<sup>6</sup> Copyright: 2014, Verdict, Value Clothing UK: Market Values, reproduced with permission of Verdict

<sup>7</sup> Copyright: 2014, Verdict, UK Customer Satisfaction Index 2014 - Footwear, reproduced with permission of Verdict

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*Extensive data warehouse, with potential for further multi-channel development*

Our customer database of nearly 12 million individuals is maintained via the Matalan Reward loyalty card that offers customers a range of benefits, including exclusive promotional discounts on merchandise. We believe that it would take significant investment and time for competitors who do not have such a database to build up the same data warehouse, which enables visibility and influence on customer behavior both in-store and on-line. This database has provided a basis to develop CRM initiatives that help us to understand the behavior and the lifestyle of our customers and to cost effectively target our marketing activities. Over 90% of our turnover is attributable to Matalan Reward loyalty card holders, in an increasingly multi-channel marketplace such a database and the customer insights it provides leaves us well placed to continue growing our multi-channel customer base. The average annual turnover generated from a multi-channel customer is £145 versus £80 for store only customers, making it an attractive growth opportunity that we can exploit with rapidly advancing technologies.

*Direct sourcing model and strategic supplier relationships*

We source the majority of our products directly from manufacturers, predominantly located in Asia and Eastern Europe. We believe that buying directly from suppliers provides us with a competitive advantage, as it allows us to minimize margin erosion through the elimination of supply chain intermediaries, while at the same time providing us high levels of oversight on the quality of our products, which is monitored via the presence of Matalan employees in the local territory. We have actively consolidated our supplier base in recent years, reducing the number of suppliers from 433 in 2011 to 335 by March 2014. We believe that this reduction allows us to better leverage our volume in the buying process while maintaining sufficient flexibility to adapt to the needs of our customers. The consolidation of suppliers has allowed us to gradually renegotiate commercial agreements with agents to remove terms that are unfavorable to us, such as cost price shifts among others. Working with fewer suppliers provides us greater leverage and allows these purveyors to add more value during the design process, and to collaborate with us to eliminate non-value adding costs and processes. The development of more strategic partnerships with certain suppliers is one of the key benefits stemming from our supplier consolidation process.

We have also changed our approach to buying. Previously our buyers were accountable for their own category performance and margins, negotiating individually with suppliers. We have now adopted a more holistic approach, with a leaner management team accountable for all ranges. This consolidated approach to buying across product categories means that there is only one negotiation with each supplier. We have also reduced our reliance on agents by appointing offshore country managers in certain locations. Moreover, an increased focus to share technical knowledge and best practices with the wider buying team has been applied by the quality management team. The quality management team are now involved from the initial garment design stage through to subsequent manufacturing to leverage their technical knowledge to drive an increase in quality and reduce inefficient and margin eroding practices in our supplier base.

We believe that the changes which we have implemented both in our supplier base and in our buying approach, together with our continued focus on streamlining our supply chain, will strengthen our ability to manage any future short-term fluctuations within our cost base through price negotiations and product engineering.

*Unique store footprint with attractive low cost base*

We have a store footprint across 227 locations, which is the largest portfolio of out-of-town clothing retail stores in the UK, with over six million square feet of retail sales space. This allows us to display our wide-ranging product offer while avoiding the high rental costs associated with many high street or shopping center locations. As our stores are larger than those of many of our competitors, we are able to offer a broader range of product categories. Due to our ability to trade profitably from large, out-of-town stores that are either located in retail parks or standalone locations, we believe that we have more options than our high street competitors when choosing a new location to lease. We lease all of our stores under long-term leases with an average remaining lease period of approximately 10 years. We believe this stable portfolio of low-cost space, in accessible locations with good car parking facilities, is a key strength that underpins a multi-channel strategy; 50% of our online sales are currently collected in-store, driving footfall, additional in-store purchases and lower levels of returns.

*Experienced management team with appropriate breadth and depth*

We have a strong and experienced management team led by Jason Hargreaves, consisting of ten individuals with an average of 9 years tenure within our business, and drawing on extensive previous experience across the retail, service and consumer goods sectors. Allan Leighton, John Mills, Jason Hargreaves, Stephen Hill and Arnu Misra together have over a century of retail experience. Furthermore, the recent appointment of Arnu Misra as Chief Operating Officer will, we believe, improve both our ability to work seamlessly across the business and our end-to-end-execution.

## ***Business Strategy***

We have a clear strategy for growth, in keeping with our philosophy of offering customers an extensive range of quality products without compromising on design, value or shopping experience. These strategies are designed to both capitalize on our existing strengths and evolve our capabilities in adapting to the changing marketplace and trends in consumer behavior. We believe this will deliver a resilient and sustainable level of revenue growth, margin enhancement and improvement in profitability and cash generation.

To achieve these goals we have designed our strategy around the following four pillars:

1. consistently execute our offer and further develop our product range;
2. complete and capitalize on our Singles supply chain program;
3. deliver sustainable margin enhancement; and
4. establish and leverage an ability to operate across multiple channels and formats.

In addition to our four strategic pillars (outlined in further detail below), we will continue to optimize our cost base and maximize positive cash flow on an ongoing basis. We believe that the Singles supply chain program offers significant opportunities to further drive efficiencies, particularly the manner in which stock is processed and handled within stores. Initiatives to drive sales returns from existing space will also support improvements to the productivity of our fixed costs. Ongoing cost management and optimization is a key focus for the business. Upon completion of the Singles supply chain program and office relocation projects, our capital investment program will return to a more normalized annual level. We expect cost efficiencies and a reduction in capital investment outflows to contribute to the maximization of positive cash flow and de-leveraging.

### *Consistently execute our offer and further develop our range*

We continue to optimize the balance between providing customers a choice of products and managing stock availability. We have consolidated several in-house brands over the past 12 months (a reduction from 18 to 13) in order to reduce duplication, while the number of options within each style of the core range continues to be reviewed and optimized with an emphasis on availability and better margin control. This change has supported improved ladies clothing availability and range, delivering sales growth of 8% in the second half of the 2014 Fiscal Year compared to the corresponding period in the 2013 Fiscal Year. We are also actively managing transitional seasonal phases through product range and mix, reducing the amount of short-life, weather-dependent products. Management of color palette, fabric weight and ability to layer multiple products are increasingly key design considerations and, we believe, will support a more stable trading performance through these transitional periods while continuing to showcase seasonal newness.

We believe that focusing on range optimization and availability in our core and newly implemented *The Statements* collection, showcasing current trends and fashion credentials via our *We Love* collection and providing access to a growing offering of recognisable external brands provides clear segmentation, signposting and balance to our customer proposition. We intend to utilize this range structure in our communication programs, driving frequency and purpose of visit for a variety of family shopping trips. Improving clarity, execution and weight of buy across the upper end of the price architecture will allow the business to better mitigate movements in cost prices at the OPP level where the business acts primarily as a price follower within the market.

### *Complete and capitalize on our Singles supply chain program*

Following an extensive review, we took the decision in 2011 to re-engineer our supply chain and to move approximately 45% of our range away from ratio pack stock replenishment into single unit replenishment, which we have called the Singles supply chain program. This will facilitate the sharing of stock across channels and more efficient placement of stock within the business. This will drive improved availability and sales conversion, reduce markdowns and enhance margins. It will also reduce stock holding within our existing formats and distribution centers, improving working capital management and support expansion into a variety of new formats that are more demanding of an efficient replenishment model.

These changes will be incorporated into both the new distribution center in Knowsley and our existing distribution center in Corby. The Singles supply chain program will also support the direct shipment of stock from our supply base to existing or future overseas franchisees or partners, providing a more cost-effective international supply chain. The first receipt of stock in this new form is intended to be in summer 2014 and will progress via a phased period of closely managed and low-risk transitions, with the increase in single unit replenished volume to be complete by

summer 2015. We expect that benefits from the Singles supply chain program will begin to crystalize through the latter part of 2015.

*Deliver sustainable margin enhancement*

In January 2014, supported by Deloitte consultancy services, we began a strategic review of other opportunities to create sustainable margin improvement. The initial phase of work will complete in June 2014 and includes in its scope: option and depth of buy review across all lines, including the creation of new range analysis tools intended to improve both margins and product availability; price architecture, performance and profitability analysis tools, intended to optimize the price charged for each product; in-season promotion and liquidation management tools, intended to reduce the value of markdowns through the introduction of targeted and graded markdowns; and space and store grading optimization tools intended to increase individual local business unit profitability. These four work streams are believed to offer material opportunities to deliver sustainable improvements to sales and margin performance that will be phased into the business through late 2014 and 2015.

The consolidation of the supply base delivered over the last two years will support the quick and efficient implementation of the key outputs from this project. In addition, we believe that opportunities exist to develop an increasing number of more strategic supplier relationships, capitalizing on the skill set of those suppliers in areas such as garment design and product engineering to continuously improve product cost and performance.

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

According to Verdict, the online clothing and footwear market is projected to grow by 84%<sup>9</sup> between 2013 and 2019. We believe this presents an opportunity to convert a greater proportion of our nearly twelve million active customers into multi-channel shoppers (currently 9.4% in the 53 weeks to March 1, 2014), providing significant sales growth potential. In the 2014 Fiscal Year our online business increased its sales by 32.9% to £43.6 million accounting for 3.9% of our total turnover. Customers who shopped across multiple channels spent an average of 81% more than store-only shoppers. Online sales were supported by the roll out of click and collect in early 2013, which now accounts for nearly 50% of online orders. We will further enhance our capability in this regard with the launch of a mobile loyalty application in the summer of 2014 which will allow us to target our customers with personalized communications and benefits. We believe this offers us new means of driving multi-channel behavior and reducing the cost of our CRM program via the digitization of some elements of customer communication. We have also installed free wi-fi in all of our stores to further support the use of the loyalty application and ordering of product via the mobile optimized website should it not be immediately available at the time a customer is in-store.

To help us encourage more of our customers to shop with us across multiple channels, we have developed the capability to monitor individual customer behavior across all channels. This includes the ability to update and capture customer details at the store till point as well as for store colleagues to be given customer-specific scripts and screen prompts at the checkout. We believe that this functionality will have a significant impact on email address capture and will effectively incentivize store customers to shop online via tailored voucher distribution at the till.

We also introduced a new Matalan high street format in October 2013, with the opening of a new 16,000 square foot store in Liverpool city center (over 40% smaller than the average Matalan store), located just off the main thoroughfare and next to major competitors. We believe that more central locations are now viable following the ladieswear range improvements introduced over the last 12 months (ladieswear taking a greater mix of sales in this store type). The store performed strongly in the second half of the 2014 fiscal year, with sales per square foot nearly twice that of the average of our other stores, and a 21.3% increase in the value of sales to existing customers who shopped at the Liverpool store during the 6 months after opening. We will continue to test sizes, formats and locations for a gradual store roll-out program, including our next opening in Cardiff city center in autumn 2014.

In autumn 2013, we launched our new sportswear concept, Sporting Pro, providing quality sportswear, equipment and accessories for the family at competitive prices in a high-quality, well serviced environment. The sports market is forecast to grow by 21.2% between 2014 and 2019 and we believe that there is sufficient room in the market for a new entrant competing not only on price, but equally on range and service. As of March 1, 2014, we had opened nine standalone Sporting Pro stores trading and a fully transactional website. We have also pursued expansion through the conversion of excess space in five of our existing Matalan stores, offering up an average of approximately 6,000 square feet of trading space to the sportswear offer. These stores are partitioned in a way that a customer would perceive them as a separate unit, allowing for clear brand distinction, while allowing us to increase revenue without incurring additional occupation costs. At present, these stores currently consist of branded ranges, however, going forward, we intend to introduce our own, in-house designed, sourced and branded sports and leisure apparel into Sporting Pro stores.

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We believe that this will complement the existing leading brands already carried and increase our market penetration, blended margin and returns on space.

### **Recent Developments—Current Trading**

Based on preliminary results reflected in our non-IFRS management accounts, we believe our business is continuing to deliver improved performance consistent with our full year guidance. These preliminary results indicate that for the nine-week period ended May 3, 2014, we generated revenue of £181.7 million, representing an increase of 5.5% over the same period in the prior year; like-for-like sales increased 0.2% compared to the same period in the prior year; and we generated EBITDA of £13.0 million, representing an increase of 43.8% compared to the same period in the prior year. The increases in our revenue, like-for-like sales and EBITDA were due to strong performance in our ladieswear, footwear and kidswear categories, with margins benefiting from improvements in our buying process and fewer markdowns during the current period.

The above information is based on preliminary results and estimates and is not intended to be a comprehensive statement of our financial or operational results. Such information has been prepared by and are the responsibility of management and has not been audited, reviewed or verified by our independent auditors. The preliminary results mentioned above are derived from our non-IFRS management accounts, rather than our IFRS financial statements, and for a two-month period. We have not yet prepared our financial statements as of, or for any period following the 53 weeks ended March 1, 2014. Our preliminary results are based on our preliminary review of our results of operations and are inherently subject to modification during the preparation of our financial statements. As a result, our actual results could vary from these estimates and these differences could be material. KPMG LLP has not audited, reviewed or compiled these preliminary results.

### **Our Customers**

We have one of the largest customer databases of UK retailers, with nearly twelve million unique customers transacting in our stores in the 2014 Fiscal Year. Attracting such a large number of customers requires appealing to all age groups and to customers across the socio-demographic spectrum. Over 80% of our customers are female, typically but not exclusively aged 35-55 and who visit Matalan regularly to purchase products for themselves, their family and their home and are from the lower middle class or skilled or unskilled working class. Our customers are fashion-conscious but not demanding of leading edge “fast fashion”.

The customer database stores information regarding each customer’s name, address, email address, age, gender and transaction history, including the stores visited and products purchased. We also track other socio-demographic and segmentation model classifications and customers’ shopping behavior (frequency and value) and shopping mission (how they shop the Matalan departments). We collect this information in our stores from customers who use our Matalan Reward loyalty cards (Red and Black) and online. We have used this information to create a “Single Customer View,” segmenting our customer base into eleven types of consumers to ensure that our direct marketing efforts are tailored to individual customers. Over 90% of our turnover comes from customers who use the Matalan Reward loyalty card when purchasing items at our stores. Cardholders have the benefit of exclusive in-store promotional discounts; advanced notice of promotional activities and new product launches; periodic offers from other organizations; and the opportunity to win prizes.

### **Our Brands and Product Categories**

Our product categories are divided among six main departments: ladieswear, menswear, kidswear, footwear, homeware and sports. For the financial year ending February 2014, approximately 38% of our revenue was generated by our ladieswear products, 23% by menswear, 19% by kidswear, 7% by footwear, 13% by homeware and less than 1% by sports.

Each department offers our core value products, branded products that are targeted toward specific customer groups and designer-endorsed ranges at the top of our price architecture: our “Good,” “Better” and “Best” price points. For example, our opening price point is in line with supermarkets for our “Good” products, while our “Better” and “Best” products are generally priced at a significant discount to mid-market high street retailers, with what we believe to be comparable or higher quality and design.

*Ladieswear.* Ladieswear is our largest department. Our ladieswear products include formalwear such as suits, trousers and blouses; casual wear ranges, including denim, knitwear and jersey tops; outerwear, such as coats and jackets; occasion wear, such as dresses and eveningwear; nightwear; lingerie; accessories and swimwear. Our ladieswear brands include *Papaya*, our core range of everyday wear that comprises the majority of our ladieswear sales; *Soon*, for more mature women; *Rogers & Rogers*, our line for plus-size women; and *Falmer Heritage*, a range of denim and casual clothing. *We Love* was introduced in late autumn 2013 and is a collection of more reactive, fashion-forward products

which is updated regularly throughout a season, to ensure that the collection reflects the latest trends. We also introduced in late autumn 2013 a range of occasion wear designed in collaboration with celebrity Abbey Clancy.

*Menswear.* Our menswear products include formalwear such as suits, jackets, trousers, shirts and ties; casual wear such as denim, shirts, knitwear, tee shirts and shorts; and outerwear such as coats and jackets. Our menswear brands include *Easy*, our core range of everyday wear; *Easy Classic* and *Farah Classic*, for the more mature of our male customer; *Taylor & Wright*, our business and formalwear line; *24/7* by Jeff Banks, a smart fashion line for young men; and *W10* by Julien Macdonald, a range of formal and occasion wear.

*Kidswear.* Our kidswear department sells baby/toddler, boyswear and girlsweare for children up to age 16, and schoolwear. All age groups comprise fashion and essentials ranges, sleepwear and accessories. Kidswear includes *Disney* and *Candy Couture*. *Disney* ranges comprise of clothing, nightwear and accessories and *Candy Couture* is a girl's teen range targeted at girls aged 8 to 16 years.

*Footwear.* This department sells ladies, mens and kids footwear. Across the ranges are boots and wellingtons, workwear, occasion wear, sandals and slippers.

*Homeware.* Homeware products include bathmats, towels, pillows, sheets, blankets, rugs, throws, cushions, glassware, dinnerware, nursery and children's bedroom ranges, luggage and storage items.

*Sports.* Our Sporting Pro concept was introduced in autumn 2013 and encompasses a range of ladies, mens and kids fitness and leisure apparel, football, running, rugby, swimming and tennis apparel, accessories and fitness equipment. The sports range is available under the Sporting Pro concept only. It currently consists of branded ranges, such as Nike and Adidas, with the planned introduction of own brand apparel for autumn/winter 2014. Branded products are sourced via Intersport, a large European sportswear distributor, and our own branded products will be sourced from the existing Matalan supplier base, with the intention that Sporting Pro apparel products will eventually comprise one-third of our own brands.

## **Design, Purchasing and Pricing**

Our merchandising philosophy is to offer quality products at attractive prices for the entire value-conscious family. We have an in-house design team that designs the majority of our product mix as well as celebrity designers who we collaborate with on a small mix of our range. We focus on sourcing our products directly from manufacturers and have been actively consolidating our supply base to better leverage our purchasing volume in our supplier negotiations.

*Product Design.* Our design teams either design the products themselves or, occasionally, incorporate the product designs of a supplier. The majority of our products are designed by our in-house design teams. In certain product lines, we also work in collaboration with famous designers and celebrities, such as Jeff Banks and Julien Macdonald in menswear and Abbey Clancy in ladieswear. We design products specifically for three phases in both of our spring/summer and autumn/winter seasons, for a total of six different selling periods each year: early spring, high spring and summer, late summer, early autumn, the holiday season and late winter.

We begin designing our products eight months in advance of the time that they will be delivered to our stores for sale. We typically start the process by reviewing the prior season's fashions and identifying current fashion trends that will fit within the brand image. Within one to two months, we will have formulated a design strategy, signed off on our range selection and agreed on the quantity of product that we will order from our suppliers. We place orders with our suppliers five months prior to the products first going on sale. The suppliers send us sample products shortly after we place our orders and we test the samples for safety, fit, quality and consistency. If the samples pass our rigorous quality assurance tests, the actual production run commences three months prior to the products' delivery to our stores and usually takes about one month to complete. However, we can turn around high trend fashion lines less than six weeks prior to their delivery to our stores. We then subject the products to at least one more quality control check before they are shipped to the UK and then to our distribution centers.

*Pricing.* As a value clothing and homeware retailer, we seek to maintain affordable prices for our customers that are competitive at their respective price points. The ASP of our products for the 2014 Fiscal Year was £6.00 (excluding VAT), which represented an increase of 5.9% compared to the previous year. We are currently undertaking a review of our price and range architecture with the help of Deloitte that we believe will create margin enhancing opportunities by optimizing our option breadth and depth of buy across our price architecture. Despite a higher price point, we have experienced increased sales on higher ASP areas such as ladies & mens outerwear, and luggage. Ladies outerwear had an ASP £20.81 compared to the company average £6.00 yet delivered turnover growth of 98% in 2014, versus the previous year.

We employ two types of price markdowns: temporary promotional discounting, which usually coincides with a specific event or occurs in connection with an advertising campaign, and more permanent distressed markdown, which is designed to sell slow-moving inventory. Distressed sales typically start at a 50% reduction from the original price and occur during two mid-season and two end-of-season sales each year. Product that remains unsold after distressed sales is then sent to one of our clearance stores, which then sells the product initially at 50% off and then at more aggressive discounts over a subsequent period. The amount of markdown and the manner in which it is executed is currently under strategic review via the sustainable margin enhancement workstream of our growth strategy.

### Sourcing, Supply Chain and Distribution

In recent years we have reduced the number of our suppliers from 433 in 2011 to 335 as at March 1, 2014. While we have recently consolidated our supplier base, we believe that we still maintain adequate diversity of supply, and have little reliance on any single supplier. Approximately 46% of goods sold are sourced from the Far East, approximately 45% are sourced from the Near East and 9% from countries such as Turkey, the enlarged EU and the UK in order to take advantage of shorter lead times. Currently, the majority of our products are supplied directly from the manufacturer. In addition to our UK quality control team, we also have our own quality assurance staff located in Turkey, India, China and Pakistan and quality control functions at our distribution hubs in China, Sri Lanka, Cambodia and Turkey. We believe our off shore quality assurance and quality control hubs reduce both lead times and failure costs by enabling us to identify potential production errors at the manufacturer rather than at our UK distribution centers upon receipt of the product shipment.

We have two operational distribution centers located in Northamptonshire (Corby) and Skelmersdale. We also have a warehouse in Merseyside (Knowsley). On average, we ship products from our distribution centers to each of our stores throughout the UK three times per week. Transport is managed in-house via our leased fleet of vehicles.

We are currently in the process of completing the implementation of our Singles supply chain program, which we expect to cost approximately £50.0 million over three years and of which £35.1 million was spent as of March 1, 2014. Through our Singles supply chain program we are implementing a single unit replenishment capability for 45% of our stock intake, with the balance continuing to be via ratio replenishment. In addition, we are effecting changes to our existing Corby warehouse and relocating our northern warehouse from Skelmersdale to Knowsley. We have already implemented changes to our product and purchase order system and developed a new warehouse management system. In January 2014, we placed our first orders with suppliers for delivery through the Singles supply chain program and we expect the first receipt of stock in this new form will be in summer 2014. We initially intend to roll out single unit replenishment capability for 10% of our product through the Corby warehouse in summer 2014. The Knowsley warehouse is scheduled to go live as a distribution center in winter 2014 after which we plan to ramp up single unit stock intake to 25% of our product. Subsequently, we plan to decommission our Skelmersdale warehouse in spring 2015 and to commence a full ramp up of single unit volumes to 45% in spring/summer 2015.

As part of the Singles supply chain program we have undertaken new leases at a new site in Knowsley, with the existing Skelmersdale leases due to expire over the next two years. The following table sets forth the size and lease expiry date for our distribution centers and head office:

Location	Size (square feet)	Expiry Date of Lease
Merseyside (Knowsley New Site) .....	577,835	September 30, 2036
Northamptonshire (Corby).....	353,069	May 9, 2030
Merseyside (Knowsley) .....	198,300	July 31, 2015
Skelmersdale:		
Bulk storage warehouse .....	100,800	December 24, 2014
Administrative offices.....	14,800	March 12, 2015
Main distribution center, trailer parking bays and administrative offices .....	407,790	April 30, 2016

To coincide with the move to the new Knowsley warehouse and the transition away from the Skelmersdale site, we plan to move into a new head office building on the same site as the new Knowsley warehouse. This will allow us to maintain the efficiencies that we benefited from while sharing the site at Skelmersdale.

### Our Stores and Locations

We have the largest portfolio of out-of-town clothing retail stores in the UK, operating from 213 full price Matalan stores, five clearance stores and nine Sporting Pro across the UK as of March 1, 2014, with a total of approximately six million square feet of retail sales space. The average revenue and store EBITDA per Matalan store

(excluding Sporting Pro and clearance stores) for the 2014 Fiscal Year was £5.0 million and £0.9 million, respectively. All but two of our full price Matalan stores were profitable for the 2014 Fiscal Year.

*Store Environment.* Our Matalan stores are typically single-floor, open plan spaces and average 29,000 square feet in size. Ladieswear is generally presented first and may consume up to half of our floor space. Generally, after ladieswear and to the left are our footwear and essentials and our kidswear departments. To the right of ladieswear are our homeware and menswear departments. In our stores that have two floors, ladieswear, kidswear, footwear and essentials are usually on the ground floor, with menswear and homeware located on the floor above. Each department displays our core including *The Statements* collection and also showcase “Better” and “Best” ranges. Our *We Love* collection, which showcases contemporary fashion, is located towards the entrance, highlighting key trends to the customer.

The collection of online click and collect orders is typically managed in-store by the customer service desk. Parcels are stored in the stock room and referenced via order details to unique locations. Customers are enticed to shop the store while their parcel is being collected and we estimate that one-third of our online click and collect orders have resulted in an additional in-store purchase. This concept is being further encouraged in a select number of stores, where parcel collection is being trialed from the rear fitting room, thereby increasing customer flow through the store.

*Store Locations.* Our format is particularly flexible in that it can deliver strong performance from standalone stores, out-of-town retail parks, edge-of-town retail parks, a small number of off-prime city center locations and, more recently, city center locations. Approximately 67% of our stores are located in retail parks, 26% of our stores are standalone stores and 7% of our stores are located in shopping centers or city centers. Stores in these locations generated approximately 65%, 29% and 6%, respectively, of our store sales for the 2014 Fiscal Year. All Matalan sites are leased, with an average remaining lease term of approximately 10 years.

In the 2014 Fiscal Year, we opened our first city center concept store in Liverpool and a new full price Matalan store in Exeter. We believe that city center locations offer a great opportunity for us to expand our reach, following our enhanced multi-channel capabilities and improved product offer. We will open our second city center store in Cardiff in autumn 2014 (approximately 40,000 square feet) which will have a strong family focus and give us a significant point of difference from local competitors. In addition to our new store openings we re-sited two of our existing stores and converted the existing Exeter site into a Matalan clearance store.

Aside from the focus on potential city center locations, our in-house property team works closely with external consultants to identify more traditional potential new store locations. We use an economic model based on customer demographics, market capacity, proximity to existing Matalan stores and other key revenue drivers to generate a list of priority target regions. Our agents scout locations within these catchment areas for facilities of a suitable size and layout. We target stores that we estimate would pay back our fit out costs within two years.

Supporting the launch of our new Sporting Pro concept, we opened eight new Sporting Pro stores in retail parks and one on Kensington High Street in London during the 2014 Fiscal Year. These have an average trading space of approximately 10,000 square feet and showcase sportswear, equipment and accessories for customers of all ages in a comfortable and well serviced environment. Supplementing this portfolio, we converted excess space in five of our existing Matalan stores, offering up an average of approximately 6,000 square feet of trading space to the Sporting Pro concept. These stores are partitioned in a way that a customer would perceive them as a separate unit, allowing for clear brand distinction. These shared space stores allow us to increase revenue per square foot and target increased spend by new and existing customers, without incurring additional occupation costs.

*Overseas Franchises.* In 2009, Matalan entered into a franchise agreement with Business Trading Company in Qatar to open Matalan branded franchise stores across the Middle East. With 14 stores trading as at March 1, 2014, there are plans to open a number of additional stores exclusively in the Middle East over the coming years pursuant to the terms of the franchise agreement. We currently ship our products to these franchises from our UK distribution centers with a modest mark-up and at the franchisee’s risk. The re-engineering of the supply chain will allow for direct shipment from overseas hubs.

## **Matalan Online**

Since the launch of our transactional website in 2008, there has been steady and significant revenue growth from our online business. In the 2014 Fiscal Year sales increased by 32.9% to £43.6 million. The introduction of “click and collect” functionality in early 2013, has allowed us to meet customers’ demands of convenience, through an improved offer of multiple delivery methods. Our out-of-town locations, the majority of which offer ample free parking, offer an opportunity for customers to collect their online order in a way that is convenient and accessible to them. This improved convenience enhances customer frequency and allows us to exploit the benefits of both physical and online shopping. For the 2014 Fiscal Year the average click and collect order size was £19.28 with click and collect customers purchasing an

average of an additional £4.39 at the time of collection in store resulting in a total average basket value for click and collect customers of £23.67. Our delivery options now include standard delivery to home (42% of online sales), next day delivery to home (8% of online sales) and click and collect from store (50% of online sales).

The improved multi-channel offer, together with an enhanced platform, has contributed to considerable year-on-year increases of both customer traffic and conversion. Our online sales accounted for 3.9% of our total turnover, with 9.4% of our customers shopping across multiple channels in the 2014 Fiscal Year. In the 53 weeks to March 1, 2014 the annual spend of a multi-channel customer was over four times that of an online only customer, with over a third of customers making a store purchase at the point of collection in store. Our conversion rate for online visitors increased from 1.9% in 2013 Fiscal Year to 2.4% in 2014 Fiscal Year, with our number of online visitors growing from 60.0 million in 2013 Fiscal Year to 78.6 million in 2014 Fiscal Year.

The introduction of a fully mobile-optimized website has further contributed towards year on year revenue growth and improvements in conversion. For the 2014 Fiscal Year, 25% of traffic was via a mobile, with 22% via a tablet and 53% via PC. Conversion for this period has improved by 0.5 percentage points year on year.

We believe that continued marketing of our multi-channel offer through our customer database, which contains over 3.7 million email addresses for our twelve million active customers, presents an opportunity to convert a greater proportion of our customer base into multi-channel shoppers, providing significant sales growth potential. In the 2014 Fiscal Year, customers who shopped across multiple channels spent an average of 81% more than store-only shoppers. We believe that further range improvements at the upper end of our price architecture offer additional opportunities for online growth. The ASP of products purchased online was 14% higher than stores for the 2014 Fiscal Year, demonstrating the willingness of customers to purchase higher priced lines in order to justify delivery charges. For the 2014 Fiscal Year, Matalan online, including both click and collect and home delivery generated a higher average basket value, net of returns, of £24.79 compared to £21.42 for our physical stores (excluding Sporting Pro and international stores). Customers can return goods free of charge if they take them to a Matalan store, mitigating the risk of high returns that could reduce profitability levels. Offering free returns in-store further encourages customers to make a replacement or additional purchase.

## **Advertising and Marketing**

Our primary form of advertising is through direct mailings of mini-catalogues that we distribute up to eight times per year. This enables our extensive product offer to be showcased, driving customer footfall, both into store and to the website. Exploiting our database of nearly twelve million active customers, we are able to send targeted mailers to specific customers to promote particular products in which they may be interested. In the 2014 Fiscal Year, over 90% of turnover included customer data capture through the use of our loyalty card, the Matalan Reward loyalty card, providing high quality customer data to support an effective communication program.

In 2011, we launched a further segmentation of our Matalan Reward loyalty cardholder database with the introduction of the “Matalan Black Card”. Initially issued to one million of our customers, its early success warranted roll out to 28% of our active customer base whose annual spend is £150 or more, as at March 1, 2014. Strategic communication with our Black Card customers has meant that for the 2014 Fiscal Year, their average customer annual spend is 3.6 times that of the standard Red Card customer. Customer value is driven by frequency of purchase, which is 6.6 purchases per year compared to 2.3 purchases for Red Card holders, further enhanced by a larger average basket spend, which is 23% higher than red card holders. 57% of cardholder revenue for the 2014 Fiscal Year came from Black Card holders.

Effective strategic analysis and utilization of our extensive customer database allows for a targeted communication program via both direct mail and e-mail. Against this backdrop, we have developed and launched a series of customer relationship management (CRM) initiatives. These allow us to understand behaviour and lifestyles and target marketing activities more cost effectively. These initiatives build on our knowledge of customer segmentation and lifecycles, enabling direct marketing to be tailored to each individual customer, including through the use of online channels. These techniques are used to manage customer attrition rates, frequency of purchase and drive additional spend from existing active customers. National advertising is also a key part of our marketing strategy, attracting new customers and promoting brand awareness. We believe that once new customers visit our stores or website and sample our extensive product offer, they will become loyal Matalan customers. A national TV campaign in autumn 2013 focused heavily on our multi-channel offer, highlighting the convenience for customers of shopping online and collecting their items in-store at a time suitable to them. Additional forms of advertising include billboards at key locations, radio and local press.

As we have further improved the clarity and strength of our offer, positive brand and product non-paid media coverage has become increasingly visible and is something that we actively manage as part of maintaining an effective communication mix. We believe that independent recognition of the quality and style of our offer within the influential

mainstream media serves to reinforce advertising messages communicated directly by the company. Titles to feature positive product coverage in recent months include *Vogue*, *Grazia*, the *Sunday Times* and *You* magazine in addition to ITV's *This Morning* television program. In 2013, Mumsnet named us a Gold Award winner for our dedication to family friendliness across the business at its Family Friendly Awards.

Additionally, in 2014 we plan to introduce our mobile loyalty app for mobile devices along with free in-store Wi-Fi via O2. The app is intended to enhance loyalty and drive sales by targeting users both online and in-store with personalized offers. The app provides a lower cost-to-serve model for tactical markdowns as compared with the current direct mail method and also promotes customer engagement by including brand and content features.

## **Information Technology**

We have information systems in place to support each of our business functions. We have outsourced the management of these systems to global IT provider Capgemini. Our primary enterprise software is Nova, a merchandising system that we use to manage the portfolio of products for each store, including price, stock availability and sales information. Nova allocates stock to be replenished as well as balancing stock across our distribution centers. It interfaces with our other key business systems to enable customer sales both in our stores and online. We own the source code for our bespoke version of Nova.

Our stores use point-of-sale software from Retail Java to run the store's cash registers and collate till sales across all stores. The till software is supported by a back office set-up version which consolidates the store information and interfaces with Nova to extract updated stock, pricing and promotion information and provide updated sales information. We are in the process of rolling out hand held stock management terminals to the stores. This rollout will complete in May 2014 and will support store operational efficiency and effectiveness in terms of sales preparation and price checking.

Our Matalan ecommerce platform is provided by CTG. However, we have been informed by CTG that they will be exiting the e-commerce platform business in 2015. We are currently planning alternative support arrangements for the platform and reviewing the optimal medium term strategic platform solution. Hosting of the servers is outsourced to Rackspace, payments are processed by Secure Trading and fraud checking via Red. The Sporting Pro ecommerce platform is provided by Magento. Hosting of the servers is outsourced to UKFast, payments are processed by Sage Pay and fraud checking via DataCash.

Our distribution centers use WMoS to manage inventory. WMoS is designed to improve order fulfilment and reduce order cycle time through efficient picking. This is currently being upgraded as part of the Singles supply chain program.

We use Capgemini to manage our information security, including the backup of the data stored in our customer database and other key business systems.

We have visibility of customer activity and can differentiate how a customer behaves across different channels. This "single customer view" capability further extends to the tills, where store colleagues can capture real time information about customers, customer registrations and targeted marketing. The platforms that deliver this capability are SAS, Epos and SQL Server.

## **Intellectual Property**

We own the rights to the Matalan name, which is our most important trademark and which we have registered in over 15 countries and with the European Community Trademark and International Trademark Registration. We use the Matalan name as a trade name, as a trademark in connection with certain merchandise and as a service mark. We have also registered numerous trademarks in connection with our own brands and related products in the UK and abroad. We license our registered trademarks to our franchise partners as appropriate for use in their franchise territories. We also license certain brands from third parties, including the *Disney* brand. We have registered variations of the "Matalan" domain name and other domain names with the appropriate authorities in the UK and abroad. In general, we own the copyrights in the designs created or commissioned by us. We also own certain intellectual property rights with respect to our customer database. We have no material patents. We regard our trademarks and other intellectual property as valuable assets in the marketing of our products and take appropriate action when necessary to protect them.

## **Employees**

*Our Workforce.* As of March 1, 2014, we employed approximately 15,500 employees across our business, with approximately 710 employees working from our head office in Skelmersdale, approximately 1,050 working at our distribution centers/transport division and the remainder working in our store locations. Over the course of the 2013

Christmas period, we employed approximately 3,750 additional temporary employees at various stages. Our workforce is comprised of approximately 25% full-time employees, with the remainder working a variety of part-time schedules.

*Employee and Labor Relations.* We have three agreements in place with the GMB union; one which covers the Skelmersdale distribution center and Knowsley warehouse, another which covers the Southern distribution center in Corby and the third covering our transport staff. The agreements have been in place since 2003 and although they do not have expiry dates, we periodically review the terms for potential updates. We believe our relations with our employees and the GMB union are both good and have not experienced any significant labor disputes or work stoppages.

In July 2012, we commenced consultation with the unions regarding the proposed move to the new Knowsley site and are meeting with the union and employee representatives regularly.

*Salary, Benefits and Pension Scheme.* We pay competitive wages within our sector, and evaluate employees for increases in salary on the basis of the individual's performance, with pay rises being awarded on the basis of increased responsibility either through an expansion of their current role or through promotion. In addition to their salary, all permanent staff are eligible for a bonus or incentives each year that are based on our overall profits. We offer a pension scheme to all eligible employees in accordance with the Government's auto-enrollment provisions. We operate a scheme with Friends Life for head office staff, distribution center and transport management and store management. A scheme is provided with The People's Pension for retail and distribution operations staff. We currently contribute 1% of salary for all employees who have not opted out of the applicable scheme, in accordance with the legislative requirements.

## **Insurance**

We maintain insurance to cover risks associated with the ordinary operation of our business, including general liability, property coverage, terrorism and workers' compensation insurance. We insure our headquarters, distribution centers and stores against such hazards as fire, explosion, theft, flood, mischief and accidents. All of our policies are underwritten with reputable insurance providers and we conduct periodic reviews of our insurance coverage, both in terms of coverage limits and deductibles. We believe that our insurance coverage is sufficient for the risks associated with our operations.

## **Environmental Matters**

We are subject to numerous supra-national, national and local environmental laws and regulations. We believe that we are currently in substantial compliance with all applicable environmental and safety regulations. These environmental, health and safety laws and regulations are constantly changing, however, as are the priorities of those who enforce them. See "Risk Factors Relating to Our Business—We are subject to numerous statutes and regulations and complaints from customers and other third parties that could affect us".

## **Regulatory Matters**

Our customer database is subject to numerous laws, including laws in relation to data protection. It is uncertain what impact, if any, further changes to data protection regulations could have on our operations, and future changes in the requirements or enforcement and interpretation of these regulations may have a material adverse effect on our business, financial condition or results of operations.

We are also subject to governmental regulation from UK, European Union and other international regulatory authorities concerning, among other things, export and import quotas and other customs regulations; consumer and data protection; the advertisement, promotion and sale of merchandise; product safety; the health, safety and working conditions of our employees; the safety of our stores and their accessibility for the disabled; and our competitive and marketplace conduct. We believe that we are in compliance in all material respects with these regulations. We cannot assure you, however, that any future changes in the requirements or mode of enforcement of these laws and regulations will not have a material adverse effect on our business, financial condition or results of operations. See "Risk Factors Relating to Our Business—We are subject to numerous statutes and regulations and complaints from customers and other third-parties that could affect us".

## **Legal Proceedings**

We become involved from time to time in various claims and lawsuits arising in the ordinary course of our business, such as employee claims, disputes with our suppliers and intellectual property disputes. Like other fashion retailers, we sell products which are influenced by the work of various designers. As a result, from time to time, allegations of intellectual property infringement, particularly copyright and design right infringement are made against us. We are not currently involved in any legal proceedings which, either individually or in the aggregate, are expected to

have a material adverse effect on our financial position or results of operations. We note, however, that the outcome of legal proceedings can be extremely difficult to predict, and we offer no assurances in this regard.

## MANAGEMENT

### *Board of Directors*

The Board of Directors of TopCo is appointed by the shareholders at the annual general meeting. The Board of Directors of the Issuer consists of the same members as the Board of TopCo.

On the date of this Bondholder Report, the Board comprised the following members:

<b>Office</b>	<b>Name</b>	<b>First appointment date</b>
Chairman .....	Allan Leighton	February 18, 2013
Deputy Chairman.....	John Mills	January 1, 2007
Managing Director.....	Jason Hargreaves	July 12, 2013
Chief Financial Officer .....	Stephen Hill	September 16, 2013
Chief Operating Officer.....	Arnu Misra	March 7, 2013

*Allan Leighton—Chairman.* Allan Leighton has served as Chairman of Matalan since 2013. Mr. Leighton has 40 years experience in the retail sector, performing a number of roles including Chairman at Royal Mail, Chief Executive at Asda and Chief Executive Officer of Wal-Mart Europe. More recently he has worked in an advisory and non-executive capacity with both national and global retailers and his current roles include Chief Executive Officer at Pandora Jewelry, Chairman at Office, Pace and Entertainment One, and a non-executive director at Bigham's. Mr. Leighton completed the Advanced Management Program at Harvard University and was awarded an Honorary Degree at Cranfield University in 2004 and an Honorary Fellowship at the University of Lancashire, in 2010.

*John Mills—Deputy Chairman.* John Mills has served as Deputy Chairman of Matalan since 2013, prior to which he served as Chairman from 2007. Mr. Mills qualified as a chartered Accountant and Associate of the Chartered Institute of Taxation after graduating with a mathematics degree from Nottingham University. He retired as a partner in PricewaterhouseCoopers in 2005 after nearly 30 years in the profession to work with the Hargreaves family. He has been an advisor to the Matalan and the Hargreaves family since 1989. He structured Matalan's public-to-private transaction in 2006 and became Chairman in early 2007. John has held and currently holds directorships in a number of small to medium-sized enterprises. John is President of Nottingham University Governing Council and is one of its two Pro Chancellors. He is also a Director of the Torch Academy Gateway Trust.

*Jason Hargreaves—Managing Director.* Jason Hargreaves has served as the Managing Director of Matalan since July 2013. He is the son of Matalan founder John Hargreaves. Mr. Hargreaves has held various positions within Matalan since its inception in 1985, starting in the ladieswear buying team. Mr. Hargreaves then moved into the sourcing department in 2004 before becoming Sourcing Director in 2007. From 2010, Mr. Hargreaves undertook an overseas sourcing role focusing on materials and supplier function before being promoted to Managing Director in July 2013.

*Stephen Hill—Chief Financial Officer.* Stephen Hill has served as Chief Financial Officer of Matalan since 2013, having worked in the business since 2001. Mr. Hill graduated from Warwick University Business School in 1998 with a degree in Management Sciences before becoming an Associate of the Chartered Institute of Management Accountants in 2003, following time spent working as an Accountant in the NHS. During his 13 years with Matalan, Mr. Hill has undertaken roles across the Finance function, including Financial Planning Controller, Head of Finance and Director of Finance. In addition, he undertook roles within the Risk Management function (Business Risk Manager) and Retail (Retail Commercial Manager) areas of the business.

*Arnu Misra—Chief Operating Officer.* Arnu Misra has served as Chief Operating Officer of the Group since 2013, having joined the company earlier that year as Supply Chain Director. Mr. Misra received a first class Bachelor of Engineering degree in 1984, an MBA in 1988 and completed the Executive Development Program for Senior Asda Executives in 2002 and Insead Advanced Management Program in 2005. Mr. Misra has over 27 years experience within the retail and leisure industry, including 16 years with Asda, his most recent roles being Senior Executive Director of New Business and Chairman of Asda Financial Services, Executive Vice President of Loblaw Companies in Canada, and Chief Executive Officer at Cannons Health and Fitness Group.

The business address of each member of the Board is Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB United Kingdom (telephone number: +44 (0)1695 552400).

For the 2014 Fiscal Year, the Group paid the members of the Board an aggregate remuneration (including benefits) of £1.0 million (including a £1.7 million credit in respect of charges for equity settled B Shares).

## General Management

The following table sets forth the senior management of Matalan:

Office	Name
Chief Financial Officer .....	Stephen Hill
Chief Operating Officer .....	Arnu Misra
Sports Managing Director .....	Thomas Knight
IT Director .....	Michelle Barkess
Multi-Channel Marketing Director .....	Lee Pinnington
Retail and HR Director .....	Mike Jeans
Sourcing and Technical Director .....	David Mellett
Merchandising Director .....	Andrew Scott
Buying Director .....	Mitchell Hughes

*Thomas Knight—Sports Managing Director.* Thomas Knight has served as the Managing Director of Sporting Pro since January 2013. Mr. Knight has over 38 years experience and a proven track record within the sports retail industry. In 1983, Mr. Knight established Monument Sports, which he sold to Blacks Leisure in 1987. Following the sale, Mr. Knight joined Blacks Leisure for 15 years as Managing Director before joining JJB Sports as Chief Executive in 2002. Mr. Knight left JJB Sports in 2007 to establish the consultancy firm Knight Consultancy through which he advised a number of sports organizations.

*Michelle Barkess—IT Director.* Michelle Barkess has served as IT Director of Matalan since 2013. She graduated from Sunderland University in 1995 with a degree in Accountancy and Computing before part-qualifying as a Chartered Certified Accountant. Ms Barkess has over 19 years experience managing and implementing information systems. She has worked at Matalan since 2004 and has held a number of positions within the IT and Business Development teams. Prior to Matalan, Ms Barkess worked at Acxiom for 4 years as International Systems Accountant and Program Manager and SCS Plc for 5 years as a Financial Accountant.

*Lee Pinnington—Multi-Channel Marketing Director.* Lee Pinnington has served as Head of Marketing and most recently Multi-Channel Marketing Director for Matalan since 2008. Mr. Pinnington received a Bachelor of Arts degree in Business Studies specializing in marketing from Liverpool John Moores University in 1993 and a Post Graduate Certificate and Post Graduate Diploma in Marketing from John Moores University in 1998. Prior to joining Matalan, Mr. Pinnington worked at Baugur Group for five years, during which time he was responsible for the relaunch and rebranding of the Iceland Retail business. Mr. Pinnington has also held positions at organizations such as Sainsbury's, GUS Home Shopping Group, MBNA and Royal Sun Alliance.

*Mike Jeans—Retail Director.* Mike Jeans has served as Retail Director of Matalan since January 2011. He completed Asda's internal management program in 1986 and started as a sales manager. He worked at Asda for 17 years, rising through various roles to become Head of Central Operations and then Head of Retail Financial Services (Operations), in which capacity he worked until he left in 2002. He then joined Matalan as a Regional Controller before being appointed Regional Director.

*David Mellett—Sourcing and Technical Director.* David Mellett has served as Technical Director at Matalan since 2006 before becoming Sourcing and Technical Director in 2013. He has worked at Matalan since 2003 in various sourcing and technical roles including Corporate Purchasing and Technical Director. He studied clothing engineering at the Hollings Faculty from 1985 - 1988, Manchester Metropolitan. Prior to Matalan, Mr. Mellett worked for a World leading industrial thread and consumer textile crafts business, responsible for technical advisory services on sewing and production solutions. Mr. Mellett has served as an Executive Committee Member for the Association of Suppliers to the British Clothing Industry since 2008.

*Andrew Scott—Merchandising Director.* Andrew Scott has served as a Merchandising Director of the Matalan since 2013. He graduated from Staffordshire University in 2000 with a degree in Business Studies. Mr. Scott has over 13 years experience in the value retail sector including 8 years within Matalan in various merchandising roles, and, prior to this, 3 years within the Peacock Group where he worked to establish a Merchandising function for Bon Marche and leading Group change programs.

*Mitchell Hughes—Buying Director.* Mitchell Hughes has served as Buying Director of Matalan since 2012. He graduated from Manchester Metropolitan University in 1997 with a degree in Clothing Marketing and Distribution. Mr. Hughes has worked at Matalan since 2005, starting as a senior buyer in menswear, and then promoted to buying manager. In 2010 he took on the role of head buying for Kids/Mens Division and in 2012 he was promoted to Buying Director Clothing and Home. Within this new role, he took over responsibility for the development of Matalan's

ladieswear, contributing to the transformation of the product offering. Prior to this he worked at Marks and Spencer for 7 years, starting as a Graduate Trainee in retail and working through to buyer within menswear.

The business address for the senior managers is Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB United Kingdom (telephone number: +44 (0)1695 552400).

For the 2014 Fiscal Year, Matalan paid its senior managers aggregate remuneration and other benefits of £1.9 million.

## PRINCIPAL SHAREHOLDERS

The following table sets forth the principal shareholders' equity ownership of TopCo as of the date of this Bondholder Report:

Shareholder	Number of ordinary A shares	Percentage holding of ordinary A shares	Number of ordinary B shares
John Hargreaves.....	80,920,634	46.84%	—
Abacus Trust Company Limited and Colyb Limited <sup>(1)</sup> .....	73,394,756	42.48%	—
Abacus Trust Company Limited <sup>(2)</sup> .....	7,995,069	4.63%	—
John Hargreaves and others <sup>(3)</sup> .....	1,620,815	0.94%	—
John Jason Hargreaves.....	4,444,643	2.57%	—
Jamey Hargreaves.....	4,387,778	2.54%	—
Alistair McGeorge <sup>(4)</sup> .....	—	—	96,000
Matalan Retail Employee Benefit Trust <sup>(4)(5)</sup> .....	—	—	60,000
John Mills.....	—	—	64,000
Paul Gilbert <sup>(5)</sup> .....	—	—	40,000
Jeff Banks.....	—	—	40,000
<b>Total</b> .....	<b>172,763,695</b>	<b>100.00%</b>	<b>300,000</b>

- (1) Abacus Trust Company Limited and Colyb Limited hold these shares as trustees of the John Hargreaves Children's Trust. Mr. Hargreaves and each of the trustees disclaim any beneficial interest in these shares.
- (2) Abacus Trust Company Limited hold these shares as trustees of the John Hargreaves No.2 Settlement. The trustees disclaim any beneficial interest in these shares.
- (3) John Hargreaves, John Haigh Fieldon and Michael Norman Gwynn Evans hold these shares as trustees of the J Hargreaves 1998 Lifetime Settlement. Mr. Fieldon and Mr. Evans disclaim any beneficial interest in these shares.
- (4) On November 1, 2010, Mr. McGeorge ceased to be Chief Executive Officer, thereby triggering an automatic conversion of his 96,000 ordinary B shares into 96,000 Series B1 ordinary shares (retained by Mr. McGeorge) and 96,000 Series B2 ordinary shares (transferred to the Matalan Retail Employee Benefit Trust). The Series B1 ordinary shares and the Series B2 ordinary shares, combined, continue to represent a 32% holding in the ordinary B Shares currently outstanding with the Series B1 ordinary shares embodying the value accrued in Mr. McGeorge's original ordinary B Shares as at November 1, 2010. The Series B2 ordinary shares represent the economic rights allocated to ordinary B Shares after that date. Matalan Retail Employee Benefit Trust holds the 96,000 Series B2 ordinary shares in trust pending a decision to transfer to other members of the existing or future management team.
- (5) On April 16, 2013, Mr. Gilbert ceased to be Finance Director, thereby triggering an automatic conversion of his 40,000 ordinary B Shares into 40,000 Series B1 ordinary shares (retained by Mr. Gilbert) and 40,000 Series B2 ordinary shares (transferred to the Matalan Retail Employee Benefit Trust). The Series B1 ordinary shares and the Series B2 ordinary shares, combined, continue to represent a 13.33% holding in the ordinary B Shares currently outstanding with the Series B1 ordinary shares embodying the value accrued in Mr. Gilbert's original ordinary B Shares as at April 16, 2013. The Series B2 ordinary shares represent the economic rights allocated to ordinary B Shares after that date. Matalan Retail Employee Benefit Trust holds the 40,000 Series B2 ordinary shares in trust pending a decision to transfer to other members of the existing or future management team.

### *Share Classes*

As at March 1, 2014, TopCo had a total outstanding issued share capital of £17,300,369.50, consisting of four classes of ordinary shares, 172,763,695 ordinary A Shares with a par value of £0.10 per share, 164,000 ordinary B shares with a par value of £0.10 per share, 136,000 Series B1 ordinary shares with a par value of £0.05 per share and 136,000 Series B2 ordinary shares with a par value of £0.05 per share.

The A Shares have voting rights whereas the B Shares do not. The majority consent of the holders of the A Shares is required to distribute a dividend. If the holders of the A Shares consent to a dividend payment, the holders of the B shares may be entitled to a proportion of that dividend, subject to the application of a formula set forth in the Articles of Association (the holders of the A Shares receive the balance of profits available for distribution). This formula provides that the B Shares are entitled to a proportion of the dividend only where, after multiplying the previous year's EBIT by 12.5 and subtracting total borrowings, the resulting figure exceeds the equity value at the time of the Take Private Transaction. On a return of capital, the surplus assets and retained profits are distributed according to a similar formula whereby the relative entitlement of the B Shares as a class (including the B1 and B2 shares referred to below) represents 10% of the growth in the value of the A Shares since the Take Private Transaction. This formula is reflected in the entitlement of holders of the B Shares to share in the proceeds of a sale of the company. Since the first issue of the B Shares both Alistair McGeorge and Paul Gilbert have ceased to be employed. These resignations triggered an automatic split of their B Shares into B1 and B2 Shares. Each retained his B1 shares (which embody an entitlement reflecting the growth in the B share value up to his date of departure), while transferring to the Matalan Retail Limited

Employee Benefit Trust the B2 Shares (which carry the entitlement to a proportionate entitlement to future growth of their original tranche of B Shares). See “Principal Shareholders”.

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**Missouri Topco Limited**  
**Directors' Report and Financial Statements**  
**53 weeks ended 1 March 2014**

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**MISSOURI TOPCO LIMITED  
DIRECTORS AND ADVISERS**

**Directors**

A Leighton  
J N Mills  
J J Hargreaves (appointed 13 December 2013)  
S Hill (appointed 16 September 2013)  
A Misra (appointed 7 March 2014)  
D Blackhurst (resigned 16 September 2013)  
P J T Gilbert (resigned 16 April 2013)

**Company secretary**

J N Mills

**Registered office**

3rd Floor  
Natwest House  
Le Truchot  
St Peter Port  
Guernsey  
GY1 1WD

**Independent Auditor**

KPMG LLP  
Chartered Accountants and Statutory Auditor  
St James' Square  
Manchester  
M2 6DS

**Solicitors**

DLA Piper LLP  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3DL  
A O HALL Advocates  
Le Marchant House  
Le Marchant Street  
St Peter Port  
Guernsey  
GY1 2JJ

**Banker**

Lloyds Bank plc  
King Street  
Manchester  
M2 4LQ

## **MISSOURI TOPCO LIMITED**

### **STRATEGIC REPORT FOR THE 53 WEEKS ENDED 1 MARCH 2014**

The directors present their annual strategic report and the audited financial statements for the 53 weeks ended 1 March 2014.

#### **OVERVIEW**

Trading conditions in the UK retail market continue to be challenging. The group delivered a solid trading performance in the period to 1 March 2014 and is well placed in its growth strategy to improve operational effectiveness, revenue and profitability.

#### **Business Review**

Revenue for the period was £1,122.9m (2013: £1,125.4m), a 0.2% decrease compared to the previous period. Revenues were negatively impacted by the adverse weather conditions experienced in early spring. Trading improved over the course of the year, benefiting from availability and range improvements, in particular in Ladieswear.

Gross profit was £121.6m (2013: £127.6m), a 4.7% decrease on the previous period. The conditions experienced in early spring resulted in an increased level of markdowns. Whilst this adversely impacted gross margins, we exited the season with significantly lower levels of terminal stocks than the previous year.

Administrative expenses, pre exceptional items, were £55.3m (2013: £60.4m). The fall in administrative expenses relates to a fair value credit for subscription for 'B' shares (see note 10) and an accelerated amortisation charge incurred in the prior year relating to the commencement of systems architecture rationalization ahead of the launch of the new supply chain program.

Exceptional items, included within administrative expenses, of £6.9m were incurred in the period (2013: £2.0m) refer to note 31.

Operating profit, pre exceptional items, of £66.3m (2013: £67.2m) was a 1.3% decrease on the prior period.

Net finance costs were £47.4m (2013: £46.9m) pre exceptionals.

Additions to property, plant and equipment of £47.2m (2013: £15.3m) and intangible assets of £9.9m (2013: £7.6m) during the period reflect the group's investment in its supply chain, in particular its new distribution centre in Knowsley.

#### **DEVELOPMENT AND PERFORMANCE OF THE BUSINESS**

The group's growth strategy is focused on a number of areas, including:

- Consistent execution of our offer and further development of our range proposition
- Complete and capitalise on our supply chain program
- Delivery of sustainable margin enhancement
- Establish and leverage an ability to operate across multiple channels and formats

#### **Consistent execution of our offer and further development of our range proposition**

The range architecture has been consolidated over the last 12 months to reduce duplication. This change has provided clarity to the customer of the Matalan offer whilst providing an opportunity for improved stock management and availability.

In the period, the group launched "The Statements" in ladieswear and menswear, a capsule collection of versatile, easy-to-wear, quality pieces, designed to mix and match with minimal effort. Complimenting "The Statements" offer is the "We Love" range which clearly signposts our fashion inspired offer to the customer.

## **Complete and capitalise on our supply chain program**

The group sources the majority of products directly from manufacturers, predominantly based in the Far East and Turkey. A direct relationship with suppliers allows improved negotiations to obtain better prices for products whilst at the same time ensuring high levels of quality.

Work continues on the re-engineering of the group's supply chain to move to single stock unit replenishment, creating opportunities for both improved stock management and margin growth. During the period to 1 March 2014, the group continued the development of a new distribution centre based in Knowsley. The new distribution centre is leased (see note 30) and expenditure on the centre has been capitalised (see note 12).

Development of the group's Southern distribution facility continues with the establishment of a temporary secondary site to enable the redevelopment of the existing site. The costs associated with the temporary site have been expensed and treated as exceptional (see note 31).

## **Delivery of sustainable margin enhancement**

During the period, the group initiated a strategic review of opportunities to generate margin improvement in the business. The group engaged an external consultancy firm to assist in the review which will initially focus on price architecture, performance and profitability analysis tools, in-season promotion and store grading optimisation tools. The sustainable improvements to both sales and margin performance are anticipated to be realised in late 2014 and 2015.

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

The group's online channel recorded a 32.9% increase in revenues on the previous period with 50% of online turnover now via the "Click and Collect" capability where online orders are collected in store. The introduction of a fully mobile optimised website has contributed to year on year revenue growth and improvements in sale conversion rates.

Online sales now represent 3.9% of turnover. Work has commenced on the launch of a new mobile loyalty application which will further strengthen the group's multichannel offering.

In October 2013, the group opened a new concept store in Liverpool city centre. The store sits just off the main thoroughfare, next to major competitors and trades from a net space of over 40% less than the average Matalan store. The success of this store, coupled with range improvements, has been encouraging with an additional city centre store signed and due to open in Cardiff in 2014.

In addition, in autumn 2013, the group launched its new sports concept, Sporting Pro, a new UK sports retail brand. Sporting Pro provides sportswear, equipment and accessories for the whole family both in store and through its e-commerce channel.

At 1 March 2014, there were 9 new standalone Sporting Pro stores trading and segmented space in a further 5 existing Matalan stores converted over to Sporting Pro. These sites have their own entrance, facilities and branding.

In the 53 weeks ended 1 March 2014, we changed the location of 2 Matalan stores and opened a new full price Matalan store in Exeter, converting the existing Exeter site into a clearance store.

## **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 focused 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 significant program of change, in particular the re-engineering its supply chain to move to single stock unit replenishment and the relocation of its existing distribution centre in Skelmersdale to a new centre in Knowsley.

To mitigate risks of change, the program is being managed in line with best practice program management principles and supported by third-party experts. The program of change includes a phased transition into the new distribution centre, with specific milestone points to review progress against plan.

**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.

**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 12 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 reduced by 5% to £95.4m (2013: £100.4m).

By order of the board

S Hill  
**Director**  
30 April 2014

**MISSOURI TOPCO LIMITED**  
**DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 1 MARCH 2014**

The directors present their report for the 53 weeks ended 1 March 2014.

**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.

**DIVIDENDS**

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

**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 for the next financial year, and other long term plans, 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 revolving credit facility available but not drawn down on at year end are provided in note 19.

Whilst the maturity profile of the existing Senior Secured and Senior notes (see note 19) extends into 2016 and 2017 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 decision to adopt merger accounting to reflect the change in ownership of Matalan in 2007, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. The accounts of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and 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.

**DONATIONS**

During the period the group made charitable donations of £178,418 (2013: £28,536).

**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 1 March 2014 were 33 days (2013: 46 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**  
**30 April 2014**

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT,**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards, of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period.

In preparing those 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 and the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of 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 1st March 2014 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 9, 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 1 March 2014 and of its profit 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.

**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.

Jonathan Hurst for and on behalf of

KPMG LLP

*Chartered Accountants and Recognised Auditor*

St James Square  
Manchester  
M2 6DS

1 May 2014

**MISSOURI TOPCO LIMITED**  
**INCOME STATEMENT**

	Note	Group		Company	
		53 weeks ended 1 March 2014 £'m	52 weeks ended 23 February 2013 £'m	53 weeks ended 1 March 2014 £'m	52 weeks ended 23 February 2013 £'m
Revenue .....	5	<b>1,122.9</b>	1,125.4	—	—
Cost of sales .....	5	<b>(1,001.3)</b>	(997.8)	—	—
<b>Gross profit .....</b>	<b>5</b>	<b>121.6</b>	127.6	—	—
Administrative expenses (including exceptional items) .....	5	<b>(62.2)</b>	(62.4)	<b>0.1</b>	(0.3)
<b>Operating profit/(loss) .....</b>	<b>5</b>	<b>59.4</b>	65.2	<b>0.1</b>	(0.3)
Operating profit/(loss) pre exceptional items.....		<b>66.3</b>	67.2	<b>0.1</b>	(0.3)
Exceptional items.....	31	<b>(6.9)</b>	(2.0)	—	—
<b>Operating profit/(loss) .....</b>		<b>59.4</b>	65.2	<b>0.1</b>	(0.3)
Finance costs.....	6	<b>(48.0)</b>	(47.7)	—	—
Exceptional financing costs .....	6, 31	—	(0.5)	—	—
Finance income .....	6	<b>0.6</b>	0.8	—	—
<b>Net finance costs.....</b>		<b>(47.4)</b>	(47.4)	—	—
<b>Profit/(loss) before income tax .....</b>	<b>10</b>	<b>12.0</b>	17.8	<b>0.1</b>	(0.3)
Income tax expense.....	11	<b>(2.1)</b>	(4.3)	—	—
<b>Profit/(loss) for the period .....</b>		<b>9.9</b>	13.5	<b>0.1</b>	(0.3)

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

	Group	
	53 weeks ended 1 March 2014 £'m	52 weeks ended 23 February 2013 £'m
<b>Profit for the period</b> .....	<b>9.9</b>	13.5
<b>Other comprehensive (expenditure)/income:</b>		
Cash flow hedges .....	(56.7)	17.7
Tax element of cash flow hedges .....	<b>12.0</b>	(4.0)
Other comprehensive (expenditure)/income for the period, net of tax .....	<b>(44.7)</b>	13.7
<b>Total comprehensive (expenditure)/income for the period</b> .....	<b>(34.8)</b>	27.2

The company has no other comprehensive expenditure other than the profit for the period.

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

	Note	Group		Company	
		2014 £'m	2013 £'m	2014 £'m	2013 £'m
<b>Assets</b>					
Property, plant and equipment .....	12	<b>176.6</b>	152.0	—	—
Intangible assets .....	13	<b>21.1</b>	17.7	—	—
Investments .....	14	—	—	<b>457.2</b>	457.7
Deferred income tax asset .....	11	—	0.4	—	—
Financial assets—derivative financial instruments .....	22	—	4.8	—	—
Trade and other receivables .....	16	<b>5.2</b>	—	—	—
<b>Total non-current assets</b> .....		<b>202.9</b>	174.9	<b>457.2</b>	457.7
Inventories—goods for resale .....	15	<b>135.3</b>	140.7	—	—
Trade and other receivables .....	17	<b>28.4</b>	23.0	<b>30.0</b>	30.0
Financial assets—derivative financial instruments .....	22	—	16.9	—	—
Cash and cash equivalents .....	18	<b>71.9</b>	120.7	—	—
<b>Total current assets</b> .....		<b>235.6</b>	301.3	<b>30.0</b>	30.0
<b>Total assets</b> .....		<b>438.5</b>	476.2	<b>487.2</b>	487.7
<b>Liabilities</b>					
Financial liabilities—derivative financial instruments .....	22	<b>(26.2)</b>	—	—	—
Trade and other payables .....	20	<b>(139.0)</b>	(171.0)	<b>(59.6)</b>	(59.7)
Current income tax liabilities .....		<b>(3.0)</b>	(4.8)	—	—
Provisions for other liabilities and charges .....	23	<b>(4.1)</b>	(1.3)	—	—
<b>Total current liabilities</b> .....		<b>(172.3)</b>	(177.1)	<b>(59.6)</b>	(59.7)
Financial liabilities—borrowings .....	19	<b>(466.9)</b>	(463.7)	—	—
Financial liabilities—derivative financial instruments .....	22	<b>(13.2)</b>	—	—	—
Trade and other payables .....	21	<b>(42.0)</b>	(40.0)	—	—
Deferred income tax liabilities .....	11	<b>(0.6)</b>	(15.6)	—	—
Provisions for other liabilities and charges .....	23	<b>(3.0)</b>	(4.0)	—	—
<b>Total non-current liabilities</b> .....		<b>(525.7)</b>	(523.3)	—	—
<b>Total liabilities</b> .....		<b>(698.0)</b>	(700.4)	<b>(59.6)</b>	(59.7)
<b>Net (liabilities)/assets</b> .....		<b>(259.5)</b>	(224.2)	<b>427.6</b>	428.0
<b>Shareholders' (deficit)/equity</b>					
Share capital .....	24	<b>17.3</b>	17.3	<b>17.3</b>	17.3
Share premium .....		<b>385.6</b>	385.6	<b>385.6</b>	385.6
Hedge reserve .....		<b>(29.4)</b>	15.3	—	—
Merger reserve .....		<b>(774.3)</b>	(774.3)	—	—
Warrant reserve .....		<b>3.1</b>	3.1	—	—
Capital redemption reserve .....		<b>5.7</b>	5.7	<b>4.6</b>	4.6
Retained earnings .....		<b>132.5</b>	123.1	<b>20.1</b>	20.5
<b>Total shareholders' (deficit)/equity</b> .....		<b>(259.5)</b>	(224.2)	<b>427.6</b>	428.0

The financial statements on pages 12 to 53 were approved by the Board of Directors on 30 April 2014 and signed on its behalf by:

J Mills  
**Director**  
Missouri Topco Limited  
Registered number: 00045618

S Hill  
**Director**

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF CASH FLOWS**

	Note	Group	
		2014 £'m	2013 £'m
<b>Cash flows from operating activities</b>			
Cash generated from operations.....	25	<b>57.6</b>	94.9
Interest paid .....		<b>(43.4)</b>	(44.7)
Tax paid .....		<b>(6.6)</b>	(4.7)
<b>Net cash generated from operating activities .....</b>		<b>7.6</b>	45.5
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment .....		<b>(46.1)</b>	(15.3)
Purchases of intangible assets.....		<b>(10.9)</b>	(6.4)
Interest received.....		<b>0.6</b>	0.7
<b>Net cash used in investing activities .....</b>		<b>(56.4)</b>	(21.0)
Net (decrease)/increase in cash and cash equivalents .....		<b>(48.8)</b>	24.5
Cash and cash equivalents at the beginning of the period.....		<b>120.7</b>	96.2
<b>Cash and cash equivalents at the end of the period .....</b>	18	<b>71.9</b>	120.7

The company had no cash flows in 2014 (2013: none)

**MISSOURI TOPCO LIMITED**  
**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	Retained earnings £'m	Total equity £'m
As at 26 February								
2012 .....	17.3	385.6	(774.3)	1.6	5.7	3.1	108.9	(252.1)
<b>Comprehensive income</b>								
Profit for the period ....	—	—	—	—	—	—	13.5	<b>13.5</b>
<b>Total profit for the period .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.5</b>	<b>13.5</b>
<b>Other comprehensive expenditure</b>								
Cash flow hedges								
—fair value gain in the period .....	—	—	—	19.5	—	—	—	<b>19.5</b>
—transfers to inventory .....	—	—	—	(1.8)	—	—	—	<b>(1.8)</b>
—tax element of cash flow hedges .....	—	—	—	(4.0)	—	—	—	<b>(4.0)</b>
Total cash flow hedges, net of tax ....	—	—	—	13.7	—	—	—	<b>13.7</b>
<b>Total other comprehensive expenditure, net of tax .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.7</b>
<b>Transactions with owners</b>								
Fair value charge for subscription for 'B' shares .....	—	—	—	—	—	—	0.7	<b>0.7</b>
<b>Total transactions with owners.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.7</b>	<b>0.7</b>
As at 23 February								
2013 .....	<b>17.3</b>	<b>385.6</b>	<b>(774.3)</b>	<b>15.3</b>	<b>5.7</b>	<b>3.1</b>	<b>123.1</b>	<b>(224.2)</b>

**MISSOURI TOPCO LIMITED**  
**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	Retained earnings £'m	Total equity £'m
As at 24 February 2013...	17.3	385.6	(774.3)	15.3	5.7	3.1	123.1	(224.2)
<b>Comprehensive income</b>								
Profit for the period.....	—	—	—	—	—	—	9.9	9.9
<b>Total profit for the period</b> .....	—	—	—	—	—	—	9.9	9.9
<b>Other comprehensive income</b>								
Cash flow hedges								
—fair value gain in the period .....	—	—	—	(61.1)	—	—	—	(61.1)
—transfers to inventory ..	—	—	—	4.4	—	—	—	4.4
—tax element of cash flow hedges .....	—	—	—	12.0	—	—	—	12.0
Total cash flow hedges, net of tax .....	—	—	—	(44.7)	—	—	—	(44.7)
<b>Total other comprehensive income, net of tax</b> .....	—	—	—	(44.7)	—	—	—	(44.7)
<b>Transactions with owners</b>								
Fair value credit for subscription for 'B' shares .....	—	—	—	—	—	—	(0.5)	(0.5)
<b>Total transactions with owners</b> .....	—	—	—	—	—	—	(0.5)	(0.5)
As at 1 March 2014 .....	17.3	385.6	(774.3)	(29.4)	5.7	3.1	132.5	(259.5)

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Company	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity £'m
As at 26 February 2012.....	17.3	385.6	4.6	20.1	427.6
<b>Comprehensive expenditure</b>					
Loss for the period.....	—	—	—	(0.3)	(0.3)
<b>Total comprehensive expenditure</b> .....	—	—	—	(0.3)	(0.3)
<b>Transactions with owners</b>					
Fair value charge to group undertakings for subscription for 'B' shares .....	—	—	—	0.7	0.7
<b>Total transactions with owners</b> .....	—	—	—	0.7	0.7
As at 23 February 2013.....	17.3	385.6	4.6	20.5	428.0
As at 24 February 2013.....	17.3	385.6	4.6	20.5	428.0
<b>Comprehensive income</b>					
Profit for the period .....	—	—	—	0.1	<b>0.1</b>
<b>Total comprehensive income</b> .....	—	—	—	0.1	<b>0.1</b>
<b>Transactions with owners</b>					
Fair value charge to group undertakings for subscription for 'B' shares .....	—	—	—	(0.5)	<b>(0.5)</b>
<b>Total transactions with owners</b> .....	—	—	—	(0.5)	<b>(0.5)</b>
<b>As at 1 March 2014</b> .....	<b>17.3</b>	<b>385.6</b>	<b>4.6</b>	<b>20.1</b>	<b>427.6</b>

## 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 Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB.

#### 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.

##### **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 have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) which are recognised at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There are no areas involving a higher degree of judgement of complexity, or where assumptions and estimates are significant to the financial statements.

##### **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: Classification and Measurement (2010)
- IFRS 10 Consolidated Financial Statements (2011)
- IAS 27 Separate Financial Statements (2011)
- Amendments to IAS 32 Offsetting financial assets and financial liabilities
- Amendments to IAS 39 Continuing hedge accounting after derivative novations

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

##### **Going concern**

After reviewing the group's and company's budget for the next financial period and other long term plans, 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 revolving credit facility available but not drawn down on at year end are provided in note 19.

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 1 March 2014, the group is in a net current asset position and therefore has adequate liquid resources to pay its liabilities as they fall due. The financial statements of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and balance sheet strength of the trading group.

## **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. 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.

## **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.

## **Finance income**

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

## **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.

## **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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **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.

## **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.

## **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 dependant 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.

## **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.

## **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.

### **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**

**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.

**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.

**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.

**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.

**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.

**Share capital policy**

Ordinary shares are classified as equity.

**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.

## **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.

## **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.

## **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 and circa 60% of purchases over 12 months of anticipated cash flows in respect of the purchase of inventory. 100% (2013: 100%) of projected purchases in US dollars qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 1 March 2014, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, there would be a £2.3m impact on post-tax profit for the year, (2013: £0.3m higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar—denominated stock commitments.

##### **(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 0.79% (2013: 0.90%).

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

The impact on profit or loss of a 10 basis-point shift in LIBOR with all other variables held constant would be a maximum increase/decrease of £nil (2013: £nil).

During 2013 and 2014, 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 19) and cash and cash equivalents (note 18) on the basis of expected cash flow. This is generally carried out at a local level in the operating companies of the group in accordance with practice and limits set by the group. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the 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
<b>At 23 February 2013</b>				
Borrowings (before deduction of £11.3m issue costs) including interest payable.....	(43.9)	(43.9)	(562.4)	—
Derivative financial instruments.....	—	—	—	—
Trade and other payables.....	(171.0)	(3.2)	(11.6)	(25.2)
Provisions for other liabilities and charges.....	(1.3)	(1.2)	(1.2)	(1.6)
	(216.2)	(48.3)	(575.2)	(26.8)
<b>At 1 March 2014</b>				
Borrowings (before deduction of £8.1m issue costs) including interest payable.....	(43.9)	(43.9)	(518.6)	—
Derivative financial instruments.....	(26.2)	(13.2)	—	—

Trade and other payables .....	(139.0)	(4.4)	(13.4)	(24.2)
Provisions for other liabilities and charges .....	(4.1)	(0.8)	(1.2)	(1.0)
	<b>(213.2)</b>	<b>(62.3)</b>	<b>(533.2)</b>	<b>(25.2)</b>

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 23 February 2013				
Cash flow hedges:				
Inflows .....	16.9	4.8	—	—
Outflows .....	—	—	—	—
	16.9	4.8	—	—
<b>At 1 March 2014</b>				
Cash flow hedges:				
Inflows .....	—	—	—	—
Outflows .....	(26.2)	(13.2)	—	—
	<b>(26.2)</b>	<b>(13.2)</b>	—	—

### 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.

	2014 £'m	2013 £'m
<b>Group net debt</b>		
Total borrowings (net of issue costs) .....	<b>466.9</b>	463.7
Less: Cash and cash equivalents .....	<b>(71.9)</b>	(120.7)
<b>Net debt</b> .....	<b>395.0</b>	343.0
<b>Adjusted total capital</b> .....	<b>514.8</b>	550.1
<b>Gearing ratio</b> .....	<b>77%</b>	62%

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, interest cover and debt cover, during the year. The group has complied with bank covenants throughout the year.

### 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 1 March 2014:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
<b>Assets</b>				
Cash flow hedges.....	—	—	—	—
<b>Total assets</b> .....	—	—	—	—
<b>Liabilities</b>				
Cash flow hedges.....	—	(39.4)	—	(39.4)
<b>Total liabilities</b> .....	—	(39.4)	—	(39.4)

The following represents the group's assets and liabilities that are measured at fair value at 23 February 2013:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
<b>Assets</b>				
Cash flow hedges.....	—	21.7	—	21.7
<b>Total assets</b> .....	—	21.7	—	21.7
<b>Liabilities</b>				
Cash flow hedges.....	—	—	—	—
<b>Total liabilities</b> .....	—	—	—	—

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

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

#### 4. Critical accounting estimates and judgements

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

As at the 1 March 2014, the group has not applied any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### 5. Operating profit

	2014 £'m	2013 £'m
<b>Revenue</b> .....	<b>1,122.9</b>	1,125.4
Cost of goods sold.....	(627.6)	(626.6)
Selling expenses.....	(336.7)	(333.3)
Distribution expenses.....	(37.0)	(37.9)
Total cost of sales.....	(1,001.3)	(997.8)
<b>Gross profit</b> .....	<b>121.6</b>	127.6
Administrative expenses pre exceptional items.....	(55.3)	(60.4)
Exceptional items (note 31).....	(6.9)	(2.0)
Administrative expenses.....	(62.2)	(62.4)
<b>Operating profit</b> .....	<b>59.4</b>	65.2

#### 6. Net finance costs

	Group	
	2014 £'m	2013 £'m
Finance costs and similar charges:		
Interest payable on notes.....	(44.7)	(42.9)
Amortisation of finance costs:		
Notes costs.....	(3.3)	(3.2)
Other interest payable.....	0.4	(0.9)
Unwinding of discounts on provision.....	(0.4)	(0.7)
<b>Finance costs</b> .....	<b>(48.0)</b>	(47.7)
<b>Exceptional financing costs</b> .....	—	(0.5)

Finance income:		
Interest receivable on short term cash deposits.....	<b>0.6</b>	0.8
<b>Finance income</b> .....	<b>0.6</b>	0.8
<b>Net finance costs</b> .....	<b>(47.4)</b>	(47.4)

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

## 7. 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:

	2014	2013
	£'m	£'m
Aggregate emoluments and fees (including benefits in kind).....	<b>1.7</b>	1.1
Performance bonuses and other emoluments.....	<b>(0.7)</b>	0.9
	<b>1.0</b>	2.0

No directors have benefits accruing under defined benefit or defined contribution pension schemes. Under arrangements for selected individuals to subscribe for equity settled "B" shares, a credit has been made to the income statement of £(0.5m) (2013: £0.7m charge). The £(0.5m) credit to the income statement comprises a credit of £(2.3m) within administrative expenses and a charge of £1.8m within exceptional items (see note 31). Of the £(2.3m) credit within administrative expenses, £(1.3m) credit is included in performance bonuses and other emoluments above.

Amounts paid to the highest paid director:

	2014	2013
	£'m	£'m
Aggregate emoluments .....	<b>1.0</b>	0.7
Performance bonuses and other emoluments.....	<b>0.8</b>	0.9
	<b>1.8</b>	1.6

**MISSOURI TOPCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**8. Employee information**

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

	2014 Number	2013 Number
<b>By function</b>		
Selling and distribution.....	15,324	15,726
Administration.....	671	647
	<b>15,995</b>	<b>16,373</b>
	2014 £'m	2013 £'m
<b>Staff costs (for the above persons)</b>		
Wages and salaries.....	142.6	141.4
Social security costs.....	6.5	6.7
Other pension costs.....	0.8	—
Share based compensation charge .....	(0.5)	0.7
Termination payments .....	1.6	1.3
	<b>151.0</b>	<b>150.1</b>

The company does not have any employees (2013: none).

**9. 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 £95.4m (2013: £100.4m). This can be reconciled to statutory operating profit as follows:

	2014 £'m	2013 £'m
Operating profit .....	59.4	65.2
Depreciation and amortisation .....	29.1	33.2
Exceptional items.....	6.9	2.0
<b>EBITDA before exceptional items.....</b>	<b>95.4</b>	<b>100.4</b>

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

Whilst the e-commerce business represents a significant opportunity for future growth within the 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.

**10. Profit before income tax**

	Group	
	2014 £'m	2013 £'m
Profit on ordinary activities before tax is stated after charging/(crediting):		

Cost of inventories recognised as an expense (included in cost of sales) .....	<b>650.0</b>	645.1
Depreciation charge for the period on property, plant and equipment.....	<b>22.6</b>	23.3
Amortisation of intangible assets.....	<b>6.5</b>	9.9
Fair value credit for subscription for 'B' shares .....	<b>(2.7)</b>	—
Exceptional items (note 31) .....	<b>6.9</b>	2.0
Foreign exchange differences .....	<b>(26.1)</b>	(24.9)
Fees payable to the group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies..	<b>0.1</b>	0.1
for taxation compliance services.....	<b>0.1</b>	0.1
for taxation advisory services .....	<b>0.2</b>	—
for all other services.....	<b>—</b>	0.1
Operating lease rentals payable .....	<b>100.9</b>	97.7

The fair value credit for subscription for 'B' shares arose following a revision in the expected vesting period of the shares held by the B shareholders.

The audit fee for the company amounting to £2,000 (2013: £2,000) is borne by a fellow group company. The total group audit fee is £0.1m (2013: £0.1m). 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 as the information is required instead to be disclosed on a consolidated basis.

## 11. Income tax expense

### Analysis of expense

	Group	
	2014	2013
	£'m	£'m
<b>Current income tax</b>		
UK corporation tax—current year .....	<b>5.1</b>	8.4
UK corporation tax—prior year.....	<b>(0.3)</b>	(1.4)
	<b>4.8</b>	7.0
<b>Deferred income tax</b>		
Deferred income tax relating to the origination and reversal of temporary differences.....	<b>(0.5)</b>	(1.4)
Effect of change in income tax rates.....	<b>(1.2)</b>	(1.0)
Adjustment in respect of prior periods.....	<b>(1.0)</b>	(0.3)
	<b>(2.7)</b>	(2.7)
<b>Total income tax expense</b> .....	<b>2.1</b>	4.3

The group income tax charge for the period is lower than (2013: same as) the rate of corporation tax of 23.10% (2013: 24.17%). The rate of corporation tax is based on a weighted average rate. The standard rate of Corporation Tax reduced from 24% to 23% on 1 April 2013 (26% to 24% on 1 April 2012).

The differences are explained below:

	Group	
	2014	2013
	£'m	£'m
Profit on ordinary activities before income tax.....	<b>12.0</b>	17.8
Profit on ordinary activities multiplied by the rate of corporation tax of 23.10% (2013: 24.17%) .....	<b>2.7</b>	4.3
Effects of:		
Non deductible expenses .....	<b>1.6</b>	2.3
Adjustments to income tax in respect of prior periods .....	<b>(1.3)</b>	(1.7)
Change in rate of income tax on deferred income tax .....	<b>(1.2)</b>	(1.0)
Deferred income tax not recognised .....	<b>0.3</b>	0.4
<b>Total income tax expense in the period</b> .....	<b>2.1</b>	4.3

### Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 20% (2013: 23%).

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

	Group	
	2014 £'m	2013 £'m
At the beginning of the period .....	(15.2)	(13.9)
Taken to equity:		
—hedge reserve .....	12.0	(4.0)
Taken to income statement:		
—prior year movement .....	1.0	0.3
—depreciation in advance of capital allowances .....	0.3	1.4
—other temporary differences .....	—	—
– change in rate of income tax .....	1.3	1.0
<b>At the end of the period .....</b>	<b>(0.6)</b>	<b>(15.2)</b>

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

	Assets		Liabilities		Net	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Property, plant and equipment .....	—	—	(6.6)	(9.0)	(6.6)	(9.0)
Rolled over capital gain .....	—	—	(1.7)	(2.0)	(1.7)	(2.0)
Short-term temporary differences .....	0.3	0.4	—	—	0.3	0.4
Financial derivatives .....	7.4	—	—	(4.6)	7.4	(4.6)
<b>Net deferred income tax assets/(liabilities) .....</b>	<b>7.7</b>	<b>0.4</b>	<b>(8.3)</b>	<b>(15.6)</b>	<b>(0.6)</b>	<b>(15.2)</b>

In his budget of 20 March 2013, the Chancellor of the Exchequer announced tax changes including phased reductions in the corporation tax rate to 20% from 1 April 2015.

At 1 March 2014 the rate change to 20% from 1 April 2015 had been substantively enacted and it is this rate which is reflected in the disclosure of the deferred income tax.

A deferred income tax asset of £1.2m in relation to losses has not been recognised on the basis that there is uncertainty regarding its future recoverability.

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
At 26 February 2012 .....	—	0.5	0.5
Expensed to the income statement .....	—	(0.1)	(0.1)
Taken directly to equity .....	—	—	—
<b>At 23 February 2013 .....</b>	<b>—</b>	<b>0.4</b>	<b>0.4</b>
At 24 February 2013 .....	—	0.4	0.4
Expensed to the income statement .....	—	(0.1)	(0.1)
Taken directly to equity .....	7.4	—	7.4
<b>At 1 March 2014 .....</b>	<b>7.4</b>	<b>0.3</b>	<b>7.7</b>

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
At 26 February 2012 .....	(12.0)	(1.8)	(0.6)	(14.4)
Credited to the income statement .....	3.0	(0.2)	—	2.8
Taken directly to equity .....	—	—	(4.0)	(4.0)
<b>At 23 February 2013 .....</b>	<b>(9.0)</b>	<b>(2.0)</b>	<b>(4.6)</b>	<b>(15.6)</b>
At 24 February 2013 .....	(9.0)	(2.0)	(4.6)	(15.6)
Credited to the income statement .....	2.4	0.3	—	2.7

Taken directly to equity .....	—	—	4.6	4.6
<b>At 1 March 2014</b> .....	<b>(6.6)</b>	<b>(1.7)</b>	<b>—</b>	<b>(8.3)</b>

## 12. 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
<b>Cost</b>					
At 26 February 2012 .....	153.4	1.5	210.2	—	365.1
Additions .....	4.9	—	10.4	—	15.3
Disposals .....	—	—	(1.4)	—	(1.4)
At 23 February 2013 .....	158.3	1.5	219.2	—	379.0
At 24 February 2013 .....	158.3	1.5	219.2	—	379.0
Additions .....	6.3	—	17.0	23.9	47.2
Disposals .....	—	—	—	—	—
<b>At 1 March 2014</b> .....	<b>164.6</b>	<b>1.5</b>	<b>236.2</b>	<b>23.9</b>	<b>426.2</b>
<b>Accumulated depreciation</b>					
At 26 February 2012 .....	63.0	1.4	140.7	—	205.1
Charge for the period .....	6.6	0.1	16.6	—	23.3
Eliminated in respect of disposals .....	—	—	(1.4)	—	(1.4)
At 23 February 2013 .....	69.6	1.5	155.9	—	227.0
At 24 February 2013 .....	69.6	1.5	155.9	—	227.0
Charge for the period .....	6.9	—	15.7	—	22.6
Eliminated in respect of disposals .....	—	—	—	—	—
<b>At 1 March 2014</b> .....	<b>76.5</b>	<b>1.5</b>	<b>171.6</b>	<b>—</b>	<b>249.6</b>
<b>Net book value</b>					
<b>At 1 March 2014</b> .....	<b>88.1</b>	<b>—</b>	<b>64.6</b>	<b>23.9</b>	<b>176.6</b>
Net book value					
At 23 February 2013 .....	88.7	—	63.3	—	152.0
Net book value					
At 25 February 2012 .....	90.4	0.1	69.5	—	160.0

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.

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**13. Intangible assets**

**Group**

	Brands £'m	Computer software and associated costs £'m	Assets under construction £'m	Total £'m
<b>Cost</b>				
At 26 February 2012.....	1.7	71.6	—	73.3
Additions .....	—	7.6	—	7.6
At 23 February 2013.....	1.7	79.2	—	80.9
At 24 February 2013.....	1.7	79.2	—	80.9
Additions .....	—	7.1	2.8	9.9
<b>At 1 March 2014.....</b>	<b>1.7</b>	<b>86.3</b>	<b>2.8</b>	<b>90.8</b>
<b>Aggregate amortisation</b>				
At 26 February 2012.....	1.7	51.6	—	53.3
Charge for the period.....	—	9.9	—	9.9
At 23 February 2013.....	1.7	61.5	—	63.2
At 24 February 2013.....	1.7	61.5	—	63.2
Charge for the period.....	—	6.5	—	6.5
<b>At 1 March 2014.....</b>	<b>1.7</b>	<b>68.0</b>	<b>—</b>	<b>69.7</b>
<b>Net book value</b>				
<b>At 1 March 2014.....</b>	<b>—</b>	<b>18.3</b>	<b>2.8</b>	<b>21.1</b>
Net book value				
At 23 February 2013.....	—	17.7	—	17.7
Net book value				
At 25 February 2012.....	—	20.0	—	20.0

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

The company has no intangible assets.

**14. Investments**

**Company**

	Investment in subsidiaries £'m
<b>Cost and net book value</b>	
At 26 February 2012.....	457.0
Fair value charge to group undertakings for subscription for 'B' shares.....	0.7
At 23 February 2013.....	457.7
At 24 February 2013.....	457.7
Fair value credit to group undertakings for subscription for 'B' shares.....	(0.5)
<b>At 1 March 2014.....</b>	<b>457.2</b>

A list of principal subsidiary undertakings is given in note 32.

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.

**15. Inventories**

Group	
2014	2013
£'m	£'m

Finished goods .....	<b>135.3</b>	140.7
	<b>135.3</b>	140.7

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £650.0m (2013: £645.1m). During the period the group has written down £nil (2013: £nil) of inventories. No amounts have been written back during the current or prior periods.

The company has no inventories.

#### 16. Trade and other receivables—non current

	Group	
	2014	2013
	£'m	£'m
<b>Non current</b>		
Restricted cash .....	<b>5.2</b>	—
	<b>5.2</b>	—

The restricted cash balance of £5.2m (2013: £nil) relates to cash placed on deposit with one of the group's providers of forward contracts. The deposit is fully accessible by September 2015 when the final forward contract matures.

#### 17. Trade and other receivables—current

	Group	
	2014	2013
	£'m	£'m
Trade receivables .....	<b>7.3</b>	4.3
Prepayments and accrued income .....	<b>16.3</b>	18.7
Restricted cash .....	<b>4.8</b>	—
	<b>28.4</b>	23.0

The restricted cash balance of £4.8m (2013: £nil) relates to cash placed on deposit with one of the group's providers of forward contracts. The cash becomes available in the coming 12 months as the related forward contracts mature.

The company is owed £30.0m by group undertakings at period end (2013: £30.0m).

#### 18. Cash and cash equivalents

	Group	
	2014	2013
	£'m	£'m
Cash at bank and in hand .....	<b>71.9</b>	120.7

The company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.79% (2013: 0.90%) and these deposits have an average maturity period of 1 day (2013: 1 day). All short-term deposits had matured at 1 March 2014 (2013: all). The group's cash and cash equivalents are denominated in sterling.

#### 19. Financial liabilities—borrowings

	Group	
	2014	2013
	£'m	£'m
<b>Non current</b>		
Senior notes (net of £3.6m issue costs (2013: £4.7m)) maturity date 2017 .....	<b>(221.4)</b>	(220.3)
Senior secured notes (net of £4.5m issue costs (2013: £6.6m)) maturity date 2016 .....	<b>(245.5)</b>	(243.4)
	<b>(466.9)</b>	(463.7)

The company has no borrowings.

Borrowings are all denominated in sterling at 1 March 2014. The group had no short-term borrowings during the period (2013: £nil).

The senior notes have a maturity value of £225m at a fixed interest rate of  $9\frac{5}{8}\%$  per annum and the senior secured notes have a maturity value of £250m at a fixed interest rate of  $8\frac{7}{8}\%$  per annum. A proportion of the senior notes are held by shareholders of the Company.

During a prior period, fees of £10.5m associated with the refinancing were incurred and are being amortised over the terms of the facilities.

At the period end the Senior secured notes were trading at a bid price of 102 and the Senior notes were trading at a bid price of 100.

#### Maturity of Senior Notes and Senior Secured Notes

	Group	
	2014 £'m	2013 £'m
Less than one year .....	—	—
One to five years .....	475.0	475.0
	475.0	475.0
Unamortised issue costs .....	(8.1)	(11.3)
	466.9	463.7
Current .....	—	—
Non current .....	466.9	463.7
	466.9	463.7

#### Borrowing facilities

At 1 March 2014 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	
	2014 £'m	2013 £'m
Letters of credit .....	2.7	3.0
Guarantees .....	8.3	8.2
Unused .....	19.0	18.8
	30.0	30.0

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

#### 20. Trade and other payables—current

	Group	
	2014 £'m	2013 £'m
Trade payables .....	(64.0)	(92.9)
Other tax and social security payable .....	(20.8)	(20.7)
Other creditors .....	(6.1)	(8.4)
Accruals .....	(44.4)	(44.6)
Deferred income .....	(3.4)	(4.1)
Dividends payable .....	(0.3)	(0.3)
	(139.0)	(171.0)

The company owes group undertakings £59.6m at the period end (2013: £59.4m). Amounts owed to group undertakings are repayable on demand and therefore presented as current.

#### 21. Trade and other payables—non-current

Group	
2014 £'m	2013 £'m

Accruals and deferred income .....	(42.0)	(40.0)
------------------------------------	--------	--------

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

## 22. Derivative financial instruments

### Group

	2014		2013	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Forward foreign exchange contracts .....	—	(39.4)	21.7	—
Total .....	—	(39.4)	21.7	—
Less non-current portion:				
Forward foreign exchange contracts .....	—	(13.2)	4.8	—
Non-current portion .....	—	(13.2)	4.8	—
Current portion .....	—	(26.2)	16.9	—

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 £(44.7)m (2013: £13.7m). The amount that was transferred from equity to profit and loss in the period was £0.7m (2013: £(0.9)m). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2013: £nil).

### Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 1 March 2014 was £556.6m (23 February 2013: £452.7m).

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

	2014 £'m	2013 £'m
Maturing within one year .....	349.9	358.1
Maturing between one to two years .....	206.7	94.6
	<b>556.6</b>	<b>452.7</b>

The net fair value of losses as at 1 March 2014 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £39.4m (2013: gains of £21.7m). 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:

	2014 £'m	2013 £'m
Maturing within one year .....	(26.2)	16.9
Maturing between one to two years .....	(13.2)	4.8
	<b>(39.4)</b>	<b>21.7</b>

## 23. Provisions for other liabilities and charges

Group	Onerous contracts £'m	Dilapidations provision £'m	Total £'m
At 24 February 2013 .....	(5.3)	—	(5.3)
Utilised in the period .....	1.0	—	1.0
Credited/(charged) to the income statement .....	0.1	(2.9)	(2.8)
<b>At 1 March 2014</b> .....	<b>(4.2)</b>	<b>(2.9)</b>	<b>(7.1)</b>

	2014 £'m	2013 £'m
Analysis of total provisions:		
Non-current .....	(3.0)	(4.0)

Current .....	(4.1)	(1.3)
	(7.1)	(5.3)

Two leases previously assigned to another retailer were 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 leases were onerous and this was treated as exceptional in nature. During a previous period a provision for an onerous lease was recognised on a property no longer used by the business. This provision has been treated as exceptional and is being released over the remaining life of the lease.

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

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**24. Share capital and reserves**

**Ordinary share capital**

**Group and company**

	10p 'A' ordinary shares Number	Total value £'m	10p 'B' ordinary shares Number	Total value £'m	5p 'B1' ordinary shares Number	Total value £'m	5p 'B2' ordinary shares Number	Total value £'m
<b>Issued and fully paid</b>								
At 25 February 2012.....	172,763,695	17.3	204,000	—	96,000	—	96,000	—
At 23 February 2013.....	172,763,695	17.3	204,000	—	96,000	—	96,000	—
<b>At 1 March 2014.....</b>	<b>172,763,695</b>	<b>17.3</b>	<b>164,000</b>	<b>—</b>	<b>136,000</b>	<b>—</b>	<b>136,000</b>	<b>—</b>

**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 £29.4m loss (2013: £15.3m 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 (2013: £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 credit in the period was £(0.5)m (2013: £0.7m charge). The credit in the current period included £1.8m (2013: £nil) of exceptional charges (refer to note 31) and a £2.7m credit (2013: £nil) included in administrative expenses resulting from a change in the expected vesting period.

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.

## 25. Cash flows from operating activities

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

	Group	
	2014	2013
	£'m	£'m
Cash generated from continuing operations		
Operating profit .....	59.4	65.2
Adjustments for:		
Depreciation .....	22.6	23.3
Amortisation of intangibles .....	6.5	9.9
Non cash exceptional items .....	2.4	(0.7)
Share based compensation charge .....	(0.5)	0.7
Hedge accounting .....	0.3	(0.1)
<b>Operating cash flows before movements in working capital</b> .....	<b>90.7</b>	<b>98.3</b>
Movements in working capital		
Decrease/(increase) in inventories .....	6.1	(9.2)
Increase in trade and other receivables .....	(10.5)	(3.3)
(Decrease)/increase in trade and other payables .....	(28.7)	9.1
<b>Net cash flows from operating activities</b> .....	<b>57.6</b>	<b>94.9</b>

## 26. Reconciliation of net debt

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

	Net debt at 24 February 2013 £'m	Cashflows £'m	Non cash movements £'m	Net debt at 1 March 2014 £'m
Cash and cash equivalents .....	120.7	(48.8)	—	71.9
Debt due within 1 year .....	—	—	—	—
Debt due after 1 year .....	(463.7)	—	(3.2)	(466.9)
	(343.0)	(48.8)	(3.2)	(395.0)

## 27. Operating lease commitments

### Group

At 1 March 2014 the group had total future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 £'m	2013 £'m
Within one year .....	105.4	102.6
Between two and five years inclusive .....	400.2	386.1
Over five years .....	585.3	646.4
	<b>1,090.9</b>	<b>1,135.1</b>

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 no operating lease commitments during the period (2013: £nil).

## **28. Capital commitments**

The capital expenditure for the group that has been contracted for but not provided at 1 March 2014 was £2.7m (2013: £1.3m). The company has no capital commitments at 1 March 2014 (2013: £nil).

## **29. 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 19 are secured by fixed and floating charges on all the assets of the group.

## **30. 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 (2013: £nil). The balance of the related transactions outstanding at 1 March 2014 is £29.6m (2013: £29.4m).

The company considers the Hargreaves family to be the ultimate controlling party. During the period a member of the Hargreaves family was paid £0.1m by the group as a compensation for overseas sourcing and buying services provided to the group (2013: £0.2m).

Key management is the directors of the company. The compensation paid or payable to key management for employee services is included in note 7.

The group continues to lease a building in London from a company associated with the Hargreaves family. A portion of the building continues to be leased to three companies associated with the Hargreaves family. The rental paid in the period was £0.7m (2013: £0.7m). The rental income in the period was £0.3m (2013: £0.2m). £0.4m was outstanding at the year end (2013: £0.2m) which has been paid in full after the year end.

During a previous period, the buying team previously housed in this building was relocated to head office in Skelmersdale. The group has no further current use for this building nor does it expect to for the remainder of the lease term. Therefore a provision was recognised in relation to the onerous element of this lease. This provision was treated as exceptional in nature and is being released over the remaining lease term.

The group continues to lease a new distribution centre from a company associated with the Hargreaves family. The rental paid in the period was £1.1m (2013: £1.1m). This company also provided construction services for the new distribution centre of £5.0m (2013: £nil).

The group purchased IT services from a company that, during the period, became associated with the Hargreaves family. The expenditure incurred in the period was £0.9m (2013: £0.4m) of which £0.6m was outstanding at 1 March 2014 (2013: £nil).

The group used the sourcing agency services of a company associated with the Hargreaves family. The expenditure incurred and paid in the period was £0.4m (2013: £0.3m).

The group purchased clothing for resale from a company associated with the Hargreaves family. Purchases in the period totalled £0.9m (2013: £0.7m) of which £nil was outstanding at 1 March 2014 (2013: £nil).

The group used the clothing design services of a company associated with the Hargreaves family. The expenditure incurred in the period was £0.1m (2013: £nil) of which £0.1m was outstanding at 1 March 2014 (2013: £nil).

The group incurred costs relating to the Hargreaves family and associated companies in the period of £0.1m. £0.1m was paid by the Hargreaves family to the group after the year end.

During the prior year, a trading receivable was returned to the group via a related party at face value.

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

### 31. Exceptional items

Exceptional items are comprised as follows:

	2014 £'m	2013 £'m
Restructuring costs.....	(1.6)	(1.3)
Onerous contract provision.....	0.5	0.8
Supply chain costs .....	(1.1)	—
Dilapidations.....	(2.9)	—
Acceleration of IFRS 2 charge.....	(1.8)	—
Refinancing costs.....	—	(1.5)
<b>Exceptional items—administrative expenses.....</b>	<b>(6.9)</b>	<b>(2.0)</b>
Financing costs .....	—	(0.5)
<b>Exceptional items—finance costs.....</b>	<b>—</b>	<b>(0.5)</b>
<b>Total exceptional items.....</b>	<b>(6.9)</b>	<b>(2.5)</b>

#### Restructuring costs

Following a number of employment contracts being terminated in the period, restructuring costs of £1.6m (2013: £1.3m) have been incurred in the year.

#### Onerous contract provision

During a prior period a provision for an onerous lease was recognised on a property no longer used by the business. This provision was treated as exceptional.

Leases previously assigned to another retailer were 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 leases were onerous and this was treated as exceptional in nature.

In the current period, there is a £0.5m (2013: £0.8m) credit to exceptional items relating to rental income received during the year of £0.3m (2013: £0.2m) and a true-up of anticipated rent and rates costs of £0.2m (2013: £0.6m) in respect of properties on which onerous provisions are held in full. As the initial provision on these properties was created through exceptional items, the corresponding offsetting income is also recognised as exceptional.

#### Supply chain costs

During the 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 this temporary site have been treated as exceptional.

#### Dilapidations

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

#### Acceleration of IFRS 2 charge

During the period, an acceleration of the IFRS 2 charge resulted from the resignation of Darren Blackhurst as a director of the board.

#### Refinancing costs

In the prior period £1.5m of refinancing costs were incurred relating to the settlement of a dispute with the holders of an interest rate swap that the group had previously entered into. These costs have been expensed as an exceptional item within administrative expenses.

#### Financing costs

In the prior period financing exceptional costs of £0.5m arose from a change in the discount rate applied to the onerous lease provision calculation.

**32. Principal subsidiary companies and ultimate controlling party**

	<b>Principal activity</b>	<b>Country of incorporation</b>
<b>UK companies</b>		
Matalan Finance plc.....	Holding company	England and Wales
Matalan Group Limited .....	Holding company	England and Wales
Matalan Limited.....	Holding company	England and Wales
Matalan Retail Limited .....	Retail	England and Wales
Jonmar Limited.....	Property	England and Wales
Matalan Holding Company Limited .....	Holding company	England and Wales
Matalan Investments Limited .....	Holding company	England and Wales
Matalan Travel Limited .....	Travel services	England and Wales
HP01 Nominees Limited .....	Distribution	England and Wales
Guild Acquisition Limited .....	Non trading	England and Wales

All of the above companies are wholly owned with 100% ordinary share capital being held. 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.

**Missouri Topco Limited**  
**Directors' Report and Financial Statements**  
**52 weeks ended 23 February 2013**

**MISSOURI TOPCO LIMITED  
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**MISSOURI TOPCO LIMITED  
DIRECTORS AND ADVISERS**

**Directors**

A Leighton (appointed 18 February 2013)  
J N Mills  
D Blackhurst  
P J T Gilbert (resigned 16 April 2013)

**Company secretary**

J N Mills

**Registered office**

3rd Floor  
Natwest House  
Le Truchot  
St Peter Port  
Guernsey  
GY1 1WD

**Independent Auditor**

KPMG LLP  
Chartered Accountants and Statutory Auditor  
St James' Square  
Manchester  
M2 6DS

**Solicitors**

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

A O HALL Advocates  
Le Marchant House  
Le Marchant Street  
St Peter Port  
Guernsey  
GY1 2JJ

**Banker**

Lloyds TSB Bank Plc  
King Street  
Manchester  
M2 4LQ

**MISSOURI TOPCO LIMITED**  
**DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2013**

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 23 February 2013.

**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.

**REVIEW OF BUSINESS**

**Overview**

Trading conditions in the UK retail market were very challenging during the period and are likely to remain so for the foreseeable future. Despite this, the Company achieved revenue growth and improved operating profit. Cash performance during the period has remained strong, reflecting management's ongoing focus to maximise cash balances.

Three new stores were opened during the 52 weeks ended 23 February 2013: Camberley, Ipswich and Dunfermline. A clearance store in Scunthorpe was closed which had come to the end of its lease.

During the period the Company's online channel achieved 45% revenue growth year on year and now represents 6 times the average store in revenue terms. The Company will continue to focus on and develop its online sales channel in the coming year alongside its multi-channel offering.

The Company's growth strategy is focused on the following key areas:

- Initiatives to drive sales and margin growth
- More progressive exploitation of online, multichannel and click and collect opportunities
- Investment in customer recruitment and retention
- Range development
- Space utilisation efficiencies

The Company will continue to work with a franchise partner in the Middle East. In the current financial period they have 9 franchise stores based in Dubai, Jordan, Abu Dhabi and Fujairah. Since the period end another franchise store has opened in Sarjah taking the total number of franchise stores to 10.

**Financial Performance**

Against a very challenging market and economic backdrop, Matalan delivered a robust performance. Sales for the period were £1,125.4m (2012: £1,117.5m), a 0.7% increase compared to the previous period.

Focusing on the quality of earnings via tight control of stock and markdown reductions has resulted in a gross profit of £127.6m (2012: £116.7m) a 9.3% increase compared to the previous period.

Administrative expenses, pre exceptional items, were £60.4m (2012: £54.9m). Although there has been investment in on-line growth, costs within our core business continue to be tightly controlled.

Exceptional items, included within administrative expenses, of £2.0m were incurred (2012: £4.0m). £1.5m of the £2.0m recognised related to the settlement of a dispute with the holders of an interest rate swap that the group had previously entered into.

Operating profit, pre exceptional items, of £67.2m (2012: £61.8m) was a 8.7% increase on the prior period.

Net finance costs were £46.9m (2012: £47.4m) pre exceptionals. The decrease is mainly due to a reduction in interest payable on loans.

Additions to property, plant and equipment of £15.3m (2012: £17.8m) and intangible assets of £7.6m (2012: £4.3m) during the period reflect the company's ongoing investment in the existing store portfolio and IT systems.

Management considers EBITDA (earnings before interest, tax, depreciation and amortisation) before exceptional items to be the main financial KPI (key performance indicator) for the business. EBITDA before exceptional items of £100.4m (2012: £91.1m) in the current financial period shows a 10.2% increase compared to the prior period.

## **Business Review**

The Company is continuing to make strong progress across a range of key growth initiatives:

### **Sourcing and Supply chain**

The Company sources the majority of products directly from manufacturers, predominantly based in the Far East and Turkey. A direct relationship with suppliers allows improved negotiation to obtain better prices for products whilst at the same time ensuring high levels of quality.

During the year, the Company's transport function was successfully in-sourced and this has generated savings as a result.

Planning has commenced on a new warehouse and supply chain process with physical work commencing in the New Year.

### **E-commerce and Multichannel**

Online sales represent a significant opportunity for future growth. The Company has grown its online business, with sales now representing 6 times an average store. The online shopping experience is continuing to be enhanced and the Company actively markets the website to its database of customers which will help to drive future sales growth.

Matalan has invested in and grown its multichannel capability and customer base. Investment has been made during the period in a mobile optimised site together with the launch of the Matalan catalogue. Multichannel customers are particularly valuable to the business and typically spend twice as much as store-only customers.

In January 2013 click and collect was launched offering free delivery to store for on-line customers. There has been strong uptake for this service and in addition, customers using the click and collect service have proceeded to make additional purchases when in store for collection.

### **Stores**

The Company believes that a controlled store portfolio expansion program is appropriate given the current climate. As a consequence 3 stores were opened in the current financial period bringing the total number of stores to 216, comprising 212 full-price stores and 4 clearance stores.

### **Marketing**

Through the Matalan card, a unique customer card that offers customers a range of benefits including exclusive promotional discounts on Matalan merchandise, the Company maintains one of the largest transactional databases of any UK retailer. The Company holds transactional details of approximately 11.5 million active customers which is used for direct marketing, representing an additional 0.5million active customers in comparison to last year. The transactional nature of the database enables the Company to identify its customer demographics and spending patterns which allows the business to tailor its direct marketing accordingly. The Company believes that there are further benefits to be gained by better utilising its customer database to target a greater share of its customers' total spending through tailored marketing and further development of the Matalan card program.

During the current period the Company launched a Matalan spring/summer catalogue. Due to the success of this a second autumn/winter catalogue was launched. Investment has also been made in a prime time Christmas TV advertising campaign together with sponsorship of high profile TV features. These campaigns, together with the Company's wider, multi-channel marketing campaigns, have led to many new customers registering with the Company which has raised the profile of the brand significantly.

## **Outlook**

The business remains cautious about the outlook for consumer spending and confidence and expects trading conditions to continue to be challenging.

Though remaining cautious the Company believes that it is well placed to meet these challenges as the UK consumer continues to embrace the relevance of Matalan's brand and offer. Customers are continuing to respond well to the strategy of offering outstanding value and choice in a pleasant and convenient shopping environment.

The Company believes that there is scope for sales growth through the improved multi-channel offering together with a carefully controlled new store opening program.

The business will continue to focus on enhancing the quality of earnings and driving margin improvement during the forthcoming year.

The Company's team of highly committed and motivated employees remains integral to its success and the Company continues to look forward to the future with great enthusiasm and confidence.

## **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 focused 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 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.

**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.

**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 12 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 (refer to note 21).

**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. This risk is managed through monitoring trends in the cotton market, and by agreeing purchase contracts with suppliers six to nine months in advance, thereby providing a degree of advance knowledge of the cost base.

## **DIVIDENDS**

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

## **RESULTS**

The results for the period are shown in the statement of comprehensive income.

## **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 for the next financial year, and other long term plans, 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 revolving credit facility available but not drawn down on at year end are provided in note 18.

The group Statement of Financial Position shows a net liability position as a result of the decision to adopt merger accounting to reflect the change in ownership of Matalan in 2007, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. The accounts of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and balance sheet strength of the trading group.

The group completed an issue of Senior secured notes on 11 April 2011 (refer to note 18).

The group completed a renegotiation of its RCF (revolving credit facility) on 23 February 2012.

## **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.

In addition, in March 2012, the company asked employees to complete a questionnaire to get feedback on their view of the company. This assists management in maintaining effective employee relations.

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.

## **DONATIONS**

During the period the group made charitable donations of £28,536 (2012: £73,560). Individual donations include £23,005 to The Retail Trust and £5,531 to the England Netball Team.

## **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 on average within 34 days (2012: 32 days) of the receipt of invoice or delivery confirmation.

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 23 February 2013 were 46 days (2012: 38 days) based on average daily purchases.

## **DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards, of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period.

In preparing those 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 and the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **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**

PricewaterhouseCoopers LLP resigned as auditors during the year and KPMG LLP were appointed to fill the vacancy arising. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

D Blackhurst  
**Director**  
4 June 2013

**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 23 February 2013 which comprise the group and parent company Income Statements, the group 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 7, 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 Directors Report to identify material inconsistencies with the audited financial statements. 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 23 February 2013 and of its profit 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.

**Other matter**

The Group's and Company's financial statements for the period ended 25 February 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 May 2012.

**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.

Jonathan Hurst for and on behalf of

KPMG LLP

*Chartered Accountants and Recognised Auditor*

4 June 2013

MISSOURI TOPCO LIMITED

INCOME STATEMENT

	Note	Group		Company	
		52 weeks ended 23 February 2013 £'m	52 weeks ended 25 February 2012 £'m	52 weeks ended 23 February 2013 £'m	52 weeks ended 25 February 2012 £'m
Revenue .....	5	<b>1,125.4</b>	1,117.5	—	—
Cost of sales .....	5	<b>(997.8)</b>	(1,000.8)	—	—
<b>Gross profit</b> .....	5	<b>127.6</b>	116.7	—	—
Administrative expenses (including exceptional items) .....	5	<b>(62.4)</b>	(58.9)	<b>(0.3)</b>	—
<b>Operating profit/(loss)</b> .....	5	<b>65.2</b>	57.8	<b>(0.3)</b>	—
Operating profit/(loss) pre exceptional items...		<b>67.2</b>	61.8	<b>(0.3)</b>	—
Exceptional items .....	30	<b>(2.0)</b>	(4.0)	—	—
<b>Operating profit/(loss)</b> .....		<b>65.2</b>	57.8	<b>(0.3)</b>	—
Finance costs .....	6	<b>(47.7)</b>	(48.0)	—	—
Exceptional financing costs .....	6, 30	<b>(0.5)</b>	(8.3)	—	—
Finance income .....	6	<b>0.8</b>	0.6	—	—
<b>Net finance costs</b> .....		<b>(47.4)</b>	(55.7)	—	—
<b>Profit/(loss) before income tax</b> .....	10	<b>17.8</b>	2.1	<b>(0.3)</b>	—
Income tax (expense)/credit .....	11	<b>(4.3)</b>	0.9	—	—
<b>Profit/(loss) for the period</b> .....		<b>13.5</b>	3.0	<b>(0.3)</b>	—

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

	Group	
	52 weeks ended 23 February 2013 £'m	52 weeks ended 25 February 2012 £'m
<b>Profit for the period</b> .....	<b>13.5</b>	3.0
<b>Other comprehensive income :</b>		
Cash flow hedges.....	17.7	15.3
Tax element of cash flow hedges.....	<b>(4.0)</b>	(4.1)
Other comprehensive income for the period, net of tax.....	<b>13.7</b>	11.2
<b>Total comprehensive income for the period</b> .....	<b>27.2</b>	14.2

The company has no other comprehensive expenditure other than loss for the period.

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

	Note	Group		Company	
		2013 £'m	2012 £'m	2013 £'m	2012 £'m
<b>Assets</b>					
Property, plant and equipment .....	12	<b>152.0</b>	160.0	—	—
Intangible assets .....	13	<b>17.7</b>	20.0	—	—
Investments .....	14	—	—	<b>457.7</b>	457.0
Deferred income tax asset .....	11	<b>0.4</b>	0.5	—	—
Financial assets—derivative financial instruments .....	21	<b>4.8</b>	0.7	—	—
<b>Total non-current assets</b> .....		<b>174.9</b>	181.2	<b>457.7</b>	457.0
Inventories—goods for resale .....	15	<b>140.7</b>	131.8	—	—
Trade and other receivables .....	16	<b>23.0</b>	19.7	<b>30.0</b>	30.0
Financial assets—derivative financial instruments .....	21	<b>16.9</b>	2.7	—	—
Cash and cash equivalents .....	17	<b>120.7</b>	96.2	—	—
<b>Total current assets</b> .....		<b>301.3</b>	250.4	<b>30.0</b>	30.0
<b>Total assets</b> .....		<b>476.2</b>	431.6	<b>487.7</b>	487.0
<b>Liabilities</b>					
Financial liabilities—borrowings .....	18	—	—	—	—
Financial liabilities—derivative financial instruments .....	21	—	(1.2)	—	—
Trade and other payables .....	19	<b>(171.0)</b>	(157.7)	<b>(59.7)</b>	(59.4)
Current income tax liabilities .....		<b>(4.8)</b>	(2.6)	—	—
Provisions for other liabilities and charges .....	22	<b>(1.3)</b>	(1.3)	—	—
<b>Total current liabilities</b> .....		<b>(177.1)</b>	(162.8)	<b>(59.7)</b>	(59.4)
Financial liabilities—borrowings .....	18	<b>(463.7)</b>	(460.4)	—	—
Financial liabilities—derivative financial instruments .....	21	—	—	—	—
Trade and other payables .....	20	<b>(40.0)</b>	(41.6)	—	—
Deferred income tax liabilities .....	11	<b>(15.6)</b>	(14.4)	—	—
Provisions for other liabilities and charges .....	22	<b>(4.0)</b>	(4.5)	—	—
<b>Total non-current liabilities</b> .....		<b>(523.3)</b>	(520.9)	—	—
<b>Total liabilities</b> .....		<b>(700.4)</b>	(683.7)	<b>(59.7)</b>	(59.4)
<b>Net (liabilities)/assets</b> .....		<b>(224.2)</b>	(252.1)	<b>428.0</b>	427.6
<b>Shareholders' (deficit)/equity</b>					
Share capital .....	23	<b>17.3</b>	17.3	<b>17.3</b>	17.3
Share premium .....		<b>385.6</b>	385.6	<b>385.6</b>	385.6
Hedge reserve .....		<b>15.3</b>	1.6	—	—
Merger reserve .....		<b>(774.3)</b>	(774.3)	—	—
Warrant reserve .....		<b>3.1</b>	3.1	—	—
Capital redemption reserve .....		<b>5.7</b>	5.7	<b>4.6</b>	4.6
Retained earnings .....		<b>123.1</b>	108.9	<b>20.5</b>	20.1
<b>Total shareholders' (deficit)/equity</b> .....		<b>(224.2)</b>	(252.1)	<b>428.0</b>	427.6

The financial statements on pages 11 to 52 were approved by the Board of Directors on 4 June 2013 and signed on its behalf by:

D Blackhurst  
**Director**

J N Mills  
**Director**

Missouri Topco Limited  
Registered number: 00045618

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF CASH FLOWS**

	Note	Group 2013 £'m	2012 £'m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations.....	24	<b>94.9</b>	76.8
Interest paid .....		<b>(44.7)</b>	(38.6)
Tax paid .....		<b>(4.7)</b>	(8.1)
<b>Net cash generated from operating activities .....</b>		<b>45.5</b>	30.1
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment .....		<b>(15.3)</b>	(17.9)
Proceeds from sale of property, plant and equipment.....		—	1.2
Purchases of intangible assets.....		<b>(6.4)</b>	(4.3)
Interest received.....		<b>0.7</b>	0.6
<b>Net cash used in investing activities .....</b>		<b>(21.0)</b>	(20.4)
<b>Cash flows from financing activities</b>			
Repayment of previous facilities .....		—	(231.0)
Proceeds from borrowings .....		—	250.0
Fees associated with refinancing .....		—	(15.6)
<b>Net cash generated from/(used) in financing activities .....</b>		—	3.4
Net increase in cash and cash equivalents .....		<b>24.5</b>	13.1
Cash and cash equivalents at the beginning of the period.....		<b>96.2</b>	83.1
<b>Cash and cash equivalents at the end of the period .....</b>	17	<b>120.7</b>	96.2

The company had no cash flows in 2013 (2012: none)

In the prior year the £15.6m 'Fees associated with refinancing' incurred includes £4.7m in relation to the termination of the interest rate swaps and £10.5m in relation to issue costs associated with the April 2011 refinancing exercise. £0.3m of costs associated with the February 2012 RCF (revolving credit facility) renegotiation and £0.1m of other costs have also been incurred.

**MISSOURI TOPCO LIMITED**  
**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	Retained earnings £'m	Total equity £'m
As at 27 February								
2011 .....	17.3	385.6	(774.3)	(9.6)	5.7	3.1	103.6	<b>(268.6)</b>
<b>Comprehensive income</b>								
Profit for the period from continuing operations.....	—	—	—	—	—	—	3.0	<b>3.0</b>
<b>Total profit for the period .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3.0</b>	<b>3.0</b>
<b>Other comprehensive expenditure</b>								
Cash flow hedges								
– fair value gain in the period	—	—	—	15.8	—	—	—	<b>15.8</b>
– transfers to inventory	—	—	—	(0.5)	—	—	—	<b>(0.5)</b>
– tax element of cash flow hedges	—	—	—	(4.1)	—	—	—	<b>(4.1)</b>
Total cash flow hedges, net of tax ....	—	—	—	11.2	—	—	—	<b>11.2</b>
<b>Total other comprehensive expenditure, net of tax .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>11.2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>11.2</b>
<b>Transactions with owners</b>								
Fair value charge for subscription for 'B' shares .....	—	—	—	—	—	—	2.3	<b>2.3</b>
<b>Total transactions with owners.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.3</b>	<b>2.3</b>
As at 25 February								
2012 .....	<b>17.3</b>	<b>385.6</b>	<b>(774.3)</b>	<b>1.6</b>	<b>5.7</b>	<b>3.1</b>	<b>108.9</b>	<b>(252.1)</b>

**MISSOURI TOPCO LIMITED**  
**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	Retained earnings £'m	Total equity £'m
As at 26 February 2012...	17.3	385.6	(774.3)	1.6	5.7	3.1	108.9	(252.1)
<b>Comprehensive income</b>								
Profit for the period.....	—	—	—	—	—	—	13.5	13.5
<b>Total profit for the period .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.5</b>	<b>13.5</b>
<b>Other comprehensive income</b>								
Cash flow hedges								
– fair value gain in the period	—	—	—	19.5	—	—	—	19.5
– transfers to inventory	—	—	—	(1.8)	—	—	—	(1.8)
– tax element of cash flow hedges	—	—	—	(4.0)	—	—	—	(4.0)
Total cash flow hedges, net of tax .....	—	—	—	13.7	—	—	—	13.7
<b>Total other comprehensive income, net of tax .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.7</b>
<b>Transactions with owners</b>								
Fair value charge for subscription for 'B' shares .....	—	—	—	—	—	—	0.7	0.7
<b>Total transactions with owners .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.7</b>	<b>0.7</b>
<b>As at 23 February 2013.</b>	<b>17.3</b>	<b>385.6</b>	<b>(774.3)</b>	<b>15.3</b>	<b>5.7</b>	<b>3.1</b>	<b>123.1</b>	<b>(224.2)</b>

**MISSOURI TOPCO LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Company	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity £'m
As at 27 February 2011.....	17.3	385.6	4.6	17.8	425.3
<b>Comprehensive income</b>					
Profit for the period .....	—	—	—	—	—
<b>Total other comprehensive income</b> .....	—	—	—	—	—
<b>Transactions with owners</b>					
Fair value charge to group undertakings for subscription for 'B' shares .....	—	—	—	2.3	2.3
<b>Total transactions with owners</b> .....	—	—	—	2.3	2.3
As at 25 February 2012.....	17.3	385.6	4.6	20.1	427.6
As at 26 February 2012.....	17.3	385.6	4.6	20.1	427.6
<b>Comprehensive income</b>					
Result for the period .....	—	—	—	(0.3)	<b>(0.3)</b>
<b>Total comprehensive income</b> .....	—	—	—	(0.3)	<b>(0.3)</b>
<b>Transactions with owners</b>					
Fair value charge to group undertakings for subscription for 'B' shares .....	—	—	—	0.7	<b>0.7</b>
<b>Total transactions with owners</b> .....	—	—	—	0.7	<b>0.7</b>
<b>As at 23 February 2013</b> .....	<b>17.3</b>	<b>385.6</b>	<b>4.6</b>	<b>20.5</b>	<b>428.0</b>

## 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 Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB.

#### 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.

##### 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 have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) which are recognised at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There are no areas involving a higher degree of judgement of complexity, or where assumptions and estimates are significant to the financial statements.

##### 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 13 Fair value measurement (2011)
- Amended IAS 1 Presentation of items of other comprehensive income (2010)
- Amended IAS 12 Income taxes: Deferred Tax—Recovery of underlying assets (2010)
- Revised IAS 19 Employee Benefits (2011)
- IFRS 9 Financial Instruments: Classification and Measurement (2010)
- Amendments to IFRS 7 Disclosures offsetting financial assets and liabilities
- Amendments to IAS 32 Offsetting financial assets and financial liabilities

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

##### Going concern

After reviewing the group's and company's budget for the next financial period and other long term plans, 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 revolving credit facility available but not drawn down on at year end are provided in note 18.

The group statement of financial position sheet 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. The financial statements of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and balance sheet strength of the trading group.

The group completed an issue of Senior secured notes on 11 April 2011 (refer to note 18).

The group completed a renegotiation of its RCF (revolving credit facility) on 23 February 2012.

### **Basis of consolidation**

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

### **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.

### **Finance income**

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

### **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.

## **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.

## **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.

## **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.

## **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.

## **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.

## **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.

## **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.

## **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 dependant 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.

## **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.

## **Borrowings**

Interest bearing bank 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.

## **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

#### 2. Summary of significant accounting policies

##### 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.

##### 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.

##### 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.

##### 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. The resulting charge is accounted for as an employee expense with a corresponding increase in equity. The shares covered by the subscription agreements have all now been fully paid up and issued.

##### 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.

##### Share capital policy

Ordinary shares are classified as equity.

##### 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.

### **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.

### **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.

## **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) and circa 40% (of purchases over 12 months) of anticipated cash flows in respect of the purchase of inventory in each major foreign currency. 100% (2012: 100%) of projected purchases in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 23 February 2013, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, there would be a £0.3m impact on post-tax profit for the year, (2012: £1.2m higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated stock commitments.

(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 0.90% (2012: 0.89%).

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.

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

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

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 (2012: £0.1m).

During 2012 and 2013, the group's borrowings at fixed and variable 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 TSB plc, The Royal Bank of Scotland plc and Barclays Bank 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 18) and cash and cash equivalents (note 17) on the basis of expected cash flow. This is generally carried out at a local level in the operating companies of the group in accordance with practice and limits set by the group. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the 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 25 February 2012				
Borrowings (before deduction of £14.6m issue costs) including				
interest payable .....	(43.9)	(43.9)	(370.5)	(235.8)
Derivative financial instruments .....	(1.2)	—	—	—
Trade and other payables .....	(157.7)	(3.1)	(10.9)	(27.6)
Provisions for other liabilities and charges .....	(1.3)	(1.1)	(2.1)	(1.3)
	<b>(160.2)</b>	<b>(4.2)</b>	<b>(263.0)</b>	<b>(253.9)</b>
<b>At 23 February 2013</b>				
Borrowings (before deduction of £11.3m issue costs) including				
interest payable .....	(43.9)	(43.9)	(562.4)	—
Derivative financial instruments .....	—	—	—	—
Trade and other payables .....	(171.0)	(3.2)	(11.6)	(25.2)
Provisions for other liabilities and charges .....	(1.3)	(1.2)	(1.2)	(1.6)
	<b>(172.3)</b>	<b>(4.4)</b>	<b>(487.8)</b>	<b>(26.8)</b>

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 25 February 2012				
Cash flow hedges:				
Inflows .....	2.7	0.7	—	—
Outflows .....	(1.2)	—	—	—
	<b>1.5</b>	<b>0.7</b>	<b>—</b>	<b>—</b>
<b>At 23 February 2013</b>				
Cash flow hedges:				
Inflows .....	16.9	4.8	—	—
Outflows .....	—	—	—	—
	<b>16.9</b>	<b>4.8</b>	<b>—</b>	<b>—</b>

### 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.

	2013 £'m	2012 £'m
<b>Group net debt</b>		
Total borrowings (net of issue costs) .....	<b>463.7</b>	460.4
Less: Cash and cash equivalents .....	<b>(120.7)</b>	(96.2)
<b>Net debt</b> .....	<b>343.0</b>	364.2
<b>Adjusted total capital</b> .....	<b>550.1</b>	522.2
<b>Gearing ratio</b> .....	<b>62%</b>	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 gearing ratio has reduced since 2012. The group was required to meet specific bank covenants, interest cover and debt cover, during the year. The group has complied with bank covenants throughout the year.

### 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 23 February 2013:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
<b>Assets</b>				
Cash flow hedges.....	—	21.7	—	21.7
<b>Total assets</b> .....	—	21.7	—	21.7
<b>Liabilities</b>				
Cash flow hedges.....	—	—	—	—
<b>Total liabilities</b> .....	—	—	—	—

The following represents the group's assets and liabilities that are measured at fair value at 25 February 2012:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
<b>Assets</b>				
Cash flow hedges.....	—	3.4	—	3.4
<b>Total assets</b> .....	—	3.4	—	3.4
<b>Liabilities</b>				
Cash flow hedges.....	—	(1.2)	—	(1.2)
<b>Total liabilities</b> .....	—	(1.2)	—	(1.2)

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

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

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

### 4. Critical accounting estimates and judgements

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

As at the 23 February 2013, the group has not applied any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 5. Operating profit

	2013 £'m	2012 £'m
<b>Revenue</b> .....	<b>1,125.4</b>	1,117.5
Cost of goods sold .....	<b>(626.6)</b>	(647.5)
Selling expenses.....	<b>(333.3)</b>	(315.0)
Distribution expenses.....	<b>(37.9)</b>	(38.3)
<b>Total cost of sales</b> .....	<b>(997.8)</b>	(1,000.8)

<b>Gross profit</b> .....	<b>127.6</b>	116.7
Administrative expenses pre exceptional items .....	<b>(60.4)</b>	(54.9)
Exceptional items (note 30) .....	<b>(2.0)</b>	(4.0)
Administrative expenses .....	<b>(62.4)</b>	(58.9)
<b>Operating profit</b> .....	<b>65.2</b>	57.8

## 6. Net finance costs

	Group	
	2013 £'m	2012 £'m
Finance costs and similar charges:		
Interest payable on loans.....	—	(2.0)
Interest payable on notes.....	<b>(42.9)</b>	(41.7)
Amortisation of finance costs:		
Debt costs .....	—	(0.3)
Notes costs .....	<b>(3.2)</b>	(3.0)
Interest payable on bank borrowings .....	<b>(0.9)</b>	(1.0)
Unwinding of discounts on provision .....	<b>(0.7)</b>	—
<b>Finance costs</b> .....	<b>(47.7)</b>	(48.0)
<b>Exceptional financing costs</b> .....	<b>(0.5)</b>	(8.3)
Finance income:		
Interest receivable on short term cash deposits.....	<b>0.8</b>	0.6
<b>Finance income</b> .....	<b>0.8</b>	0.6
<b>Net finance costs</b> .....	<b>(47.4)</b>	(55.7)

Unwinding of discounts on provisions arises on the onerous lease provision. In the prior year the unwinding of discounts on provisions of £0.2m credit was included in exceptional administration expenses.

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**7. Directors' emoluments**

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

	2013 £'m	2012 £'m
Aggregate emoluments and fees (including benefits in kind).....	1.1	1.0
Performance bonuses and other emoluments.....	0.9	1.8
	<b>2.0</b>	<b>2.8</b>

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, charges have been made to the income statement of £0.7m (2012: £1.8m) in respect of directors. £0.7m (2012: £1.8m) of this amount is included in performance bonuses and other emoluments above.

Amounts paid to the highest paid director:

	2013 £'m	2012 £'m
Aggregate emoluments .....	0.7	0.5
Performance bonuses and other emoluments.....	0.9	0.6
	<b>1.6</b>	<b>1.1</b>

**8. Employee information**

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

	2013 Number	2012 Number
<b>By function</b>		
Selling and distribution.....	15,726	15,231
Administration .....	647	627
	<b>16,373</b>	<b>15,858</b>

	2013 £'m	2012 £'m
<b>Staff costs (for the above persons)</b>		
Wages and salaries.....	141.4	131.3
Social security costs.....	6.7	6.3
Share based compensation charge .....	0.7	2.3
Termination payments .....	1.3	1.1
	<b>150.1</b>	<b>141.0</b>

The company does not have any employees (2012: none).

**9. 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 £100.4m (2012: £91.1m). This can be reconciled to statutory operating profit as follows:

	2013 £'m	2012 £'m
Operating profit .....	65.2	57.8
Depreciation and amortisation .....	33.2	29.3
Exceptional items.....	2.0	4.0
<b>EBITDA before exceptional items.....</b>	<b>100.4</b>	<b>91.1</b>

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

Whilst the e-commerce business represents a significant opportunity for future growth within the 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.

#### 10. Profit before income tax

	Group	
	2013 £'m	2012 £'m
Profit on continuing ordinary activities before tax is stated after charging/(crediting):		
Cost of inventories recognised as an expense (included in cost of sales) .....	645.1	669.2
Depreciation charge for the period on property, plant and equipment.....	23.3	22.6
Amortisation of intangible assets.....	9.9	6.7
Exceptional items (note 30) .....	2.0	4.0
Foreign exchange differences .....	(24.9)	(19.4)
Fees payable to the group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies..	0.1	0.1
for taxation compliance/advisory services.....	0.1	—
for services in relation to refinancing .....	—	0.2
for all other services.....	0.1	—
Gain on disposal of property, plant and equipment .....	—	1.2
Operating lease rentals payable .....	97.7	92.3

The audit fee for the company amounting to £2,000 (2012: £2,000) is borne by a fellow group company. The total group fee is £0.1m (2012: £0.1m). 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 as the information is required instead to be disclosed on a consolidated basis.

The amounts paid to the prior year auditor was PwC and not KPMG.

#### 11. Income tax expense/(credit)

##### Analysis of expense/(credit)

	Group	
	2013 £'m	2012 £'m
<b>Continuing operations</b>		
<b>Current income tax</b>		
UK corporation tax—current year .....	8.4	2.4
UK corporation tax—prior year.....	(1.4)	(4.0)
	<b>7.0</b>	<b>(1.6)</b>
<b>Deferred income tax</b>		
Deferred income tax relating to the origination and reversal of temporary differences.....	(1.4)	1.6
Effect of change in income tax rates.....	(1.0)	(1.0)
Adjustment in respect of prior periods.....	(0.3)	0.1
	<b>(2.7)</b>	<b>0.7</b>
<b>Total income tax expense/(credit).....</b>	<b>4.3</b>	<b>(0.9)</b>

The company has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and hence will be liable only for a payment of a Guernsey exemption fee at a fixed rate of £600 per annum.

The group income tax charge for the period is the same as (2012: lower than) the rate of corporation tax of 24.17% (2012: 26.17%). The rate of corporation tax is based on a weighted average rate. The standard rate of Corporation Tax reduced from 26% to 24% on 1 April 2012.

The differences are explained below:

	Group	
	2013	2012
	£'m	£'m
Profit on ordinary activities before income tax .....	17.8	2.1
Profit on ordinary activities multiplied by the rate of corporation tax of 24.17% (2012: 26.17%) .....	4.3	0.6
Effects of:		
Non deductible expenses .....	2.3	2.7
Adjustments to income tax in respect of prior periods .....	(1.7)	(3.9)
Change in rate of income tax on deferred income tax .....	(1.0)	(1.0)
Deferred income tax not recognised .....	0.4	0.7
<b>Total income tax expense/(credit) in the period .....</b>	<b>4.3</b>	<b>(0.9)</b>

### Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 23% (2012: 25%).

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

	Group	
	2013	2012
	£'m	£'m
At the beginning of the period .....	(13.9)	(9.1)
Taken to equity:		
— hedge reserve .....	(4.0)	(4.1)
Taken to income statement:		
—prior year movement .....	0.3	(0.1)
—depreciation in advance of capital allowances .....	1.4	—
—other temporary differences .....	—	(1.6)
—change in rate of income tax .....	1.0	1.0
<b>At the end of the period .....</b>	<b>(15.2)</b>	<b>(13.9)</b>

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

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

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	£'m	£'m	£'m	£'m	£'m	£'m
Property, plant and equipment .....	—	—	(9.0)	(12.0)	(9.0)	(12.0)
Rolled over capital gain .....	—	—	(2.0)	(1.8)	(2.0)	(1.8)
Short-term temporary differences .....	0.4	0.5	—	—	0.4	0.5
Financial derivatives .....	—	—	(4.6)	(0.6)	(4.6)	(0.6)
<b>Net deferred income tax assets/(liabilities) .....</b>	<b>0.4</b>	<b>0.5</b>	<b>(15.6)</b>	<b>(14.4)</b>	<b>(15.2)</b>	<b>(13.9)</b>

In his budget of 20th March 2013, the Chancellor of the Exchequer announced tax changes including phased reductions in the corporation tax rate to 20% from 1 April 2015.

As at 23 February 2013, only the rate change to 23% from 1 March 2013 had been substantively enacted and it is this rate which is reflected in the disclosure of the deferred income tax. The estimated effect of the proposed reduction in the income tax rate from 23% to 20% on the company's deferred income tax liability is to reduce the liability by £2.0m.

A deferred income tax asset of £1.1m in relation to losses has not been recognised on the basis that there is uncertainty regarding its future recoverability.

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
At 27 February 2011 .....	3.5	2.4	5.9
Expensed to the income statement .....	—	(1.9)	(1.9)
Taken directly to equity .....	(3.5)	—	(3.5)
At 25 February 2012 .....	—	0.5	0.5
At 26 February 2012 .....	—	0.5	0.5
Expensed to the income statement .....	—	(0.1)	(0.1)
Taken directly to equity .....	—	—	—
<b>At 23 February 2013 .....</b>	<b>—</b>	<b>0.4</b>	<b>0.4</b>

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
At 27 February 2011 .....	(13.0)	(2.0)	—	(15.0)
Credited to the income statement .....	1.0	0.2	—	1.2
Taken directly to equity .....	—	—	(0.6)	(0.6)
At 25 February 2012 .....	(12.0)	(1.8)	(0.6)	(14.4)
At 26 February 2012 .....	(12.0)	(1.8)	(0.6)	(14.4)
Credited to the income statement .....	3.0	(0.2)	—	2.8
Taken directly to equity .....	—	—	(4.0)	(4.0)
<b>At 23 February 2013 .....</b>	<b>(9.0)</b>	<b>(2.0)</b>	<b>(4.6)</b>	<b>(15.6)</b>

## 12. Property, plant and equipment

### Group

	Alterations to leasehold premises £'m	Motor vehicles £'m	Fixtures, fittings and IT hardware £'m	Total £'m
<b>Cost</b>				
At 27 February 2011 .....	146.9	1.5	202.2	350.6
Additions .....	6.5	—	11.3	17.8
Disposals .....	—	—	(3.3)	(3.3)
At 25 February 2012 .....	153.4	1.5	210.2	365.1
At 26 February 2012 .....	153.4	1.5	210.2	365.1
Additions .....	4.9	—	10.4	15.3
Disposals .....	—	—	(1.4)	(1.4)
<b>At 23 February 2013 .....</b>	<b>158.3</b>	<b>1.5</b>	<b>219.2</b>	<b>379.0</b>
<b>Accumulated depreciation</b>				
At 27 February 2011 .....	56.6	1.3	127.9	185.8
Charge for the period .....	6.4	0.1	16.1	22.6
Eliminated in respect of disposals .....	—	—	(3.3)	(3.3)
At 25 February 2012 .....	63.0	1.4	140.7	205.1
At 26 February 2012 .....	63.0	1.4	140.7	205.1
Charge for the period .....	6.6	0.1	16.6	23.3
Eliminated in respect of disposals .....	—	—	(1.4)	(1.4)
<b>At 23 February 2013 .....</b>	<b>69.6</b>	<b>1.5</b>	<b>155.9</b>	<b>227.0</b>
<b>Net book value</b>				

<b>At 23 February 2013</b> .....	<b>88.7</b>	<b>—</b>	<b>63.3</b>	<b>152.0</b>
Net book value				
<b>At 25 February 2012</b> .....	<b>90.4</b>	<b>0.1</b>	<b>69.5</b>	<b>160.0</b>
Net book value				
<b>At 26 February 2011</b> .....	<b>90.3</b>	<b>0.2</b>	<b>74.3</b>	<b>164.8</b>

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.

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**13. Intangible assets**

**Group**

	Brands £'m	Computer software and associated costs £'m	Total £'m
<b>Cost</b>			
At 27 February 2011 .....	1.7	67.3	69.0
Additions .....	—	4.3	4.3
At 25 February 2012 .....	1.7	71.6	73.3
At 26 February 2012 .....	1.7	71.6	73.3
Additions .....	—	7.6	7.6
<b>At 23 February 2013 .....</b>	<b>1.7</b>	<b>79.2</b>	<b>80.9</b>
<b>Aggregate amortisation</b>			
At 27 February 2011 .....	1.7	44.9	46.6
Charge for the period .....	—	6.7	6.7
At 25 February 2012 .....	1.7	51.6	53.3
At 26 February 2012 .....	1.7	51.6	53.3
Charge for the period .....	—	9.9	9.9
<b>At 23 February 2013 .....</b>	<b>1.7</b>	<b>61.5</b>	<b>63.2</b>
<b>Net book value</b>			
<b>At 23 February 2013 .....</b>	<b>—</b>	<b>17.7</b>	<b>17.7</b>
Net book value			
At 25 February 2012 .....	—	20.0	20.0
Net book value			
At 26 February 2011 .....	—	22.4	22.4

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

The company has no intangible assets.

**14. Investments**

**Company**

	Investment in subsidiaries £'m
<b>Cost and net book value</b>	
At 27 February 2011 .....	454.7
Fair value charge to group undertakings for subscription for 'B' shares .....	2.3
At 25 February 2012 .....	457.0
At 26 February 2012 .....	457.0
Fair value charge to group undertakings for subscription for 'B' shares .....	0.7
<b>At 23 February 2013 .....</b>	<b>457.7</b>

A list of principal subsidiary undertakings is given in note 31.

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.

**15. Inventories**

Group	
2013	2012
£'m	£'m

Finished goods .....	<b>140.7</b>	131.8
	<b>140.7</b>	131.8

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £645.1m (2012: £669.2m). During the period the group has written down £nil (2012: £nil) of inventories. No amounts have been written back during the current or prior periods.

The company has no inventories.

#### 16. Trade and other receivables

	Group	
	2013	2012
	£'m	£'m
Trade receivables .....	<b>4.3</b>	4.4
Prepayments and accrued income .....	<b>18.7</b>	15.3
	<b>23.0</b>	19.7

The company is owed £30m by group undertakings at period end (2012: £30m).

#### 17. Cash and cash equivalents

	Group	
	2013	2012
	£'m	£'m
Cash at bank and in hand .....	<b>120.7</b>	96.2

The company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.90% (2012: 0.89%) and these deposits have an average maturity period of 1 day (2012: 1 day). All short-term deposits had matured at 23 February 2013 (2012: all). The group's cash and cash equivalents are denominated in sterling.

#### 18. Financial liabilities—borrowings

	Group	
	2013	2012
	£'m	£'m
<b>Non current</b>		
Senior notes (net of £4.7m issue costs (February 2012: £5.9m)) maturity date 2015 .....	<b>(220.3)</b>	(219.1)
Senior secured notes (net of £6.6m issue costs (February 2012: £8.7m)) maturity date 2016 .....	<b>(243.4)</b>	(241.3)
	<b>(463.7)</b>	(460.4)

The company has no financial liabilities.

Bank borrowings are all denominated in sterling at 23 February 2013. The group had no short-term borrowings during the period (2012: £nil).

On 11 April 2011, the group completed an issue of £250.0m Senior secured notes, over 5 years at a fixed rate of 8<sup>7</sup>/<sub>8</sub>%. The existing Senior secured facilities of £231.0m, that were subject to a floating rate of interest based on LIBOR, were repaid on 12 April 2011. The Senior notes of £225.0m issued in March 2010, over 7 years at a fixed rate of 9<sup>5</sup>/<sub>8</sub>%, are still in issue.

Bank loan amounts include rolled up interest charges as appropriate to the instrument and also include an element of borrowing costs in accordance with IAS39. Average interest rates on bank loans during the period were nil (2012: 7.3%).

During the prior period, fees of £10.5m associated with the refinancing were incurred and are being amortised over the terms of the facilities.

At the period end the Senior secured notes were trading at 101 and the Senior notes were trading at 94.

## Maturity of Senior notes and Senior secured notes

	Group	
	2013 £'m	2012 £'m
Less than one year .....	—	—
One to five years.....	475.0	250.0
Five to ten years.....	—	225.0
	<b>475.0</b>	475.0
Unamortised issue costs.....	(11.3)	(14.6)
	<b>463.7</b>	460.4
Current.....	—	—
Non current.....	463.7	460.4
	<b>463.7</b>	460.4

## Borrowing facilities

At 23 February 2013 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	
	2013 £'m	2012 £'m
Letters of credit.....	3.0	1.5
Guarantees .....	8.2	8.6
Unused.....	18.8	19.9
	<b>30.0</b>	30.0

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

In February 2012 the group renegotiated its RCF whereby an agreement was made to cancel £20m of committed facilities the directors' considered to be unnecessary.

## 19. Trade and other payables—current

	Group	
	2013 £'m	2012 £'m
Trade payables .....	(92.9)	(80.4)
Other tax and social security payable .....	(20.7)	(25.0)
Other creditors .....	(8.4)	(5.1)
Accruals .....	(44.6)	(42.9)
Deferred income .....	(4.1)	(4.0)
Dividends payable .....	(0.3)	(0.3)
	<b>(171.0)</b>	(157.7)

The company owes group undertakings £59.4m at the period end (2012: £59.4m). Amounts owed to group undertakings are repayable on demand and therefore presented as current.

## 20. Trade and other payables—non-current

	Group	
	2013 £'m	2012 £'m
Accruals and deferred income .....	(40.0)	(41.6)

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

## 21. Derivative financial instruments

Group	2013		2012	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Forward foreign exchange contracts.....	21.7	—	3.4	(1.2)

Total.....	21.7	—	3.4	(1.2)
Less non-current portion:				
Forward foreign exchange contracts.....	4.8	—	0.7	—
Non-current portion .....	4.8	—	0.7	—
Current portion.....	16.9	—	2.7	(1.2)

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 £13.7m (2012: £11.2m). The amount that was transferred from equity to profit and loss in the period was £(0.9)m (2012: £0.2m). The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2012: £nil).

### Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 23 February 2013 was £452.7m (25 February 2012: £429.7m).

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

	2013 £'m	2012 £'m
Maturing within one year.....	358.1	367.3
Maturing between one to two years.....	94.6	62.4
	<b>452.7</b>	<b>429.7</b>

The net fair value of gains as at 23 February 2013 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £21.7m (2012: gains of £2.2m). 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:

	2013 £'m	2012 £'m
Maturing within one year.....	16.9	1.5
Maturing between one to two years.....	4.8	0.7
	<b>21.7</b>	<b>2.2</b>

## 22. Provisions for other liabilities and charges

Group	Onerous contracts £m
At 26 February 2012.....	(5.8)
Utilised in the period .....	0.9
Charged to the income statement as an exceptional item—see note 30.....	(0.4)
<b>At 23 February 2013.....</b>	<b>(5.3)</b>

  

	2013 £'m	2012 £'m
Analysis of total provisions:		
Non-current.....	(4.0)	(4.5)
Current.....	(1.3)	(1.3)
	<b>(5.3)</b>	<b>(5.8)</b>

Two leases previously assigned to another retailer were 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 leases were onerous and this was treated as exceptional in nature. During the previous period a provision for an onerous lease was recognised on a property no longer used by the business. This provision has been treated as exceptional and is being released over the remaining life of the lease.

**MISSOURI TOPCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**23. Share capital and reserves**

**Ordinary share capital**

**Group and company**

	10p 'A' ordinary shares Number	Total value £'m	10p 'B' ordinary shares Number	Total value £'m	5p 'B1' ordinary shares Number	Total value £'m	5p 'B2' ordinary shares Number	Total value £'m
<b>Issued and fully paid</b>								
At 26 February 2011 .....	172,763,695	17.3	204,000	—	96,000	—	96,000	—
At 25 February 2012 .....	172,763,695	17.3	204,000	—	96,000	—	96,000	—
<b>At 23 February 2013 .....</b>	<b>172,763,695</b>	<b>17.3</b>	<b>204,000</b>	<b>—</b>	<b>96,000</b>	<b>—</b>	<b>96,000</b>	<b>—</b>

**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 £15.3m gain (2012: £1.6m 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 (2012: £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 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 has been valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, with the resulting charge accounted for as an employee expense. The key inputs into the 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 £0.7m (2012: £2.3m).

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.

## 24. Cash flows from operating activities

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

	Group	
	2013	2012
	£'m	£'m
Cash generated from continuing operations		
Operating profit .....	<b>65.2</b>	57.8
Adjustments for:		
Depreciation.....	<b>23.3</b>	22.6
Amortisation of intangibles .....	<b>9.9</b>	6.7
Profit on disposal of property, plant and equipment .....	<b>—</b>	(1.2)
Non cash exceptional items .....	<b>(0.7)</b>	2.4
Share based compensation charge .....	<b>0.7</b>	2.3
Hedge accounting .....	<b>(0.1)</b>	(0.1)
<b>Operating cash flows before movements in working capital.....</b>	<b>98.3</b>	90.5
Movements in working capital		
Increase in inventories .....	<b>(9.2)</b>	(11.8)
Increase in trade and other receivables .....	<b>(3.3)</b>	(2.2)
Increase in trade and other payables .....	<b>9.1</b>	0.3
<b>Net cash flows from operating activities .....</b>	<b>94.9</b>	76.8

## 25. Reconciliation of net debt

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

	Net debt at 26 February 2012 £'m	Cashflows £'m	Non cash movements £'m	Net debt at 23 February 2013 £'m
Cash and cash equivalents .....	96.2	24.5	—	<b>120.7</b>
Debt due within 1 year.....	—	—	—	—
Debt due after 1 year.....	(460.4)	—	(3.3)	<b>(463.7)</b>
	(364.2)	24.5	(3.3)	<b>(343.0)</b>

## 26. Operating lease commitments

### Group

At 23 February 2013 the group had total future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 £'m	2012 £'m
Within one year.....	<b>102.6</b>	102.7
Between two and five years inclusive.....	<b>386.1</b>	397.9
Over five years.....	<b>646.4</b>	745.6
	<b>1,135.1</b>	1,246.2

The group leases various retail outlets, offices and warehouses under non- cancellable operating lease agreements. Average remaining lease terms are 11 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The company had no operating lease commitments during the period (2012: £nil).

## 27. Capital commitments

The capital expenditure for the group that has been contracted for but not provided at 23 February 2013 was £1.3m (2012: £1.0m). The company has no capital commitments at 23 February 2013 (2012: £nil).

## 28. 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 18 are secured by fixed and floating charges on all the assets of the group.

## 29. Related party transactions

The company has a related party relationship with other group undertakings and with its directors and executive officers. The company has recharged fees to other group companies to the value of £nil (2012: £nil). The balance of the related transactions outstanding at 23 February 2013 is £29.4 m (2012: £29.4m).

The company is party to a group cash pooling arrangement with other group companies. The company does not settle transactions in cash, instead amounts are settled by other group companies on its behalf with a corresponding adjustment to intercompany receivables/payables.

The company considers the Hargreaves family to be the ultimate controlling party. During the period a member of the Hargreaves family was paid £0.2m by the group as a compensation for overseas sourcing and buying services provided to the group (2012: £0.2m).

Key management is the directors of the company. The compensation paid or payable to key management for employee services is included in note 7.

The group continues to lease a building in London from a company associated with the Hargreaves family. A portion of the building continues to be leased to three companies associated with the Hargreaves family. The rental paid in the period was £0.7m (2012: £0.7m). The rental income in the period was £0.2m (2012: £0.2m). There are no material amounts outstanding/due as at 23 February 2013 (2012: £nil).

During the current and prior period the group leased a new distribution centre from a company associated with the Hargreaves family. The rental paid in the period was £1.1m (2012: £0.4m). These transactions have taken place at levels not materially different to commercial terms.

During the year a trading receivable was returned to the group via a related party at face value.

## 30. Exceptional items

Exceptional items are comprised as follows:

	2013 £'m	2012 £'m
Restructuring costs.....	(1.3)	(1.5)
Onerous contract provision.....	0.8	(2.4)
Refinancing costs.....	(1.5)	(0.1)
<b>Exceptional items—administrative expenses.....</b>	<b>(2.0)</b>	<b>(4.0)</b>
Financing costs.....	(0.5)	(8.3)
<b>Exceptional items—finance costs.....</b>	<b>(0.5)</b>	<b>(8.3)</b>
<b>Total exceptional items.....</b>	<b>(2.5)</b>	<b>(12.3)</b>

### Restructuring costs

Restructuring costs of £1.3m (2012: £1.5m) have been incurred in the year.

### Onerous contract provision

£0.8m of income has been received during the year from properties in respect of which onerous lease provisions are held in full. As the initial provision on these properties was created through exceptional items, the corresponding offsetting income is also recognised as exceptional.

During the prior period a provision for an onerous lease was recognised on a property no longer used by the business. This provision was treated as exceptional.

Two leases previously assigned to another retailer were 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 leases were onerous and this

was treated as exceptional in nature. In the previous period, one of these leases had been assigned to another retailer resulting in a £1.5m release of this provision. This release was also treated as exceptional for consistency.

### Refinancing costs

£1.5m of refinancing costs were incurred during the period relating to the settlement of a dispute with the holders of an interest rate swap that the group had previously entered into. These costs have been expensed as an exceptional item within administrative expenses. In the prior period £0.1m of refinancing costs were expensed as exceptional items within administrative expenses.

### Financing costs

Current year financing costs of £0.5m arises from a change in the discount rate applied to the onerous lease provision calculation.

In the prior period, £8.0m of finance costs associated with the April 2011 refinancing exercise were expensed as an exceptional item. An additional £0.3m was incurred in relation to the RCF (revolving credit facility) renegotiation also in the prior period.

### 31. Principal subsidiary companies and ultimate controlling party

UK companies	Principal activity	Country of incorporation
Matalan Finance plc .....	Holding company	England and Wales
Matalan Group Limited .....	Holding company	England and Wales
Matalan Limited.....	Holding company	England and Wales
Matalan Retail Limited .....	Retail	England and Wales
Jonmar Limited.....	Property	England and Wales
Matalan Holding Company Limited .....	Holding company	England and Wales
Matalan Investments Limited .....	Holding company	England and Wales
Matalan Travel Limited .....	Travel services	England and Wales
HP01 Nominees Limited .....	Distribution	England and Wales

All of the above companies are wholly owned with 100% ordinary share capital being held. 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.