MATALAN

BONDHOLDER REPORT

January 15, 2018

RISKS 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 U.K. 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 U.K. 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.

Our Matalan Reward loyalty scheme 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.

Any one of these factors or a combination thereof could have a material adverse effect on our business, results of operations and financial condition.

Uncertainty surrounding the planned exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, financial condition and results of operations.

We are based in, and operate principally within, the U.K. In a non-binding referendum on the U.K.'s membership in the E.U. in June 2016, a majority of the electorate voted in favor of the U.K.'s withdrawal from the E.U. ("Brexit"). The High Court of England and Wales ruled on November 3, 2016 that a parliamentary vote will be required for the U.K. to invoke Article 50 of the Lisbon Treaty in order to trigger its exit from the E.U. The parliamentary vote giving Prime Minister Theresa May the authority to invoke Article 50 of the Lisbon Treaty was passed on March 14, 2017, and the Prime Minister delivered notice formally triggering Article 50 on March 29, 2017. As required by Article 50, the period from the triggering of Article 50 until the U.K. is officially withdrawn from the E.U. will be the shorter of the completion of a negotiated exit between the E.U. and the U.K. or two years from the delivery of notice invoking Article 50.

Depending on the terms of Brexit, the U.K. could lose its present rights or terms of access to the single E.U. market and E.U. customs area and to the benefits of global trade deals with non-E.U. countries negotiated by the E.U. on behalf of its members. New or modified trading arrangements or a lack of any arrangement at all, between the U.K. and other countries may have a material adverse effect on our business. If the U.K. no longer has access to trade with countries where we source our products under the terms of an E.U. trade agreement and is unable to negotiate an equivalent replacement agreement, we may be unable to continue sourcing our supplies from that country or may not be able to do so on terms that are as favorable as the current terms under which we transact business with our suppliers. Moreover, if the U.K. experiences a decline in trade as a result of the disruption of current trading arrangements generally, such decline could also affect the attractiveness of the U.K. as a global investment center and, as a result, could have a detrimental impact on the level of investment in U.K. companies, and ultimately on U.K. economic growth. Customer behavior may change as a result of global economic uncertainty, which may cause our customers to re-evaluate when and to the extent they are willing to spend on our products and services.

In addition, the announcement of the Brexit referendum result led to a significant weakening of the pound sterling against the U.S. dollar, the euro and other major currencies. See "Exchange Rate and Currency Information". As a majority of our purchases from suppliers are denominated in U.S. dollars, continued weakness of the pound may continue to have a negative impact on our results of operations. See "—Currency fluctuations and hedging risks could adversely affect our earnings and cash flow".

The additional impact, if any, of the uncertainty of Brexit or the resulting terms of the withdrawal from the European Union on customer behavior, labor availability in the U.K., economic conditions, interest rates, exchange rates, availability of capital or other matters is unclear. Examples of the further impact Brexit could have on our business, financial condition or results of operations include:

- uncertainty as to the terms of the U.K.'s withdrawal from, and future relationship with, the European Union in terms of the impact on the free movement of our employees, services and capital;
- legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws and directives to replace or replicate, or where previously implemented by enactment of U.K. laws or regulations, to retain, amend or repeal; and
- various geopolitical forces may impact the global economy and our business, including, for example, other E.U. member states proposing referendums to, or electing to, exit the European Union.

At present, the terms of Brexit remain unclear, and until some details of those terms become available, it is not possible to determine the impact Brexit may have on our business. The Brexit vote and the perceptions as to the impact of the withdrawal of the U.K. from the E.U. has created significant uncertainty regarding the future relationship between the U.K. and the E.U. This uncertainty may adversely affect business activity and economic conditions in the U.K. and other E.U. member states. In particular, changes in tax, tariff and other fiscal policies 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 and, following the U.K. referendum in favor of Brexit, the pound sterling significantly weakened against the U.S. dollar. See "Exchange Rate and Currency Information". 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. For example, in the 52 weeks ended November 25, 2017, we bought over 70% of our goods for resale in U.S. dollars. Consequently, our input costs for U.S. dollar purchased goods have increased as our currency hedges have unwound. 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. As our existing currency hedges continue to unwind in 2018, our input costs for goods purchased in U.S. dollars may further increase. See "Operating and Financial Review and Prospects—Critical Accounting Policies—Derivative Financial Instruments".

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. In addition, the continued uncertainty of Brexit and the final terms of the U.K.'s withdrawal from the E.U. may continue to disrupt economic and capital market conditions. See "—Uncertainty surrounding the planned exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, financial condition and results of operations". 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. As a result of these conditions, our future cost of debt and equity capital and access to the capital markets could be adversely affected.

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 national labor laws, and an increase in the minimum wage or the national living wage in the United Kingdom would result in higher labor costs. If any of these events occur and we are unable to pass on higher labor costs to our customers, these higher labor costs could have a material adverse effect on our business, financial condition and results of operations.

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, improved economic conditions 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, failure 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. In addition, the impact of Brexit may make it more difficult for us to trade with suppliers in other countries. See “Uncertainty surrounding the planned exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, financial condition and results of operations”. 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 subcontractors 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 adverse effects from a challenging economic environment. For example, 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. In addition, as we expand our offerings into new product categories, there is a risk that our customers may not like our new products or that they may prefer to shop for products in those categories from other retailers. If our products are not attractive to our customers, 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. If we are unable to replenish a particular store with the products, including sizes and colors, that need to be replenished, 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. During 2015, we experienced disruption associated with our transition to our new Knowsley distribution center, which impeded our ability to provide inventory to stores and process online orders. See "Business—Supply Chain and Distribution".

If we are unable to successfully implement planned improvements to our business our profitability could be harmed.

Part of our strategy includes changes, upgrades and improvements to our technology and processes including the RFID project, updating our electronic point of sale system that is used throughout our stores and transforming our merchandise ordering systems and processes. It is possible that we may experience difficulties in implementing these changes, which could lead to unanticipated costs, divert management time and/or damage our reputation, which could adversely affect our results of operations. In addition, we may not fully realize all or any of the anticipated benefits of the planned improvements.

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 in Liverpool (Knowsley) and one 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. In addition, as our online sales continue to grow, we may need to reevaluate the way in which our distribution center in Knowsley handles the mix of volume between online sales and our retail stores, which could require us to make additional investments to adapt the center accordingly.

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.

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 third-party operational suppliers for information technology and other forms of support. Any significant disruption or other adverse event affecting our relationship with third-party service providers could have a material adverse effect on our business, financial condition and results of operations. In addition, 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. In addition, our online sales depend on the continued operation of our website. 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 continue to increase the amount of online sales of our products. Any disruption to our website could have a negative effect on online sales and damage 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.

In addition, we can provide no assurance that our IT system is fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has risen as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Any third-party intrusions, viruses, hacker attacks, information or data theft or similar threats against us and our IT systems may have a material adverse effect on our business, financial condition and results of operations.

The majority of our sales depend on customers specifically traveling 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, inflation, 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 up to 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 store expansion and rationalization program and plan to develop online sales may be unsuccessful.

An aspect of our growth strategy is to open a number of additional stores in the United Kingdom and, where appropriate, to migrate stores to locations that are of a more suitable size for that market. 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. In addition, the real estate market in a particular location may not provide favorable locations for us to move a store even if we are looking to do so.

Our ability to successfully open new stores or to move existing 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 stores requires 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 or move existing stores on a timely or profitable basis, or be unable to secure store sites on acceptable terms. Failure to successfully implement our store expansion and rationalization 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 omni-channel customer base and to further expand our store base, including through international franchise stores.

Our ability to further 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 omni-channel customer base by transitioning store and online-only customers into omni-channel customers. In order to achieve an effective transition of customers to our omni-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 strategies may not be as successful as expected, and customers may not transition to omni-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.

In addition, part of our strategy is to open a number of new stores including through international franchise stores which depends on finding suitable franchise partners and suitable locations for our stores. If we are unable to find suitable franchise partners or otherwise successfully implement our growth strategy, this could have a negative impact on our business. Expansion of our international operations could also expose us to risks associated with local and global economic and political conditions. A downturn in local economic conditions where our stores are located and/or political instability in those areas could impact our performance and expansion plans.

Furthermore, even if we are successful in implementing our growth strategy, 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.

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 generate 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. 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, which in turn would cause us to lose sales. If any of these risks were to materialize, they 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* and *Marvel* 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. Of our sales during the 52 weeks ended November 25, 2017, 94.2% 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 and divert management's attention 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 in compliance with applicable regulatory requirements, 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. For example, the E.U.’s General Data Protection Regulation (EU) 2016/679 (“GDPR”), which entered into force on May 24, 2016, will apply in all E.U. member states from May 25, 2018. In the U.K., it is not yet clear what impact the announced exit from the E.U. will have on our data protection responsibilities, including with respect to length of time such data may be retained and whether such data must stay within the U.K. Once effective, the GDPR will further strengthen individuals’ rights and impose stricter requirements on companies with respect to the processing (including storage) of personal data. We are still evaluating the costs associated with complying with GDPR; such costs may be significant. In addition, failure to comply with GDPR and/or other data protection laws may lead to fines or penalties, which may be significant, or could damage our reputation, which in turn could have a negative impact on our business. In addition, because the applicable regulators have yet to release their full guidance on how to interpret GDPR’s requirements, we do not yet know the full scope of what we will be required to do to be in compliance and cannot give you an assurance that we will be able to meet the full requirements.

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 existing 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 an agreement in place with the GMB union which covers warehouse employees, drivers and clerks at our Knowsley and Corby distribution centers. The agreement has have been in place since 2003 and was re-issued in 2010 and although it does not have an expiry date, we periodically review the terms for potential updates. A trade dispute with the GMB union could result in industrial action including 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 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 Jason Hargreaves, John Mills, Stephen Hill and Greg Pateras, 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. In addition, from time to time, as important members of our leadership team leave, we must find suitably qualified replacements. The loss of services of key personnel, or a failure to attract and retain or replace qualified personnel, could adversely affect our business.

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 28, 2015, the 52 weeks ended February 27, 2016 and the 52 weeks ended February 25, 2017 and the unaudited consolidated financial statements as of and for the 39 weeks ended November 26, 2016 and the 39 weeks ended November 25, 2017 and the related notes thereto. Our financial statements are prepared in accordance with 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

Established in 1985, Matalan is one of the leading value clothing, footwear and homeware retailers in the U.K. We focus on providing a unique blend of quality, design and price across our broad product range together with a compelling customer shopping experience through our store network and website. In 2016, we had an estimated 6.9% share of the £13.3 billion U.K. value clothing market. In the 52 weeks ended November 25, 2017, we generated revenue of £1,049.4 million and EBITDA pre exceptionals of £100.2 million at an EBITDA pre exceptionals margin of 9.5%. In the 2017 Fiscal Year, we generated revenue of £1,037.3 million and EBITDA pre exceptionals of £77.0 million at an EBITDA pre exceptionals margin of 7.4%. See "Summary—Summary Financial Data".

We have a large customer base with our product range appealing to a broad spectrum of the U.K. population. Over one quarter of U.K. consumers shopped with Matalan in the last 12 months. While Matalan has a wide appeal, core frequent Matalan shoppers are typically between 35 and 55, are from lower social demographic groups and are predominately female. Our customers are fashion-conscious but not demanding of cutting edge "fast fashion". We maintain a customer database of nearly 12 million active customers who have shopped with Matalan in the last year through our Matalan Reward loyalty scheme, which offers customers a range of benefits including exclusive promotional discounts. Purchases by loyalty scheme members accounted for 94.7% of our revenue during the 52 weeks ended November 25, 2017, making our loyalty scheme an important element of our marketing and customer management strategy, while also supporting our growing omni-channel business.

Our customer proposition includes a comprehensive and authoritative range of clothing, footwear, accessories and homeware, uniquely covering a broad range of price points. In accordance with our quality, design, and price philosophy, we primarily sell our own label products, which accounted for 94.2% of total sales in the 52 weeks ended November 25, 2017. We also offer third-party branded or licensed products, which accounted for 5.8% of total sales over the same period. 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 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. In recent periods, the improvements made to our ranges have allowed us to reduce the frequency of price discounting and move towards a higher percentage of full priced sales. In the 52 weeks ended November 25, 2017, 81.3% of our sales were (non-discounted) full priced sales, compared to 72.3% for the 52 weeks ended November 26, 2016. Our range is segmented across five main product categories. For the 52 weeks ended November 25, 2017, 34% of our revenue was generated by ladieswear, 20% by menswear, 20% by kidswear, 11% by footwear and 15% by homeware. In the 52 weeks ended November 25, 2017, the average selling price of our products and average basket value were £6.60 and £22.61, respectively.

The majority of our sales are carried out in our U.K. stores, comprising 227 stores with 6.5 million square feet of retail trading space. This is one of the largest portfolios of "out-of-town" clothing retail space in the U.K. The majority of our store locations are off the high street but in easily accessible locations from major town centers, based in retail parks with other brand name tenants or in stand-alone locations. The average size of our stores is approximately 28,500 square feet. 222 of our stores are traditional full price locations and five are clearance stores dedicated to selling out-of-season inventory. In 2017, we commenced a multi-year store refurbishment program, which includes intensifying the use of space within stores. This enables smaller stores to offer greater customer choice through displaying more of our existing product range, and larger stores to offer extended ranges or additional services. In addition, improved merchandising fixtures, lighting and customer navigation is being introduced alongside general modernization of the shopping environment. The 35 stores refurbished in the 39 weeks ended November 25, 2017 delivered a year over year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished.

A growing proportion of our sales are made via our website, with online sales in the 52 weeks ended November 25, 2017 increasing by 45.2% to £68.7 million compared to £47.3 million in the 52 weeks ended November 26, 2016, supported by the successful implementation of a new website platform in 2017. Of the orders taken online, 56.4% are collected in store via the popular and convenient "click and collect" service, with this delivery method driving an average

18.3% additional spend in-store upon collection of the online order. Our online sales accounted for 6.5% of our total revenue, with 6.2% of our customers (13.3% by revenue) shopping across multiple channels in the 52 weeks ended November 25, 2017. During that same period, customers who shopped across multiple channels spent more than double that of a single channel customer. In addition, the online channel now forms a key customer acquisition route, with 42.7% of new customers in the 52 weeks ended November 25, 2017 first transacting with us online.

We initiated our international franchising activities in 2009, starting in the Middle East, where we have 22 stores today. Over the last year, we have further expanded our international business by adding additional partners, opening a franchise store in Armenia and two franchise stores in Malta, taking our total number of franchised stores to 25. We believe there is further opportunity to grow our international franchise presence in both existing and new territories.

Factors Affecting Our Results of Operations

Since 2014, the management team has focused on several business improvement initiatives aimed at positioning the business for future growth and improving our sustainable underlying level of profitability.

The following factors impacted our results of operations for the periods under review.

Supply Chain Re-engineering

In January 2015, we opened our new Knowsley distribution center, representing the final stage of a £51.4 million, three year supply chain investment program. The new distribution center services clothing ranges for the northern store estate (50% of total U.K. stores), the majority of the homeware range nationally, all online sales and the international franchise business. The new distribution center facilitated the capability to replenish inventory on a single unit basis, creating opportunities for both improved stock management and margin growth and the sharing of held inventory across multiple channels.

We encountered significant disruption in the supply chain due to design flaws and operational issues with the supply chain program implementation, as well as the transition to the new distribution center. During the 2016 Fiscal Year, the flow of inventory was severely inhibited, with store availability (predominantly in our northern stores) and online performance heavily impacted. This resulted in a significant level of discounting being required to liquidate inventory and cost inefficiency to deal with backlogs during the 2016 Fiscal Year. As such, management set out a two year plan to recover the financial performance of the business in the 2017 Fiscal Year and 2018 Fiscal Year, which is now complete.

Stabilizing a fully functioning supply chain to support effective inventory flow and an improved full price selling mix was critical to recovery. Executing the recovery strategy required management to bridge gaps in organizational capability. This was achieved through strengthening our senior management team by appointing a new Supply Chain Director, Chief Technology Officer, and more recently, a new Chief Operating Officer alongside several other key additions to the broader leadership team to improve operational execution. Additionally, external specialist advisors were utilized to support the recovery plan and work with the Matalan leadership team to undertake the necessary changes.

During the 2017 Fiscal Year, management focused on a defensive recovery program to improve margin levels. The implementation of the required changes to the supply chain configuration enabled significant improvements to inventory flow from the second half of the 2016 Fiscal Year, as the distribution center began to perform effectively. In addition, we implemented a tightly managed inventory framework in order to relieve pressure on the supply chain while the changes made took effect. As the mix of single units and assorted packs was refined, and the hanging garment mix reduced, the single unit replenishment functionality supported improved availability and more efficient working capital.

Throughout the 2016 Fiscal Year and 2017 Fiscal Year, management has continued to re-configure and enhance the supply chain to improve the operational efficiency of servicing the store network and the capability to support the volume of online demand. We developed the supply chain to be consistent with our medium term requirements.

Improvement of Ranges and Intake Margin

Reductions in the levels of price discounting in the 2017 Fiscal Year and 2018 Fiscal Year were enabled by improvements made to our ranges to enhance their appeal, delivered by the “Design” and “Buying” teams, which were further strengthened with additional talent. These improvements included more clearly defining and targeting ranges within our sub-brand architecture and introducing more distinct brand handwriting for the mid and upper end of our range. These ranges offer more price flexibility given they are not benchmarked as closely to the opening price point offer of value competitors and still compare very favorably to prices for comparable product in the mid-market. This added price flexibility supported our ability to manage intake product margins.

In addition, by investing in our sourcing team and working strategically with a further rationalized supply base, we improved manufacturing efficiency and further improved underlying product margins. Improvements delivered include more efficient fabric utilization, reduced product packaging and higher shipping efficiency.

Investment in Online

Both new and existing customers have been targeted and encouraged to provide email addresses and download the App over the last couple of years to support the drive in both online and multi-channel sales and customer behavior. A new website platform was successfully implemented in May 2017. Since its implementation, the platforms ability to accommodate agile development has allowed over 100 subsequent improvements to be implemented to improve the customer journey and experience, supporting rapid online growth. In addition to an improved platform, we have improved online service levels by extending order cut-off times, introducing next day click and collect and reducing the delivery time for standard click and collect from five to three days. These investments have driven online sales growth in recent periods.

Investment in Our Store Estate

The following tables show our store capital expenditure by category and number of stores for each of the periods indicated.

New stores have been opened during the period and have contributed to revenue growth in catchments they appeal to, largely offset by the reduction of SportingPro space.

During the period of recovery following the impact of the warehouse relocation, while the performance level of the stores was improving, there was a strategic step back from opening new space. During this period, investment was weighted more to fixture replacement and testing new merchandising concepts that allowed us to better display more coordinated product ranges.

During the 39 weeks ended November 25, 2017, we commenced a store refurbishment program, which will impact 40 to 50 stores per year. During the 39 weeks ended November 25, 2017, 35 stores were refurbished. This has resulted in improved performance with regard to refurbished stores, which in the 39 weeks ended November 25, 2017 delivered a year over year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished. The homeware offer in the refurbished stores has been up-weighted, including new categories such as lighting, supported through improved visual merchandising, inspiring customers to make coordinated purchases.

Intensifying the use of space within a number of our stores has also enabled us to take advantage of downsizing or relocating to a smaller store, resulting in reduced operating costs but without reducing choice for the customer. Trials of how to better utilize excess space have commenced through testing new categories, such as branded toys, or the introduction of a coffee shop. This has the added advantage of improving the in-store experience for our customers.

	52 weeks ended			**39 weeks ended**	
	February 28, 2015	**February 27, 2016**	**February 25, 2017**	**November 26, 2016**	**November 25, 2017**
	(in £ millions, except number of stores data)				
Capital Expenditure by Category:					
New store openings[1]	9.5	9.6	7.1	7.0	1.4
Refurbishment and fixture innovation	1.9	5.0	5.8	3.8	10.7
Total store development capital expenditure	**11.4**	**14.6**	**12.9**	**10.8**	**12.1**
Number of Stores:[2]					
New store openings	3	5	5	5	—
Total number of stores	227	223	227	227	227

(1) Excludes costs associated with SportingPro during the 2015 Fiscal Year and 2016 Fiscal Year.

(2) Excludes overseas franchises.

Heightened focus on costs

Continued focus on cost efficiency across the business has supported an improvement in several areas including IT support costs, the cost effectiveness of our marketing activity, energy efficiency, supply chain labor productivity and resourcing efficiency levels in our stores. Our IT outsource contract has been reset in establishing a more cost effective support framework. The volume of paper based marketing has been reduced in favor of more cost effective digital channels and our energy efficiency has been raised via investment in LED lighting fixtures within our stores. Within the supply chain, a holistic work study was undertaken by qualified experts in order to establish consistent and accurate productivity standards against which performance could be measured. Within stores, changes include the mix of fixed salaried resource and more flexible hourly paid resource as well as to the processes via which inventory is managed upon receipt at the store. In addition, the recent acquisition of the long leasehold of our head office facility is expected to deliver fixed cost savings going forward in the amount of £2.1 million per annum.

In addition to the above internal factors, which have been managements main focus, we have also given consideration to the following external influences to the business:

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 including the costs of our store portfolio. Our store and warehouse 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 2017 Fiscal Year, 40 rent reviews were agreed and settled with £72,950 total increase across the 40 rents reviewed and one lease was subject to a fixed rental uplift of 13%. The average rental increase at the review points has reduced in recent years from the levels seen prior to the 2008 economic recession.

The majority of our store based employees are paid at the rate of the national living or minimum wage. This is set by the U.K. government on an annual basis and has risen significantly over recent years. In 2017, the U.K. government introduced a new levy as a way of funding training for apprentices. This levy is a fixed percentage of an organization’s payroll costs. The business continually re-assesses organizational design, process efficiency and resource levels in seeking to remain cost effective as wage rates rise.

In the past, we have been significantly impacted by material variations in the prices of certain commodities, particularly cotton. Fluctuations in the exchange rate between U.S. dollars in which we buy over 70% of our goods for re-sale, and pounds sterling in which substantially all of our revenue is denominated, have also historically impacted the price we pay for goods. We believe that consolidating our supply base and improving our range quality and the upper end of our price and range 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 in more than price alone further up the price range and architecture. This includes offering comparable products at significantly lower prices than mid-market competitors.

We also believe that a period of sales price inflation within the U.K. clothing and homeware market 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.

Variations in Quarterly Results, Seasonality and Weather

During the four 13 week periods in our 2017 Fiscal Year, we generated 24.1%, 23.7%, 28.9% and 23.4% of our full year revenue, respectively. During the 2017 Fiscal Year, 23.4% of our revenues were generated from the beginning of November 2016 to the end of December 2016, which is a period of time during which we typically experience increased volumes due to holiday shopping.

As is common among retailers, our results can be affected by periods of abnormal, severe or unseasonable weather conditions. See “Risk Factors—Risks Relating to Our Business—Our business could suffer as a result of weak sales during extreme or unseasonable weather conditions”. In addition, extended periods of warm or cold weather could render a portion of our inventory incompatible with such unseasonable conditions, which can impact our results of operations.

Change in Accounting Standards in Future Periods

Comparability of our results may be affected by our adoption of the reporting standards set out under IFRS 15 and IFRS 16. We intend to adopt these standards when they become effective in our applicable fiscal year, commencing February 25, 2018, and February 24, 2019, respectively.

IFRS 15 requires sales to be recognized when control of a good or service is transferred to the customer. We do not expect this standard to have a significant impact on our sales.

We believe that IFRS 16 will have a significant impact on the way we account for operating leases, as the new standard eliminates the classification of leases as either operating leases or finance leases for a lessee. Leases are capitalized by recognizing the present value of future lease payments and showing them as lease assets (right-of-use assets). Accordingly, if lease payments are made over time, we will also have to recognize a financial liability in respect of our obligation to make lease payments in the future. As a result, our gross and net debt is expected to increase significantly. In addition, IFRS 16 will replace the straight-line operating lease expense under IAS 17 with a depreciation charge against the lease asset (operating costs) and an interest expense (finance costs) on the lease liability. Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This will result in lower total expenses as individual leases mature and boost performance measures such as EBITDA pre exceptionals. We have not yet determined to what extent our current accounting presentation for our operating lease commitments will be affected by the adoption of IFRS 16.

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. Results for a fiscal year that include 53 weeks are not directly comparable to results for other fiscal years that include 52 weeks. 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.

Explanation of Key Income Statement and Other 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 U.K.

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 label products but to a lesser extent also include third-party brands. We also 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 accessories 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 and range 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 total revenue less the sum of cost of goods sold (excluding exceptional items) and exceptional items—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 frequency and 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 hedge future seasons' purchases denominated in U.S. dollars. Our treasury's risk management policy is to hedge forecast purchases up to two and a half years in advance of anticipated cash flows in respect of the purchase of inventory. Of projected purchases in U.S. dollars, 100% (2016: 100%) qualify as "highly probable" forecast transactions for hedge accounting purposes;

- 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 38.9% of total overheads in the 2017 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 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 profit less administrative expenses (excluding exceptional items).

Net Finance Costs

Net Finance Costs consists of finance costs and similar charges, net of finance income and exceptional finance income. Finance costs primarily consist of interest payable on notes, credit facilities and other indebtedness, as well as the amortization of finance costs and other interest payable. Finance income consists of interest receivable on short term cash deposits, while exceptional finance income consists of deemed income resulting from the repurchase of outstanding indebtedness at a price below par.

Income Tax (Expense)/Credit

Income Tax (Expense)/Credit consists of both current income taxes, primarily U.K. corporation tax, and deferred income taxes, which includes deferred income tax relating to the origination and reversal of temporary differences, the effect of changes in income tax rates and adjustments in respect of prior periods.

Exceptional Items

Items that are material 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.

Results of Operations

Results of Operations for the 39 Weeks Ended November 25, 2017 Compared to the 39 Weeks Ended November 26, 2016

The following table sets forth our main operating results extracted from our "operating profit" note within our historical condensed consolidated financial statements for the 39 week period ended November 25, 2017 compared to the 39 week period November 26, 2016.

	39 weeks ended		
	November 26, 2016	**November 25, 2017**	**% change**
	(in £ millions)		
Revenue (excluding exceptional items)	795.0	807.1	1.5
Exceptional items—revenue	—	—	n.m.
Total revenue	795.0	807.1	1.5
Cost of goods sold (excluding exceptional items)	(406.9)	(401.3)	(1.4)
Exceptional items—cost of goods sold	—	—	n.m.
Gross merchandise margin	**388.1**	**405.8**	**4.6**
Selling and distribution expenses (excluding exceptional items)	(295.9)	(293.5)	(0.8)
Exceptional items—Selling and distribution expenses	—	—	n.m.
Total costs of sales	(702.8)	(694.8)	(1.1)
Gross profit	**92.2**	**112.3**	**21.8**
Administrative expenses (excluding exceptional items)	(47.2)	(45.3)	(4.0)
Exceptional items—administrative expenses	(0.3)	(1.0)	n.m.
Administrative expenses (including exceptional items)	(47.5)	(46.3)	(2.5)
Total trading profit	**45.0**	**67.0**	**48.9**
Operating profit[(1)]	**44.7**	**66.0**	**47.7**

(1) The reconciliation of our operating profit for the period to our profit/(loss) for the period can be found within "Summary—Summary Financials Data" on page 17 and "Selected Financial and Other Information" on page 49.

Revenue. Revenue increased by 1.5% to £807.1 million in the 39 weeks ended November 25, 2017 compared to £795.0 million in the 39 weeks ended November 26, 2016.

During the 39 weeks ended November 25, 2017, we continued to focus on full priced sales from improved ranges, with the full price sales mix increasing to 83.5% of total revenue from 75.0% in the 39 weeks ended November 26, 2016 alongside the re-introduction of regular planned promotions. These promotions were launched via the "Now or Never" promotional mechanic whereby special buy products are offered at very attractive price points for a limited period. These products act as a compelling call to action for customers, which drives engagement and customer flow to stores and our website in the absence of our historic broader discounting approach.

The ladieswear and homeware categories delivered sales growth in the 39 weeks ended November 25, 2017. Growth in ladieswear was driven by an improved product offer, with added detail, improved fabrics, shapes and color palettes on core basics. In addition, more frequently refreshed "Edit" ranges enhanced the level of newness and coordination within the range. At the upper end of the price and range architecture, the re-launched "*Soon*" own label brand performed strongly and allowed customers to trade up from basic ranges. Within homeware, the luggage department delivered strong levels of growth as the ability to display an extensive offer in stores had a positive impact. Elsewhere within the homeware offer, sales were particularly strong across furnishings, bedroom, bathroom and kitchen ranges, supported by the creation of additional homeware merchandising space in the refurbished stores which subsequently outperformed the rest of the store estate. The increase in performance was supported by the store refurbishment program which delivered a year-to-year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished.

Online revenue growth was 32.5% in the 39 weeks ended November 25, 2017 compared to the 39 weeks ended November 26, 2016, with the channel contributing 6.9% of total revenue. The introduction of next day click and collect and extended cut-off times for next day home delivery were well received by customers. The new web platform launched during the first quarter of the year with minimal disruption, providing the opportunity for a number of subsequent improvements to functionality and the customer experience, which also contributed to this growth.

Cost of goods sold. Cost of goods sold decreased by 1.4% to £401.3 million in the 39 weeks ended November 25, 2017, from £406.9 million in the 39 weeks ended November 26, 2016. The focus on full priced sales resulted in a reduction in the volume of goods sold in the period as profitability was prioritized. Input costs of the goods sold were adversely impacted by the weakening of our hedged position in relation to the pound sterling exchange rate against the U.S. dollar in which the majority of our goods for resale are purchased. This impact was balanced across the other favorable influencers on the cost of goods including product mix, and underlying improvements in cost prices from suppliers as the benefits of strategic collaboration and supplier rationalization continued to be delivered.

Gross merchandise margin. Gross merchandise margin increased by 4.6% to £405.8 million in the 39 weeks ended November 25, 2017, from £388.1 million in the 39 weeks ended November 26, 2016. Our gross margin as a percentage of revenue increased to 50.3% in the 39 weeks ended November 25, 2017 from 48.8% in the 39 weeks ended November 26, 2016. Our main inventory liquidation event in the period, the July end of season sale, launched with a 20% reduction in entry volume from the same event in the prior year, enabling liquidation at improved margins. Promotional discounting also continued to be tightly controlled, with the focus remaining on full priced sales supported by improved ranges and marketing. A reduction in promotional discounting, deferral of loyalty incentives and an increase in the homeware mix in revenue also contributed to the delivery of stronger margins within the 39 weeks ended November 25, 2017.

Selling and distribution costs and gross profit. Selling and distribution costs decreased to £293.5 million in the 39 weeks ended November 25, 2017, from £295.9 million in the 39 weeks ended November 26, 2016. Cost efficiencies continued to successfully deliver a year-to-year reduction in our cost base. Distribution costs continued to reduce due to further productivity improvements, offsetting the cost increase of supporting the strong online growth rate. The ongoing impact of the national living wage on pay rates did have impact, however this was largely mitigated due to the benefit of various other initiatives, including reduced IT support costs and reduced marketing costs, due to reduced reliance on paper and postage following the shift toward digital activity. These reductions were offset by increased property rate costs and refurbishment related depreciation increases. For the reasons set forth above, gross profit increased by 21.8% from £92.2 million in the 39 weeks ended November 26, 2016 to £112.3 million in the 39 weeks ended November 25, 2017. Gross profit as a percentage of revenue increased from 11.6% in the 39 weeks ended November 26, 2016 to 13.9% in the 39 weeks ended November 25, 2017.

Administrative expenses. Administration expenses decreased from £47.2 million in the 39 weeks ended November 26, 2016 to £45.3 million in the 39 weeks ended November 25, 2017. This decrease was primarily attributable to reductions in central IT support costs together with lower legal and professional fees. Further year-to-year reductions were delivered through restructuring and Matalan Direct integration benefits. Increased costs for the newly introduced apprenticeship levy within the period partially offset these cost reductions.

Total trading profit. Total trading profit increased by 48.9% to £67.0 million in the 39 weeks ended November 25, 2017 from £45.0 million in the 39 weeks ended November 26, 2016. Trading profit as a percentage of revenue increased to 8.3% in the 39 weeks ended November 25, 2017 from 5.7% in the 39 weeks ended November 26, 2016.

Exceptional items. Exceptional items were a cost of £1.0 million in the 39 weeks ended November 25, 2017 compared to £0.3 million in the 39 weeks ended November 26, 2016. Exceptional items for the 39 weeks ended November 25, 2017 included £1.1 million of restructuring costs net of £0.1 million onerous lease provision release.

Operating profit. In the 39 weeks ended November 25, 2017, operating profit was £66.0 million, an increase of 47.7%, compared to £44.7 million in the 39 weeks ended November 26, 2016.

Net finance costs. In the 39 weeks ended November 25, 2017, net finance costs were £28.1 million, a decrease of 3.4%, compared to £29.1 million in the 39 weeks ended November 26, 2016.

Profit/(loss) before income tax. As a result of the factors discussed above, profit before taxation was £37.9 million for the 39 weeks ended November 25, 2017 compared to £15.6 million in the 39 weeks ended November 26, 2016.

Income tax (expense)/credit. In the 39 weeks ended November 25, 2017, taxation was £7.4 million, compared to £4.1 million in the 39 weeks ended November 26, 2016 largely driven by the increased profits in the period.

Profit(loss) for the period. For the reasons set forth above, profit for the period was £30.5 million in the 39 weeks ended November 25, 2017 compared to £11.5 million in the 39 weeks ended November 26, 2016.

Results of Operations for the 52 Weeks Ended February 25, 2017 Compared to the 52 Weeks Ended February 27, 2016

The following tables sets forth our main operating results extracted from our "operating profit" note within our historical consolidated financial statements for the 2017 Fiscal Year compared to the 2016 Fiscal Year.

	52 weeks ended		
	February 26, 2016	**February 25, 2017**	**% change**
	(in £ millions)		
Revenue (excluding exceptional items)	1,056.9	1,037.3	(1.9)
Exceptional items—revenue	4.5	—	n.m.
Total revenue	1,061.4	1,037.3	(2.3)
Cost of goods sold (excluding exceptional items)	(577.4)	(533.4)	(7.6)
Exceptional items—cost of goods sold	(9.1)	—	n.m.
Gross merchandise margin	**474.9**	**503.9**	**6.1**
Selling and distribution expenses (excluding exceptional items)	(392.5)	(392.3)	(0.1)
Exceptional items—Selling and distribution expenses	(0.6)	—	n.m.
Total cost of sales	(979.6)	(925.7)	(5.5)
Gross profit	**81.8**	**111.6**	**36.4**
Administrative expenses (excluding exceptional items)	(60.7)	(63.7)	4.9
Exceptional items—administrative expenses	(4.2)	(1.8)	(57.1)
Administrative expenses (including exceptional items)	(64.9)	(65.5)	0.9
Total trading profit	**21.1**	**47.9**	**127.0**
Operating profit(1)	**16.9**	**46.1**	**172.8**

(1) The reconciliation of our operating profit for the period to our profit/(loss) for the period can be found within "Summary—Summary Financials Data" on page 17 and "Selected Financial and Other Information" on page 49.

Revenue. Revenue fell by 1.9% to £1,037.3 million in the 2017 Fiscal Year, compared to £1,056.9 million in the 2016 Fiscal Year. In light of the improvements in our operational performance and supply and inventory management, focus remained on driving forward the full priced sales mix rather than protecting unprofitable volume. As a result of this strategy, sales of discounted merchandise were reduced in the 2017 Fiscal Year by 23% compared to the prior year, however full priced sales increased by 7.2% compared to the previous year, representing 74.7% of total revenues.

We continued to enhance our proposition within the year with improved in-store merchandising and product coordination. This aided the delivery of full price revenue growth across all of the clothing ranges as discounting was reduced and distressed sales removed. Improvements in design, taste and coordination were better showcased on bespoke fixtures, aiding their rates of sale at full price. In addition, within clothing a "buy now, wear now" approach was adopted to the early spring and early autumn transitional phases, making the ranges more resilient to unpredictable weather patterns. This supported improved full priced sales performance through these periods and a reduction in discounted clothing sales from ranges that were inconsistent with the prevailing weather conditions. Homeware sales were strong within the final quarter of the 2017 Fiscal Year, within both revenue and margin, supported by "home inspiration" ranges. With a similar approach to the clothing offer, coordinated ranges and themes had great appeal to our customers.

Online revenue grew by 67% in the 2017 Fiscal Year when compared to the 2016 Fiscal Year, with the channel contributing 5% of total revenue. This was driven by good availability through a robust supply chain, a strengthening omni-channel capability and improvements in the customer service proposition, particularly around delivery times, including the reintroduction of a next day option. Besides the growth in contribution to revenue, the online channel also benefited customer acquisition, driven by The Show, social and digital media channels gaining momentum.

Investment in new stores contributed incremental revenue in the 2017 Fiscal Year, versus the 2016 Fiscal Year, with four new stores and the final conversion of SportingPro stores into Matalan, complementing our existing estate.

Cost of goods sold. Cost of goods sold decreased by 7.6% to £533.4 million in the 2017 Fiscal Year, from £577.4 million in the 2016 Fiscal Year. The focus on full priced sales resulted in a reduction in sales volumes in the 2017 Fiscal Year. Improvements were delivered within the product intake margin driven by ranging a reduced number of product options and as a result buying more volume of each ranged option. This reduction was more efficient for suppliers to produce, supports a lower price being paid for each unit purchased, together with a heightened focus within the supply base on efficiency and strong sourcing disciplines. These improvements were partially offset by higher freight costs and foreign exchange-driven duty increases, together with volume-driven online delivery costs.

Gross merchandise margin. Gross merchandise margin increased by 6.1% to £503.9 million in the 2017 Fiscal Year, from £474.9 million in the 2016 Fiscal Year. Our gross margin as a percentage of revenue increased to 48.6% in the 2017 Fiscal Year from 44.7% in the 2016 Fiscal Year. Reduced levels of discounting were the primary driver for the improvement in gross merchandise margin. Levels of discounting were 30% lower in the 2017 Fiscal Year than in the 2016 Fiscal Year. The successful delivery of our "first price, right price" strategy was demonstrated with a reduction in promotional activity, coupled with closely managed stocks. This, alongside improved product and execution, favorably impacted discount costs, which were lower than the 2016 and 2015 Fiscal Years.

Selling and distribution costs and gross profit. Selling and distribution costs decreased to £392.3 million in the 2017 Fiscal Year, from £392.5 million in the 2016 Fiscal Year. A £5.0 million cost reduction was achieved within distribution costs due to dramatically improved efficiencies within the supply chain versus disruptions experienced in the prior year. Labor productivity improved across the store network, mitigating the impact of the increase in national living wage on labor costs. Cost to serve the online channel also improved due to a reduction in staff costs and operating efficiencies. Further savings were attributable to operating costs associated with operating the SportingPro business, which we exited in the 2016 Fiscal Year. Costs for new stores and the full-year recognition of costs of stores opened in the prior year, together with inflationary increases for property rates, energy and IT costs, offset the reduction in selling and distribution costs.

For the reasons set forth above, gross profit increased by 36.4% from £81.8 million in the 2016 Fiscal Year to £111.6 million in the 2017 Fiscal Year. Gross profit as a percentage of revenue increased from 7.7% in the 2016 Fiscal Year to 10.8% in the 2017 Fiscal Year.

Administrative expenses. Administrative expenses increased from £60.7 million in the 2016 Fiscal Year to £63.7 million in the 2017 Fiscal year. This increase is primarily attributable to increased labor costs following investment in further strengthening the leadership team in several areas to aid execution. In addition, there were increased discretionary bonus costs during the period, increased professional costs and additional costs associated with Matalan Direct, including a £0.9 million goodwill impairment. These costs were offset with establishment cost reductions as energy efficiency was improved and favorable bad debt provision movements.

Total trading profit. Total trading profit increased by 127% to £47.9 million in the 2017 Fiscal Year from £21.1 million in the 2016 Fiscal Year. Trading profit as a percentage of revenue increased to 4.6% in the 2017 Fiscal Year from 2.0% in the 2016 Fiscal Year.

Exceptional items. Exceptional items were £1.8 million in the 2017 Fiscal Year compared to £4.2 million in the prior year. These included, for 2017, £1.1 million relating to the closure of the SportingPro division and £0.7 million restructuring costs. In the prior year, exceptional costs were made up of £2.6 million due to the closure of the SportingPro division, £0.8 million restructuring costs, and £0.8 million other admin expenses, including £0.3 million variations in lease costs in connection with an onerous lease contract and other provision movements.

Operating profit. Operating profit increased to £46.1 million in the 2017 Fiscal Year, from £16.9 million in the 2016 Fiscal Year. The change in operating profit reflects the progress made in the Group's recovery strategy following operational issues in the prior period, greater focus on the full-priced sales mix and improved supply chain efficiencies.

Net finance costs. Net finance costs were £36.2 million in the 2017 Fiscal Year, compared to £39.0 million in the 2016 Fiscal Year. Financing exceptional income of £2.5 million arising on the repurchase and cancellation of Second Lien Secured Notes was incurred in the 2017 Fiscal Year compared to £nil of financing exceptional income in the 2016 Fiscal Year.

Profit/(loss) before income tax. As a result of the factors described above, profit before taxation was £9.9 million in the 2017 Fiscal Year, compared to a loss of £22.1 million in the 2016 Fiscal Year

Income tax (expense)/credit. For the 2017 Fiscal Year, taxation was a cost of £2.5 million compared to a credit of £3.5 million in the 2016 Fiscal Year largely driven by the increased profits in the period.

Profit/(loss) for the period. For the reasons set forth above, profit for the period increased to £7.4 million in the 2017 Fiscal Year, from a loss of £18.6 million in the 2016 Fiscal Year.

Results of Operations for the 52 Weeks Ended February 27, 2016 Compared to the 52 Weeks Ended February 28, 2015

The following tables sets forth our main operating results extracted from our "operating profit" note within our historical consolidated financial statements for the 2016 Fiscal Year compared to the 2015 Fiscal Year.

	52 weeks ended		
	February 28, 2015	February 27, 2016	% change
	(in £ millions)		
Revenue (excluding exceptional items)	1,094.0	1,056.9	(3.4)
Exceptional items—revenue	—	4.5	n.m.
Total revenue	1,094.0	1,061.4	(3.0)
Cost of goods sold (excluding exceptional items)	(580.3)	(577.4)	(0.5)
Exceptional items—cost of goods sold	—	(9.1)	n.m.
Gross merchandise margin	**513.7**	**474.9**	**(7.6)**
Selling and distribution expenses (excluding exceptional items)	(381.5)	(392.5)	(2.9)
Exceptional items—selling and distribution expenses	—	(0.6)	n.m.
Total cost of sales	(961.8)	(979.6)	1.9
Gross profit	**132.2**	**81.8**	**(38.1)**
Administrative expenses (excluding exceptional items)	(61.9)	(60.7)	(1.9)
Exceptional items—administrative expenses	(9.2)	(4.2)	(54.3)
Administrative expenses (including exceptional items)	(71.1)	(64.9)	(8.7)
Total trading profit	**70.3**	**21.1**	**(70.0)**
Operating profit[(1)]	**61.1**	**16.9**	**(72.3)**

(1) The reconciliation of our operating profit for the period to our profit/(loss) for the period can be found within "Summary—Summary Financials Data" on page 17 and "Selected Financial and Other Information" on page 49.

Revenue. Revenue fell by 3.4% to £1,056.9 million in the 2016 Fiscal Year, compared to £1,094.0 million in the 2015 Fiscal Year. Full priced sales reduced to a mix of 68.0% of total revenue in the 2016 Fiscal Year from 73.3% in the 2015 Fiscal Year. Revenues within the 2016 Fiscal Year were heavily impacted by the complexity of the transition into our new Knowsley distribution center. Stock flow to the 108 northern stores serviced by the new distribution center was significantly below required levels, severely impacting product availability to customers. As a result, customer conversion was poor and there was a large disparity between store performance in the northern stores versus the stores serviced by the Corby distribution center in the south. During the first half of the 2016 Fiscal Year, like for like sales in our northern stores declined by 9.6%, with the southern stores performing in line with the prior fiscal year. This negative impact to revenue compounded a challenging market during the spring season. Positively, despite these difficult conditions, the footwear business delivered strong growth on the prior year, supported by shopping environment improvements and fixture replacement. In response to the trading performance and in order to commence the liquidation of the spring summer ranges, the timing of the summer sale was brought forward. This launched with 60% more product volume being discounted than the 2015 Fiscal Year.

The second half of the 2016 Fiscal Year reflected an improving trend, with northern stores' like for like sales improving to a decline of 2.7% compared to the corresponding period in the prior fiscal year (compared to the 9.6% decline in the first half of the 2016 Fiscal Year). This was achieved in what was a well-publicized challenging autumn winter season affecting the market in general. Positively, by the end of the year, both regions showed consistent performance against the prior year as improvements within the Knowsley distribution center took effect and the store stock position was better maintained.

From a product perspective, there was recovery in the stock position and performance of the ranges in the second half of the 2016 Fiscal Year. Having suffered from availability issues earlier in the year, non-seasonal ranges delivered their third successive quarter of growth in the fourth quarter of the 2016 Fiscal Year. Footwear, homeware and kidswear, all of which were less impacted by the warehouse constraints of the hanging system, were the strongest performing categories within the second half of the 2016 Fiscal Year, holding or growing their business in relation to the prior year. Own label sports and leisurewear performed strongly, doubling the revenue of the prior year.

We opened five new stores within the 2016 Fiscal Year and completed one relocation, which contributed positively to the year-on-year movement in revenue. This was further enhanced by the annualization of the prior corresponding year period store openings. The closure of the SportingPro stores during the 2016 Fiscal Year had an adverse impact on revenue.

Online revenue declined in the 2016 Fiscal year by 22% when compared to the 2015 Fiscal Year with the channel contributing 3% of total revenue in the 2016 fiscal year compared to 4% in the 2015 Fiscal Year. The challenges during the distribution center transition heavily impacted our online business, which is supplied by the Knowsley distribution center. As a result, the Online channel was heavily constrained due to a condensed product offer and limited promotional calendar, introduced to protect service levels. By the end of the 2016 Fiscal Year, performance normalized with February delivering sales growth of 8% compared to the prior year as the constraints were removed.

Cost of goods sold. Cost of goods sold decreased by 0.5% to £577.4 million in the 2016 Fiscal Year, from £580.3 million in the 2015 Fiscal Year. The decrease in the cost of goods mirrors the improved intake margins improved, driven by strategic buying and favorable commodity and currency markets, supported through effective hedging. Offsetting this improvement were increases in inventory provisions.

Gross merchandise margin. Gross merchandise margin decreased by 7.6% to £474.9 million in the 2016 Fiscal Year, from £513.7 million in the 2015 Fiscal Year. Our gross margin as a percentage of revenue decreased to 44.7% in the 2016 Fiscal Year from 47.0% in the 2015 Fiscal Year.

The most significant factor in the reduced margin level was the level of discounting required during the second and third quarters of the 2016 Fiscal Year to liquidate the volume of stock trapped in the supply chain in the spring summer season. The scale of the discounting required to liquidate the spring summer product diluted trading margins significantly. A greater depth of discount was applied to the summer sale product and volumes were considerably higher than the prior year. While the level of volume cleared was an operational achievement, it came at a heavy cost to margin. Within the autumn winter season, the improvements in stock placement meant that our margin levels and Boxing Day sale volumes were in line with December 2015, representing an improvement from the stock and margin position in the spring summer sale and exit phase. The management of the online volumes, however, meant that additional markdown was required to exit product that was originally bought to sell online. The timing of the mid-season sale being in February 2016, compared to March 2015, drove additional markdown investment, however this was offset by the growth in the full price sales mix. Markdown costs represented an increase of 24% on the prior year.

Selling and distribution costs and gross profit. Selling and distribution costs increased to £392.5 million in the 2016 Fiscal Year, from £381.5 million in the 2015 Fiscal Year. Within distribution costs, the impacts of the transition to the Knowsley distribution center meant that short term processes and workarounds to supplement both intake and dispatches had to be put in place, thereby increasing costs year-on-year. This suboptimal performance was on top of planned cost investment in the new singles replenishment process. Positively, key performance measures and productivity improved throughout the year ahead of targets, driven by improvements in the stability and capability of the workforce together with additional equipment, processes and reporting, ensuring effective flow of autumn winter product.

Selling cost increases were driven by costs of new stores and full year recognition of costs of stores opened in the prior period, including SportingPro stores, increased advertising, professional fees and computer costs, together with the introduction of costs for Matalan Direct within the 2016 Fiscal Year. The impact of these increases was largely offset with reductions in volume driven variable labor costs to service a depressed online channel, alongside cost efficiencies delivered within payroll and security. Establishment costs reduced against the 2015 Fiscal Year as the parallel running of both the new Knowsley and old Skelmersdale sites ceased.

For the reasons set forth above, gross profit decreased by 38.1% from £132.2 million in the 2015 Fiscal Year to £81.8 million in the 2016 Fiscal Year. Gross profit as a percentage of revenue decreased from 12.1% in the 2015 Fiscal Year to 7.7% in the 2016 Fiscal Year.

Administrative expenses. Administrative expenses declined from £61.9 million in the 2015 Fiscal Year to £60.7 million in the 2016 Fiscal year. This is due to resource efficiencies across the head office and lower levels of project support, together with reduced brand advertising costs, offset by increased establishment costs associated with the new head office.

Total trading profit. Total trading profit decreased by 70% to £21.1 million in the 2016 Fiscal Year from £70.3 million in the 2015 Fiscal Year. Trading profit as a percentage of revenue decreased to 2.0% in the 2016 Fiscal Year from 6.4% in the 2015 Fiscal Year.

Exceptional items. Exceptional items were £4.2 million in the 2016 Fiscal Year compared to £9.2 million in the 2015 Fiscal Year. Exceptional items in the 2016 Fiscal Year included £2.6 million relating to the closure of the SportingPro division, £0.8 million in restructuring costs and £0.8 million of other administrative expenses including £0.3 million variations in lease costs in connection with an onerous lease contract and other provision movements. In the 2015 Fiscal Year, exceptional items included £4.1 million of impairment of fixed assets, £2.3 million in head office and distribution center relocation costs, £1.8 million in restructuring costs, and £1 million of other administrative expenses relating to the Singles supply chain implementation at the Corby site.

Operating profit. In the 2016 Fiscal Year, operating profit was £16.9 million, a reduction of 72.3%, compared to £61.1 million in the 2015 Fiscal Year.

Net finance costs. In the 2016 Fiscal Year, net finance costs were £39.0 million, compared to £59.6 million in the 2015 Fiscal Year. Year-to-year, comparative costs remained largely flat. For the 2015 Fiscal Year, there were also £19.2 million of exceptional financing costs relating to the June 2014 refinancing.

Profit/(loss) before income tax. As a result of the factors discussed above, there was a loss before taxation of £22.1 million for the 2016 Fiscal Year compared to a profit of £1.5 million in the 2015 Fiscal Year.

Income tax (expense)/credit. In the 2016 Fiscal Year taxation was a credit of £3.5 million, compared to a charge of £1.9 million in the 2015 Fiscal Year largely driven by the loss before tax in the 2016 Fiscal Year.

Profit/(loss) for the period. For the reasons set forth above, loss for the period was £18.6 million in the 2016 Fiscal Year compared to a loss of £0.4 million in the 2015 Fiscal Year.

Liquidity and Capital Resources

During the periods presented, our primary sources of liquidity were cash generated from operations and drawings under our existing revolving credit facility, which provided for aggregate drawings of up to £50.0 million 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 for more detailed information.

	52 weeks ended			39 weeks ended	
	February 28, 2015	**February 27, 2016**	**February 25, 2017**	**November 26, 2016**	**November 25, 2017**
			(in £ millions)		
Net cash flow from operating activities	58.7	13.2	42.6	41.2	77.3
Net cash used in investment activities	(35.1)	(32.6)	(26.6)	(20.1)	(55.7)
Net cash (used)/generated in financing activities	(2.0)	0.4	(9.4)	—	—
Net increase/(decrease) in cash and cash equivalents	**21.6**	**(19.0)**	**6.6**	**21.1**	**21.6**
Cash and cash equivalents at the beginning of the period	71.9	93.5	74.5	74.5	81.1
Cash and cash equivalents at the end of the period	**93.5**	**74.5**	**81.1**	**95.6**	**102.7**

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			39 weeks ended	
	February 28, 2015	**February 27, 2016**	**February 25, 2017**	**November 26, 2016**	**November 25, 2017**
			(in £ millions)		
Cash flows from operating activities:					
Operating profit before exceptional items	70.3	26.3	47.9	45.0	67.0
Exceptional items	(9.2)	(9.4)	(1.8)	(0.3)	(1.0)
Operating profit	**61.1**	**16.9**	**46.1**	**44.7**	**66.0**
Depreciation	23.0	22.9	22.5	16.8	17.6
Amortization of intangibles	7.0	7.0	6.6	4.9	5.3
Goodwill impairment	—	—	0.9	—	—
Non cash exceptional items	7.3	2.1	1.3	—	(0.1)

Share based compensation charge	0.5	0.5	0.3	0.3	0.2
Hedge accounting	0.2	0.2	0.1	0.2	0.8
Loss on disposal of property, plant and equipment	—	—	0.1	—	—
(Increase)/decrease in inventories	(10.4)	11.1	18.3	2.6	(24.7)
(Increase)/decrease in trade and other receivables	7.9	(1.8)	(4.3)	(9.8)	(5.9)
Increase/(decrease) in trade and other payables	14.0	(6.9)	(10.0)	20.0	39.4
Total cash flow from operating activities	**110.6**	**52.0**	**81.9**	**79.7**	**98.6**
Interest paid	(46.6)	(37.7)	(37.9)	(37.6)	(18.5)
Taxation paid	(5.3)	(1.1)	(1.4)	(0.9)	(2.8)
Net cash flow from operating activities	**58.7**	**13.2**	**42.6**	**41.2**	**77.3**

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 increase in net cash flow from operating activities from £41.2 million in the 39 weeks ended November 26, 2016 to £77.3 million in the 39 weeks ended November 25, 2017 was largely due to the return to growth. Investment in inventory was partially offset by the benefits in the Singles supply chain program which enabled a more efficient inventory position to be carried. Timing of supply and interest payments in relation to the period end cut-off benefitted trade payables.

The increase in cash generated from operating activities from £13.2 million in the 2016 Fiscal Year to £42.6 million in the 2017 Fiscal Year was largely due to the increased operating profit in the period coupled with a decrease in inventory levels held.

The decrease in cash generated from operating activities from £58.7 million in the 2015 Fiscal Year to £13.2 million in the 2016 Fiscal Year was largely due to the decreased operating profit in the period coupled with a decrease in interest paid which was due to the 2014 refinancing.

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			39 weeks ended	
	February 28, 2015	**February 27, 2016**	**February 25, 2017**	**November 26, 2016**	**November 25, 2017**
			(in £ millions)		
Cash used in investment activities:					
Purchases of property, plant and equipment	(27.0)	(22.2)	(17.2)	(13.8)	(48.5)
Purchases of intangible assets	(8.9)	(10.7)	(9.9)	(6.6)	(7.2)
Purchases of shares investment	—	—	—	—	(0.4)
Proceeds from the sale of property, plant and equipment	—	—	—	—	—
Interest received	0.8	0.3	0.5	0.3	0.4
Net cash used in investment activities	**(35.1)**	**(32.6)**	**(26.6)**	**(20.1)**	**(55.7)**

Further details of capital expenditure are included below.

Capital Expenditure

	52 weeks ended			39 weeks ended	
	February 28, 2015	**February 27, 2016**	**February 25, 2017**	**November 26, 2016**	**November 25, 2017**
			(in £ millions)		
Capital Expenditure by Category:					
New store openings/relocations and downsizes	9.5	9.6	7.1	7.0	1.4
Refurbishment and fixture innovation	1.9	5.0	5.8	3.8	10.7
SportingPro concept	1.5	1.4	—	—	—
Singles supply chain program	12.9	3.9	0.6	0.4	—
Head Office relocation	3.9	0.6	—	—	—
Head Office purchase of long leasehold	—	—	—	—	32.6
Online platform	0.9	5.2	6.9	5.4	2.6
IT initiatives	2.9	3.3	2.8	1.0	5.3
Other	2.4	3.9	3.9	2.8	3.1
Total capital expenditure	**35.9**	**32.9**	**27.1**	**20.4**	**55.7**

Our total capital expenditure payments were £35.9 million in the 2015 Fiscal Year, £32.9 million in the 2016 Fiscal Year and £27.1 million during the 2017 Fiscal Year. In the 39 weeks ended November 26, 2016, capital expenditure payments were £20.4 million, compared to £55.7 million for the 39 weeks ended November 25, 2017. The principal components of our capital expenditure were new store openings, relocations and downsizes, together with store refurbishments and fixture innovation. Further investment has been made in relation to the online platform and other information technology systems. The Singles supply chain program and head office relocation took a significant proportion of the capital expenditure in the 2015 Fiscal Year, with the head office long leasehold purchase accounting for £32.6 million within the 39 weeks ended November 25, 2017.

A key part of our strategy is the refurbishment and modernization of our store estate on which we have invested £10.7 million in the 39 weeks ended November 25, 2017. We spent £1.4 million of capital expenditure on store relocations and downsizing in the 39 weeks ended November 25, 2017. There were no new store openings during this period due to the store refurbishment program being prioritized.

Capital expenditure on the Singles supply chain program of £12.9 million, £3.9 million and £0.6 million in the 2015, 2016 and 2017 Fiscal Years, respectively, relates to our transition to “single unit” replenishment capability. These capital expenditures include the associated information technology systems and physical distribution center costs, at both the existing site in Corby and the new distribution center in Knowsley. This expenditure completed the program, which incurred a total capital outlay of £51.4 million.

The move to the new head office, adjoining the Knowsley distribution center, resulted in an expenditure in the 2015 Fiscal Year of £3.9 million, with a further £0.6 million in the 2016 Fiscal Year. In the 39 weeks ended November 25, 2017, the long leasehold of the head office was purchased, resulting in an expense of £32.6 million.

The capital expenditure on our online platform of £5.2 million in the 2016 Fiscal Year, £6.9 million in the 2017 Fiscal Year and £2.6 million in the 39 weeks ended November 25, 2017, includes development and implementation costs in connection with a new website. Following the implementation of the new website platform in spring 2017, capital expenditure has been focused on continuous development, further improving functionality and the customer journey.

Following the completion of the Singles supply chain program, we identified a requirement for reconfiguration and ongoing improvement to the Knowsley distribution center. This has so far totaled £2.2 million and is included within “Other” above. Further investment will be made in the year ended February 23, 2019 to maximize operational efficiency and support the growing online mix of the business. Other capital expenditure mainly consists of enhancements to existing, and the introduction of new, information technology systems, together with expenditures for estate maintenance and security hardware. During the 2016 Fiscal Year, there was £1.0 million of capital expenditure on goodwill in relation to the setup of the Matalan Direct subsidiary.

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 business improvements.

Consistent with our strategy, investment will continue to be made on the store refurbishment program, information technology systems, distribution center, reconfiguration and projects such as inventory RFID tracking and merchandise system modernization. We anticipate recommencing new store openings in the 2020 Fiscal Year, or earlier if commercially compelling. The level of capital expenditure will be financed by operational cash flows in furtherance of our underlying business strategy, which includes financial de-leveraging. We expect our capital expenditures in each of the 2019, 2020 and 2021 fiscal years to range from £40 to £45 million per annum, although commitment levels are minimal providing significant flexibility in this program.

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			39 weeks ended	
	February 28, 2015	February 27, 2016	February 25, 2017	November 26, 2016	November 25, 2017
			(in £ millions)		
Cash used in financing activities:					
Repayment of previous debt	(475.0)	—	—	—	—
Proceeds from borrowing	492.0	—	—	—	—
Fees associated with refinancing	(19.0)	—	—	—	—
Bonds repurchased	—	—	(9.4)	—	—
Issued share capital	—	0.4	—	—	—
Net cash flow (used) in financing activities	**(2.0)**	**0.4**	**(9.4)**	—	—

The cash used in financing activities in the 2015 Fiscal Year relate to an issuance of £342.0 million of first lien secured notes, with a five year maturity and a fixed interest rate of $6^{7}/_{8}$%, and an issuance of £150.0 million of second lien secured notes, with a six year maturity and a fixed interest rate of $8^{7}/_{8}$%. The proceeds were used to repay in full the £250.0 million of senior secured notes issued in 2011 and £225.0 million of senior notes of issued in 2010.

The cash used in financing activities in the 2017 Fiscal Year relate to the repurchase and cancellation of Existing Second Lien Notes with a £12.0 million nominal value at a purchase price of £9.4 million.

Contractual Obligations

The following table summarizes our contractual obligations as of November 25, 2017. The table below does not reflect scheduled interest payments:

	Less than 1 year	2–5 years	More than 5 years	Total
		(in £ millions)		
Contractual Obligations:				
Existing Notes	—	480.0	—	480.0
Operating lease obligations	107.4	396.5	386.3	890.2
Total contractual obligations	107.4	876.5	386.3	1,370.2

Available Liquidity

We maintain cash balances to fund the daily cash requirements of our business. As of November 25, 2017, we held £102.7 million of unrestricted cash. In addition, we had undrawn availability under our existing revolving credit facility of £37.7 million as of November 25, 2017.

In addition to the Revolving Credit Facility, we anticipate that the principal source of our liquidity will be net cash flow 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—Risks 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 Refinancing, 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 around October each year as the autumn and winter stock is added to our inventory at a faster rate than we sell 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 under the Revolving Credit Facility and proceeds from future refinancing will be adequate to meet our 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 under the Revolving Credit Facility 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, if 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 November 25, 2017, 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, 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, our financial position 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

Foreign exchange risk. We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar, the Euro and the Hong Kong Dollar.

Our policy requires all group companies to manage their foreign exchange risk against their functional currency. The functional currency of all group companies is pounds 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 recognized assets and liabilities, entities in the Group 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. 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. As such we engage in foreign exchange hedging transactions to mitigate this risk.

We hedge future seasons' purchases denominated in U.S. dollars. Our treasury's risk management policy is to hedge forecast purchases up to two and a half years in advance of anticipated cash flows in respect of the purchase of inventory. Of projected purchases in U.S. dollars, 100% (2016: 100%) qualify as "highly probable" forecast transactions for hedge accounting purposes.

As of February 25, 2017, if the pound sterling had strengthened by 10% against the U.S. dollar with all other variables held constant, post-tax profit would have been £2.7 million higher (2016: £2.0 million higher), mainly as a result of foreign exchange gains on translation of U.S. dollar trade payable amounts compensated by foreign exchange losses on translation of U.S. dollar denominated cash and trade receivable U.S. dollar amounts.

As of February 25, 2017, if the pound sterling had weakened by 10% against the U.S. dollar with all other variables held constant, post-tax profit would have been £2.7 million lower (2016: £2.0 million lower), mainly as a result of foreign exchange losses on translation of U.S. dollar trade payable amounts compensated by foreign exchange gains on translation of U.S. dollar denominated cash and trade receivable U.S. dollar amounts.

Cash flow and fair value interest rate risk. As we have no significant interest-bearing assets, our income and operating cash flows are substantially independent of changes in market interest rates. The effective rate of interest applicable to our cash balances in the 2017 Fiscal Year is 0.54% (2016: 0.70%).

Our interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings issued at fixed rates exposes us to fair value interest rate risk. Our long-term borrowings are all fixed rate instruments which significantly reduces our 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 (2016: £nil).

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.

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, revenue 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.

Critical Accounting Estimates and Judgments

Carrying Value of Inventories

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

Provisions

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

Depreciation of Property, Plant and Equipment and Amortization of Computer Software Costs

Depreciation and amortization is provided so as to write down the assets to their residual values over their estimated useful lives. The selection of these residual values and estimated lives requires the exercise of management judgment.

Other Critical Accounting Policies

Inventory Valuation

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. Net realizable value is the price at which inventories can be sold in the normal course of business after deducting costs of realization. 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 U.K. port and inventories are recognized at this point.

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 recognized 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 recognizing the resulting gain or loss is dependent upon whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Group accounts for those derivative financial instruments used to manage its exposure to foreign exchange risk on highly probable foreign currency stock purchases as cashflow hedges under IAS 39. At the 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 recognized in equity. On completion of the forecast purchase transaction, the effective part of any gain or loss previously deferred in equity is recognized as part of the carrying amount of the underlying non-financial asset. 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 hedge transaction is no longer expected to take place, then the cumulative unrealized gain or loss is recognized immediately in the income statement. The gain or loss relating to the ineffective portion of all hedges is recognized immediately in the income statement. Cumulative gains or losses remain in equity and are then recognized when transactions are ultimately recognized 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. Otherwise, they are deemed to be non-current.

Current Trading

Based on preliminary results reflected in our management accounts, we believe our business is continuing to deliver improved performance. These preliminary results indicate that for the five-week period ended December 30, 2017, we generated revenue of £142.3 million, representing an increase of 7.3% over the same period in the prior year. Like-for-like sales increased 7.5% compared to the same period in the prior year, and we generated EBITDA pre exceptionals of £22.3 million, representing an increase of 15.7% compared to £19.3 million in the same period in the prior year. In addition, we had a closing cash position of £102.5 million as of December 30, 2017. The increase in our EBITDA pre exceptionals included an increase in bonus costs during the period of £2.6 million compared to the same period in the prior year. The increases in our revenue, like-for-like sales and EBITDA pre exceptionals were supported by strong growth in our online sales of 24.7%, store sales growth of 6.2%, an increase in total full price sales of 2.6% and improvements in our operating margins against the corresponding period in the prior year, with all major product divisions delivering growth as compared to the same period in the prior year.

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 or reviewed 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 five week period. We have not yet prepared our financial statements for any period following the 39 weeks ended November 25, 2017. 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.

BUSINESS

Our Business

Established in 1985, Matalan is one of the leading value clothing, footwear and homeware retailers in the U.K. We focus on providing a unique blend of quality, design and price across our broad product range together with a compelling customer shopping experience through our store network and website. In 2016, we had an estimated 6.9% share of the £13.3 billion U.K. value clothing market. In the 52 weeks ended November 25, 2017, we generated revenue of £1,049.4 million and EBITDA pre exceptionals of £100.2 million at an EBITDA pre exceptionals margin of 9.5%. In the 2017 Fiscal Year, we generated revenue of £1,037.3 million and EBITDA pre exceptionals of £77.0 million at an EBITDA pre exceptionals margin of 7.4%. See "Summary—Summary Financial Data".

We have a large customer base with our product range appealing to a broad spectrum of the U.K. population. Over one quarter of U.K. consumers shopped with Matalan in the last 12 months. While Matalan has a wide appeal, core frequent Matalan shoppers are typically between 35 and 55, are from lower social demographic groups and are predominately female. Our customers are fashion-conscious but not demanding of cutting edge "fast fashion". We maintain a customer database of nearly 12 million active customers who have shopped with Matalan in the last year through our Matalan Reward loyalty scheme, which offers customers a range of benefits including exclusive promotional discounts. Purchases by loyalty scheme members accounted for 94.7% of our revenue during the 52 weeks ended November 25, 2017, making our loyalty scheme an important element of our marketing and customer management strategy, while also supporting our growing omni-channel business.

Our customer proposition includes a comprehensive and authoritative range of clothing, footwear, accessories and homeware, uniquely covering a broad range of price points. In accordance with our quality, design, and price philosophy, we primarily sell our own label products, which accounted for 94.2% of total sales in the 52 weeks ended November 25, 2017. We also offer third-party branded or licensed products, which accounted for 5.8% of total sales over the same period. 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 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. In recent periods, the improvements made to our ranges have allowed us to reduce the frequency of price discounting and move towards a higher percentage of full priced sales. In the 52 weeks ended November 25, 2017, 81.3% of our sales were (non-discounted) full priced sales, compared to 72.3% for the 52 weeks ended November 26, 2016. Our range is segmented across five main product categories. For the 52 weeks ended November 25, 2017, 34% of our revenue was generated by ladieswear, 20% by menswear, 20% by kidswear, 11% by footwear and 15% by homeware. In the 52 weeks ended November 25, 2017, the average selling price of our products and average basket value were £6.60 and £22.61, respectively.

The majority of our sales are carried out in our U.K. stores, comprising 227 stores with 6.5 million square feet of retail trading space. This is one of the largest portfolios of "out-of-town" clothing retail space in the U.K. The majority of our store locations are off the high street but in easily accessible locations from major town centers, based in retail parks with other brand name tenants or in stand-alone locations. The average size of our stores is approximately 28,500 square feet. 222 of our stores are traditional full price locations and five are clearance stores dedicated to selling out-of-season inventory. In 2017, we commenced a multi-year store refurbishment program, which includes intensifying the use of space within stores. This enables smaller stores to offer greater customer choice through displaying more of our existing product range, and larger stores to offer extended ranges or additional services. In addition, improved merchandising fixtures, lighting and customer navigation is being introduced alongside general modernization of the shopping environment. The 35 stores refurbished in the 39 weeks ended November 25, 2017 delivered a year over year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished.

A growing proportion of our sales are made via our website, with online sales in the 52 weeks ended November 25, 2017 increasing by 45.2% to £68.7 million compared to £47.3 million in the 52 weeks ended November 26, 2016, supported by the successful implementation of a new website platform in 2017. Of the orders taken online, 56.4% are collected in store via the popular and convenient "click and collect" service, with this delivery method driving an average 18.3% additional spend in-store upon collection of the online order. Our online sales accounted for 6.5% of our total revenue, with 6.2% of our customers (13.3% by revenue) shopping across multiple channels in the 52 weeks ended November 25, 2017. During that same period, customers who shopped across multiple channels spent more than double that of a single channel customer. In addition, the online channel now forms a key customer acquisition route, with 42.7% of new customers in the 52 weeks ended November 25, 2017 first transacting with us online.

We initiated our international franchising activities in 2009, starting in the Middle East, where we have 22 stores today. Over the last year, we have further expanded our international business by adding additional partners, opening a franchise store in Armenia and two franchise stores in Malta, taking our total number of franchised stores to 25. We believe there is further opportunity to grow our international franchise presence in both existing and new territories.

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 U.K. 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 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 supported by our founder John Hargreaves, who remains our largest shareholder.

Over the last three years, we have focused on completing structural investments in the supply chain and creating a more flexible distribution capability in addition to transitioning to a full price trading strategy across multiple channels. This has improved the consistency of our year-to-year EBITDA pre exceptional growth, as to date each month of the 2018 Fiscal Year exceeds that of the corresponding month in the prior fiscal year. In the last 12 months, we have particularly focused on establishing the foundations for future growth which include implementing a new online platform, testing new product categories and commencing the refurbishment of our store estate.

Our Future

Matalan's established out of town retail store concept, our direct sourcing model and core retail philosophy continue to be as relevant today as when the business was founded in 1985. This philosophy continues to focus on product choice, quality, price and customer loyalty. We have recognized the need to evolve, have invested accordingly and are confident that we are well placed as a value retailer in the new omni-channel marketplace. We believe our stores and online business work in harmony to satisfy how customers want to interact with our brand, capitalizing on our strengths, and offering clear routes to sustainable growth.

Business Strengths

We believe that we benefit from the following key strengths:

Scale position in a growing market

We are one of the U.K.'s leading value clothing, footwear and homeware retailers, capturing an estimated 6.9% share of the £13.3 billion U.K. value clothing market in the year ended December 31, 2016. Our scale allows us to compete effectively in a relatively consolidated market, in which the top five operators have a combined 62.3% market share. The U.K. value clothing market has experienced strong growth in recent years. In the four-year period ended December 31, 2016, the U.K. value clothing market grew by an estimated £1.8 billion to £13.3 billion, and represented 31.0% of total clothing expenditure in the U.K. This equated to a growth of 15.2%, which outperformed the total U.K. clothing market by 5.3 percentage points. According to GlobalData, the U.K. value clothing market is expected to grow at rates between 2.9% and 3.6% annually between 2017 and 2022. We believe that the growth in the value clothing market is a structural change 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 affordable price points, while Matalan offers the opportunity to step up to enhanced quality and design products in our "Better" and "Best" ranges. This is evidenced by our growing market shares in the key ladieswear and homeware departments in the current fiscal year.

Strong, resilient brand and product authority combining price with quality and design

We have serviced the U.K. value fashion and homeware retail market since 1985 and have created an active customer database currently serving over one quarter of U.K. consumers. Our retail philosophy focuses on three dimensions: quality, design and price. We have specifically tailored offerings for different price points allowing us to compete with a range of 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, and benchmark our prices at the opening price points to ensure we remain competitive for price conscious customers. We also offer 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. Customer research confirms the value for money perception amongst Matalan customers remains strong. In the 13 weeks ended November 25, 2017, our in-house customer satisfaction survey "In Moment" indicated that 93% of customers were satisfied with their Matalan experience. Not only are we an active member of the Mumsnet Family Friendly program, but we are Gold Award Winners for the fourth year running.

Extensive data warehouse, with potential for further omni-channel development

Our customer database of nearly 12 million individuals is maintained via the Matalan Reward loyalty scheme 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 online. This database has provided a basis to develop a “single customer view”, which is a customer database that sits across all channels and customer touch points. This single view of customers will enable us to unlock further value from our data warehouse via increasingly personalized customer management strategies. In the 52 weeks ended November 25, 2017, 94.7% of our revenue was attributable to Matalan Reward loyalty scheme members. In an increasingly omni-channel marketplace, this database and the customer insights it provides leaves us even better placed to further influence customer behavior across channels. As our online business increases so does the volume of omni-channel shoppers. As of November 25, 2017, we had 743,054 customers that shopped both in-store and online (6.2% of customers and 13.3% of revenue for the 52 weeks ended November 25, 2017). These customers spent an average of £175 per year during the 52 weeks ended November 25, 2017, which is more than double that of a single channel shopper.

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 by eliminating supply chain intermediaries, while at the same time providing us a high degree of oversight on the quality of our products, which is monitored via the presence of Matalan employees. We have actively consolidated our supplier base in recent years, reducing the number of suppliers from 433 as of March 31, 2011 to 298 as of November 25, 2017, with the consolidation in core suppliers more than offsetting those engaged to supply new categories. 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. In addition, we are able to better manage input cost volatility through our strong supplier relationships. The consolidation of our suppliers allows us to have high visibility over the supply chain, giving us greater control over the cost and quality of the end products. Having fewer suppliers allows these suppliers to add more value during the design process, and to collaborate with us to eliminate unnecessary costs and processes. In recent years, we have developed a record of driving efficiencies through our strategic partnerships and we consider this one of the key benefits of our supplier consolidation process.

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 U.K., 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. During the 52 weeks ended November 25, 2017, over 97% of our full price stores each generated positive EBITDA pre exceptionals. We lease all of our stores under long-term leases with an average remaining lease period of approximately eight years. We believe this stable portfolio of low-cost space and accessible locations with good car parking facilities is a key strength that underpins our omni-channel strategy. All 222 of our full priced stores serve as online order collection points. During the 52 weeks ended November 25, 2017, 56.4% of our online orders were collected in-store, driving footfall, additional in-store purchases and lower levels of product returns.

Significantly improved infrastructure

In 2015, we relocated our head office and northern distribution center to a considerably more modern facility and have recently purchased the long leasehold of the head office facility. The move allowed us to house all staff in the same building and we believe this has led to improved colleague engagement and encouraged collaboration across our departments. Following the initial disruption resulting from the transition to the new warehouse, we appointed a new Supply Chain Director who led significant improvements in the stock flow and led the transition to our new single unit replenishment model, the Singles supply chain program (see “Certain Definitions”). Throughout 2017, we have continued to re-configure and enhance the supply chain to improve the operational efficiency of servicing the store network and to support the volume of online demand. We believe the improvement in our infrastructure is a key asset, providing us with the benefit of a more flexible single unit replenishment model, supporting future growth. Following the relocation and improvement in infrastructure, a greater proportion of future capital can be invested in customer facing projects such as store refurbishments.

Experienced management team with appropriate breadth and depth

We have a strong and experienced management team, consisting of twelve individuals with an average of nine years tenure within our business, drawing on extensive previous experience across the retail, service and consumer goods sectors. Together, John Mills, Jason Hargreaves, Stephen Hill, Greg Pateras, and Allan Leighton, have a significant depth of retail experience. Furthermore, the operating board was recently restructured to enable the Chief Operating Officer role to focus on end-to-end execution, efficiency and effectiveness.

Our senior management team is supported by a leadership team comprising 27 high caliber and committed individuals responsible for building and leading our passionate teams. Over the last three years, we have further strengthened the leadership team with key appointments within our Buying and Merchandising, Design, Marketing, IT, Supply Chain and Online teams to bridge organizational capability gaps and ensure we have the right depth of experience and competencies to execute our strategy. As a result of this investment, we believe we have a reduced reliance on any given individuals.

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. The strategy is 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, and will result in improvements in profitability and cash generation.

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

- Execute a compelling and relevant product offer that always gives a reason to visit;
- Build a seamless omni-channel experience, a true differentiator;
- Nurture an engaging, trusted and rewarding customer relationship; and
- Create passionate and high performing teams who optimize business performance.

Execute a compelling and relevant product offer that always gives a reason to visit

We are continuing to develop and maintain a clear and consistent range and sub-brand architecture and intend to remain competitive on price at the opening price points within our "Good" range without compromising on quality. We believe this provides price credibility for the Matalan brand and anchors our overall position within the value market consistent with our brand heritage. In addition, we are focusing on further enhancing our offer at the middle and upper end of our price and range architecture, providing greater choice and enabling customers to trade up through the range where we believe we offer outstanding value versus the mid-market. Further up the price and range architecture, via in-house designed brands such as "*Soon*" within ladieswear and "*Morley*" within menswear, we have utilized investments in design, fabrics, and distinct brand handwriting to create sub-brand equity and greater price flexibility to support the management of our overall blended margin position. As we continue to refurbish our store estate and improve space utilization, more of our stores will offer a broader selection of the sub-brand ranges.

We have increased the frequency of newness within our clothing offer by moving from six to nine launch phases per annum in addition to new "Edit" drops every four to six weeks, following the success of our coordinated "Edit" ranges with customers this year. These coordinated pieces across categories merchandised as outfits will continue to benefit from a heightened focus with supporting photography and content shared across digital media and in-store point of sale imagery. Celebrity and fashion journalist "Influencers" will continue to be utilized to support our fashion credentials and enhance the customer perception of our ranges across owned, paid and personal social media channels. In addition, we are continuing to improve in-store coordination through mannequin dressing, improved fixtures, visual merchandising and lighting, further highlighting the improved ranging.

We are committed to maintaining a full-price trading strategy which seeks to maximize sales and optimize margin. In conjunction with the full-price trading model, we intend to continue to offer selective promotions and include monthly special buy "Now or Never" deals to create urgency and excitement for customers at key points in time. These planned events offer outstanding value for a limited time period, driving footfall and supporting sales across the departments at a pre-planned and bought margin.

Given the breadth of our customer base, significant footprint, and growing online traffic to our website, we believe growth opportunities exist by extending into new product categories where we can be competitive and complement our core offerings. We believe these categories will generate incremental revenue both in their own right, as well as increasing the destination appeal of our broader offer and locations. We intend to continue to utilize a flexible commercial model including own label and branded products, concessions and where appropriate, acquisitions to deliver choice and range extension. We have recently extended into lighting and broadened our gifting offer. We believe future opportunities exist in categories including rugs, toys, beauty, maternity, Big & Tall, fragrance and a more extensive nursery range. Our focus will be on categories complementary to our existing range with several offering a natural hedge to our concentration risk in clothing and supporting further monetization of our customer base.

In the 52 weeks ended November 25, 2017, we bought 73.9% of our goods for resale in U.S. dollars. The exchange rate of pounds sterling to U.S. dollars has weakened since 2015 and weakened further still following the Brexit vote in June 2016. Consequently, our input costs for U.S. dollar purchased goods have increased as our currency hedges have unwound. As our existing currency hedges continue to unwind in 2018, our input costs for goods purchased in U.S. dollars may further increase. As such, our ability to offer the quality and design of our ranges at the price points we deliver requires us to work strategically with our supply base to effectively manage the impacts of movements in currency rates, input costs and overall product margins. We are continuing to consolidate our supply base towards 250 key suppliers to further improve strategic influence, quality and margins, while maintaining adequate diversity of supply, having little reliance on any single supplier. Over the past three years we have further strengthened our approach to sourcing with the introduction of a dedicated costing team, consisting of highly experienced production engineers. These qualified practitioners work with our buyers and manufacturers to identify opportunities for improvements in production, product engineering and development. One example of such improvement has been increased fabric utilization levels during the garment production process. In addition, we now cost all product directly sourced in a fully transparent manner with our suppliers, supporting more robust negotiations and collaborative working as to how to engineer optimal production. This is a key strength of our sourcing approach, allowing us to improve efficiency and optimize margin and price point management.

Build a seamless omni-channel experience, a true differentiator

According to GlobalData, the online clothing and footwear market is projected to grow by 55.2% between 2017 and 2022, which is the fastest growing channel for clothing. We believe this presents an opportunity to convert a greater proportion of our nearly 12 million active customers into omni-channel shoppers (6.2% of our customers were omni-channel customers in the 52 weeks ended November 25, 2017), providing significant sales growth potential. In the 52 weeks ended November 25, 2017, our online business increased its sales by 45.2% compared to the prior 52-week period, accounting for £68.7 million or 6.5% of our total revenue. We have historically had a low average visit frequency from store only customers and believe the introduction of online purchases into their behavior set will be highly additive to our business. In the 52 weeks ended November 25, 2017 (and during the prior 52-week period), on average, customers who shopped across multiple channels spent more than double the annual sales value than that of a single channel shopper.

We view our online and store channels as highly complementary. Online sales are supported by our click and collect offering, which accounted for over 56.4% of online orders during the 52 weeks ended November 25, 2017, with this delivery method driving an average 18.3% additional spend in-store upon collection of the online order. We have also installed free wi-fi in all of our stores to further support the use of the mobile loyalty application and online shopping via the mobile optimized website if an item is not immediately available at the time a customer is in-store. We are also currently trialing the use of mobile tablet point of sale systems in several stores for in-store ordering of ranges or sizes that are unavailable, which is expected to rollout across the store estate in 2018. We implemented a new web platform in 2017 offering greater agility and have developed a clear roadmap of initiatives and drivers of growth over the next three years. These initiatives include further personalization and recommendations of other relevant products based on customers' shopping history, so as to significantly increase our online penetration. Furthermore, all of our full priced stores now act as collection points for other retailers parcels fulfilled via the DPD delivery network. In addition to providing a direct revenue stream, we believe this also attracts footfall to our stores and presents the opportunity to convert that footfall into sales.

To further support our omni-channel strategy of bridging customers between channels, in 2017, we launched a successful trial of RFID technology in three of our stores. Electronically tagging and monitoring all items of inventory is being increasingly used by retailers to significantly improve the accuracy of their inventory files. Recent decreases in the cost of such technology have made RFID a viable advancement opportunity for value retailers. We believe that the introduction of RFID technology will improve the accuracy of the store inventory file and product availability to customers, allowing us to satisfy demand previously lost due to unavailability. RFID will also provide better quality data with which to optimize the ranges we buy as we will be able to better match the underlying customer demand profile. Furthermore, we believe highly accurate store inventory will support the picking of online orders selected for store collection from store inventory. This will improve service levels and reduce overall inventory holding and supply chain costs. In addition, customers will be able to "click and reserve" products online for collection in-store, improving customer confidence and certainty as to store availability. In these respects, we believe RFID technology will enhance the customer journey across channels while facilitating a more efficient supply chain. We intend to commence a rollout of RFID technology across our store estate in 2018.

Our stores remain a key part of our omni-channel strategy both in the U.K. and internationally. Our international franchise started in 2009 within the Middle East, where we had 22 franchise stores in operation during the 52 weeks ended November 25, 2017. Over the last year, we expanded our international operations and began working with three additional partners, opening three new Matalan franchise stores, one in Armenia and two in Malta, taking our total number of franchise stores to 25. We have also recently entered into an agreement with a fourth partner in Gibraltar, and plan to open two franchise stores there in 2018. We believe there is further opportunity to grow our international presence in both the current territories we operate in, as well as others, further extending our brand reach.

As part of our U.K. store strategy, we have started a multi-year refurbishment program targeting 40 to 50 stores per year. The program is intended to modernize, improve store navigation and create brand segregation through fixtures and spot lighting, while increasing the level of customer choice through intensifying the use of store space. Within our larger stores, where the current trading space is above 30,000 square feet, new ranges such as lighting and branded toys are being introduced alongside new services such as coffee shops. This refurbishment program is intended to improve the in-store experience, increase customer dwell time and increase the product offering through additional linear merchandising space. Stores refurbished are performing significantly ahead of the yet to be refurbished estate. The 35 stores refurbished in the 39 weeks ended November 25, 2017 delivered a year over year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished. We are also continuing to identify appropriate and profitable new store locations in the U.K. with a view to accessing some of the significant customer catchment potential which remains in the market.

Nurture an engaging, trusted and rewarding customer relationship

We have a well-established relationship with our nearly 12 million active customers and are focused on keeping them highly engaged in our offer and loyal to our brand. We are continuing to execute disruptive and inspirational content via a media strategy that supports the brand's fashion credentials, through our "Always On" approach. This approach ensures relevant messages, at relevant times and through relevant channels, are broadly disseminated to position Matalan at the heart of the fashion conversation. We have a frequent and mass market reach across multiple channels, including TV, social media and printed editorial content in leading magazine titles. Within this suite of activity is our award winning "The Show", a popular chat show format with celebrity guests and fashion experts discussing current trends and highlighting key pieces from our range.

Our "Always On" strategy supports our store footfall, online traffic and brand awareness, which is at a four year high. We employ the reach of celebrity "influencers" across the channels and in stores, with celebrity endorsements of key brands, successfully attracting new customers, while re-engaging dormant customers via increasing brand appeal. In doing so, we successfully access celebrity culture and are in tune with the way consumers engage with fashion. Our social media channels engage a younger audience, building on our social and influencer strategy.

We have nearly 12 million active loyalty scheme members, and 94.7% of our revenue was derived from loyalty scheme members during the 52 weeks ended November 25, 2017. Our mature loyalty scheme has a well-established benefits suite, but has historically relied heavily on paper-based communications sent to the customer's home address. Over the last few years, we have worked to digitize our approach, supported by an email acquisition strategy to accelerate data capture. As of November 25, 2017 we have 4.7 million email addresses of customers. We believe there is further opportunity to digitize the management of our loyalty scheme and we are enhancing the existing mobile loyalty application to include transactional functionality to drive further usage and online penetration. Beyond digitalization we aim to refresh the current loyalty scheme and are currently undertaking research with customers and establishing how to engage customers in innovative and meaningful ways.

We are continuing to utilize our extensive customer warehouse to increasingly personalize the customer experience across channels. For example, we have introduced messaging specific to customers' local circumstances, such as alerting customers to store refurbishments and new ranges. We are continuously enhancing our capability to personalize our contacts with the customer through less generic emails and increasing levels of customer segmentation. Beyond basic segmentation, we aim to focus on creating varied content based on learned behavior and preferences, which will include personalized online visual merchandising.

As a family owned business with the whole family being at the heart of our customer proposition, we are committed to being more than just a retailer; we are a retailer that "does good". Over the last few years, alongside our customers, we have raised in excess of £1 million per year for charities including our two primary charities, Alder Hey children's hospital and the NSPCC. We believe sharing this success positively influences brand awareness and the perception of the business. In addition, we operate through a transparent supply base within which all factories are audited for ethical and technical compliance. We believe that by maintaining these high standards, we contribute to our reputation as a trusted and ethically responsible business. We intend to actively enhance this reputation with customers in the future.

Create passionate and high performing teams who optimize business performance

We have focused on strengthening our senior management team from 2016, with hires including a new Supply Chain Director and Chief Technology Officer. More recently, we have appointed a new Chief Operating Officer with extensive experience in the digital retail space. We believe that these appointments have helped to significantly strengthen our organizational capability and will help to deliver future success. During 2017, the operating board was restructured to enable the Chief Operating Officer role to focus on end-to-end execution, efficiency and effectiveness. Our senior management team is supported by a leadership team comprising 27 professionals responsible for the execution of our strategy. Over the last three years, we have further strengthened this population with key appointments within our Buying and Merchandising, Marketing, IT, Supply Chain and Online teams to bridge organizational capability gaps and ensure we have the depth of experience and competencies to build and lead passionate high performing teams in the execution of our plans.

We believe we have created an organizational structure capable of optimizing business performance and creating sustainable growth in earnings and cash generation. We intend to support this growth by investing in the further development of our use of analytics through a three year merchandising modernization program expected to run through to 2020. This program is intended to build a buying and merchandising function which has the tools and insights to deliver greater customer centricity, improving collaboration across our channels and functions. This initiative will bring data together from disparate systems into a single data warehouse that can be mined more effectively to generate actionable business insights, allowing focused and quicker decision making. It will help to optimize the balance between range and choice, inventory levels, availability, and depth of buy, further capitalizing on the introduction of RFID technology. In addition, we expect this investment to deliver operational cost efficiencies within the business. We further intend to enhance our organizational capability by implementing a Human Capital Management system which is scheduled to commence in 2018. This system is designed to improve end-to-end efficiency and effectiveness throughout the organization, assisting with performance, productivity, development and absence management across all business areas.

We believe these developments will help contribute to a more effective and high performing organization, as well as further enhancing our ability to focus on efficiency and costs in optimizing performance. One such area of ongoing focus remains our store operating model. This has recently been the subject of further review, whereby we identified opportunities to achieve improved operating efficiency, more consistent productivity, structural refinement and a more consistent delivery of service to our customers. The outputs of this review will be progressed in 2018 with our expectation being that efficiency and effectiveness are further improved.

As a proud value retailer, our team has a strong focus on cost, continuously seeking opportunities to add more value for less cost. In 2018, we plan to trial self-service checkout, a model well-established in food retailers, which offers the customer greater flexibility and a quicker and improved service. It will give the business improved checkout productivity and allow resources to focus on pre-checkout services where conversion and basket size can be influenced. There are many other planned optimization initiatives that we believe will further improve our efficiency and effectiveness over the next three years, including the fulfillment of click and collect orders via our distribution fleet, selective warehouse automation and tighter delivery scheduling to stores.

Our Customers

Matalan appeals to a large proportion of the U.K. population with over one quarter of U.K. consumers having shopped with us in the past 12 months according to Kantarworldpanel. While Matalan has a wide appeal, core frequent Matalan shoppers are typically between 35 and 55 years old, are from lower social demographic groups and are predominately female.

We have developed a loyal customer base through our Matalan Reward loyalty scheme, with 70% of our active shoppers having first shopped with us more than three years ago. In the 52 weeks ended November 25, 2017, 94.7% of our sales are from customers who use the Matalan Reward loyalty scheme either in-store or online. The loyalty scheme database contains nearly 12 million active customers who have access to exclusive promotional discounts, advanced notice of promotional activities, new product launches and periodic offers from relevant third parties as well as the opportunity to win prizes. Through the loyalty scheme, we are able to increase frequency of shopping and to reduce attrition, by running a number of strategically targeted communications to our loyalty scheme members including welcome programs and lapsed/attrition management programs. We collect and store various customer information including name, home address, email address, age, gender and transaction history, including the channel used (store/online), stores visited and products purchased. Of our nearly 12 million active customers, 4.7 million (39.5%) are contactable by email and this percentage has increased from 26.4% since 52 weeks ended November 26, 2016. Our email database provides us a significant competitive advantage when developing customer-centric strategies. For the 52 weeks ended November 25, 2017, the average sales value of customers who received our loyalty scheme emails was 61% more than those who did not.

In 2014, we launched the highly successful Matalan Reward Smartphone App as another component of the Matalan Rewards loyalty scheme. The loyalty app has been downloaded by more than 1.5 million customers, 1.2 million of whom are currently active customers. The Matalan Reward Smartphone App acts as a digital reward card, an offer wallet and a portal to our mobile website. For the 52 weeks ended November 25, 2017, the average sales value of loyalty app customers was more than double that of customers who had not downloaded the Matalan Reward Smartphone App.

We believe that the growth of our online channel will further widen our appeal especially in the younger 25 to 34 age bracket where we have seen growth of 16% for the 52 weeks ended November 25, 2017 as compared to the prior period. As our online business grows so does the volume of omni-channel shoppers. As of November 25, 2017, we had 743,054 customers that shopped both in-store and online (representing 6.2% of our customers and 13.3% of revenue for the 52 weeks ended November 25, 2017). These customers spend an average of £175 per year, which is more than double that of a single channel shopper. Our online customers have grown by 65.9% from 604,780 customers in the 52 weeks ended November 26, 2016 to 1,003,045 customers in the 52 weeks ended November 25, 2017 and has represented an increase of 66.2% in sales over the same period.

Our Brands and Product Categories

Our product categories are divided among six main departments: ladieswear, menswear, kidswear, footwear, accessories and homeware. For the 52 weeks ended November, 25, 2017, 34% of our revenue was generated by our ladieswear wear products, 20% by menswear, 20% by kidswear, 11% by footwear and accessories, 15% by homeware and 1% by sports.

Each department has three distinct price points: "Good" our core value products including our opening price point ranges, "Better" branded products that are targeted towards specific customer groups and "Best" our designer-endorsed ranges at the top of our price and range architecture. Our opening price points are important in signaling our overall value positioning to customers and are closely benchmarked. 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. During the 39 weeks ended November 25, 2017, our "Good" ranges constituted 63.8% of our revenue.

Ladieswear. Ladieswear is our largest department. Our ladieswear products include formalwear such as suits, formal dresses, trousers and blouses; casual wear ranges, including denim, knitwear and jersey tops; outerwear, such as coats and jackets; occasion wear, such as dresses and going out tops; nightwear; lingerie and swimwear. Our ladieswear brands include "*Papaya*", our range of everyday wear that comprises the majority of our ladieswear sales; "*Papaya Curve*", an extension of our main range for plus-size women; our "better" and "Best" ranges such as "*Soon*", our smart casual range aimed at 45+ year old customers; "*FWM*" our occasionwear brand outfits for that special event; "*Falmer Heritage*", our range of denim and casual clothing; and "*Souluxe*", our fitness and leisurewear brand.

Menswear. Our menswear department includes 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 "*ACW85*" *(Authentic casual wear)*, our core entry price range of everyday wear. "*Taylor & Wright*", our business and formalwear line for all ages: our "Better" and "Best" ranges such as "*Morley*" our premium casual range for the 35+ year old man, "*Lincoln*", for the more mature 50+ year old man; and "*Souluxe*" our fitness and leisurewear brand.

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

Footwear and Accessories. Our footwear and accessories department includes ladies, mens and kids footwear and accessories. Across the footwear ranges are boots and wellingtons, workwear, occasion wear, sandals and slippers. Across accessories are handbags, hats, gloves, scarves and jewelry.

Homeware. Homeware products include kitchen accessories, preparation and textiles, tableware, lighting, glassware, decorative accessories, candles and fragrance, cushions, throws, bath mats, bath accessories, towels, bedding, toys, gifting, Christmas stationary, Christmas lights, Christmas decoration, DVDs, luggage and storage items. We offer a premium homeware brand "*Willow*", which covers bedroom and living.

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. 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 primarily 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. We design products specifically for nine phases a year, five within a spring summer season and four within an autumn winter season. This has evolved from six phases a year, a much more fluid approach to support new trends.

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 U.K. and then to our distribution centers.

Pricing. As a value clothing and homeware retailer, we seek to maintain compelling prices for our customers that are competitive at their respective price points. We actively monitor and benchmark our prices against those of a wide range of competitors in the value sector and mid-market for comparable product. The ASP of our products for the 52 weeks ended November 25, 2017 is £6.60 (excluding VAT), which represents an increase of 7.9% compared to the previous 52 weeks ended November 26, 2016. The two main drivers in the ASP increase are reduced levels of discounting as we move forward a full price sales strategy and improvements in our "Better" and "Best" ranges to complement our competitive opening price points.

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. Our promotional strategy has moved away from blanket approach "money off" vouchers and we now target promotions around themes or product groups. 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.

Sourcing

In recent years we have continued to reduce the number of suppliers from 433 in the 2011 Fiscal Year to 297 as of the 2017 Fiscal Year. While we continue to consolidate our supplier base we believe that we still maintain adequate diversity of supply, have little reliance on any single supplier. We have also maintained flexibility within the supply base to react and best serve our customers.

Today, approximately 88.0% of goods are sourced from Asia, approximately 7.0% from Europe and Turkey and approximately 5.0% are sourced from the U.K. largely to take advantage of shorter lead times. Currently the majority of our products are supplied directly from the manufacturer, with whom we maintain good relationships with.

In addition to our U.K. quality control team, we have our own quality assurance staff in key locations including Turkey, India, China and Pakistan as well as quality control teams at our overseas hubs in China, Sri Lanka, Cambodia and Turkey. Our offshore quality assurance and control teams reduce both lead times and failure costs by enabling us to identify potential production and packaging errors at the source of manufacturing rather than at our U.K. distribution centers upon the receipt of the product shipment.

Over the past three years we have further strengthened our approach to sourcing with the introduction of a dedicated costing team, consisting of highly experienced production engineers. The qualified practitioners work with our buyers and manufacturers to identify opportunities for improvements in production, product engineering and development. In addition, we now price all product directly sourced in a fully transparent manner with our suppliers, supporting more robust negotiations and collaborative working as to how to engineer optimal production. This is a key strength of our sourcing approach allowing us to reduce costs and improve intake margins. Furthermore we closely support suppliers in the design and construction of new factory premises or modernization of existing facilities, providing expertise and technical guidance to enable facilities to operate at optimal efficiency for mutual benefit.

Matalan is committed to ethical sourcing and plans are well underway to open our second school of "Hope in Bangladesh" to give children a safe educational environment and industry related adult vocational training. Graduates from the vocational training programs are well equipped to enter the workplace at salaries above "entry level". The partnership with the Matalan factories allows for these graduates to take up an option to work within the factories should they choose to.

Supply Chain and Distribution

We have two distribution centers located in Northamptonshire (Corby) and Liverpool (Knowsley).

Knowsley is responsible for 50% of our retail apparel and footwear stock, 80% of our homeware product and 100% of our online orders, both direct to customers at home or via our store network through click and collect, as well as our international business. Corby is responsible for 50% of our retail apparel and footwear stock and 20% of our retail homeware business. Both operations are run in-house.

The implementation of the Singles supply chain program into the new Knowsley warehouse in 2015 was problematic, causing significant disruption to the business that resulted in a deterioration in financial performance. After the appointment of a new Supply Chain Director, completion of independent design reviews, and changes to the design and configuration of the warehouse, the operation was stabilized and performing effectively by the end of 2015. The supply chain for both the Corby and Knowsley warehouses is now effectively replenishing inventory to stores in both single unit format and multi-unit assortments. Our ability to use multiple replenishment formats based on product characteristics and underlying rate of sales enables a more efficient and effective management of inventory across the business.

Since moving into our new Knowsley distribution center in 2015, our online business has more than doubled as a percentage of our total revenue. This facility is capable of managing the forecasted growth of our online and retail business over the coming years with ongoing investment in reconfiguration works to support the changing dynamics of the business.

In addition to our two U.K. distribution centers, we have overseas hubs in key locations including China, Sri Lanka, Cambodia and Turkey. As well as enabling us to reduce both lead times and failure costs through our local quality assurance and control teams it also allows us the ability to consolidate elements of inbound supply for more efficient delivery to our store network. This particularly works well at key customer moments, such as Christmas, allowing us to deliver our launch stock directly to stores bypassing the U.K. distribution centers.

On average, we ship products from our distribution centers to each of our stores throughout the U.K. three times per week. Transport is managed in-house via our leased fleet of vehicles.

The following table sets forth the size and lease expiry date for our distribution centers:

Location	**Size (square feet)**	**Expiry Date of Lease**
Liverpool (Knowsley)	587,248	October 1, 2036
Northamptonshire (Corby)	361,020	May 9, 2030

Headquarters

In November 2017, the business acquired the long leasehold (995 years) interest in the head office situated on the same site as the Knowsley Distribution Center, reinforcing its commitment to the facility and to maintain the efficiencies it has benefited from since having a shared site at Skelmersdale. This facility was purpose built in 2014, housing all of our central functions in one building offering an engaging and effective working environment, and state of the art conference and meeting facilities. We believe that this has supported our progress in attracting key talent to the business.

Our Stores and Locations

We have the largest portfolio of out-of-town clothing retail stores in the U.K., operating from 222 full price Matalan stores and five clearance stores across the U.K., with a total of 6.5 million square feet of retail sales space. For the 52 weeks ended November 25, 2017, the average EBITDA pre exceptionals generated by our full price stores was £0.8 million.

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 59% of our stores are located in retail parks, 27% of our stores are standalone stores and 14% of our stores are located in shopping centers or city centers. Stores in these locations generated 59%, 27% and 14%, respectively, of our store sales for the 52 weeks ended November 25, 2017. During the 52 weeks ended November 25, 2017, our U.K. store sales generated 91.0% of our total revenue. All Matalan sites are leased, with an average remaining lease term of approximately eight years.

Store Environment. Our Matalan stores are typically single-floor, open plan spaces and average approximately 28,500 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 lines including "The Edits" collection and also showcases "Better" and "Best" ranges including ladies: "*Falmer*

Heritage" and "*Soon*" alongside mens: "*Morley*", "*Lincoln* and *Taylor*" and "*Wright*". Our "Better" and "Best" collections are located towards the entrance, highlighting key trends to the customer.

The collection of online click and collect orders is managed at the checkout. Parcels are stored in click and collect pods behind each till to ensure a fluid transaction. Customers are enticed to shop in the store when they collect their parcel and we estimate that typically customers spend a further 18.3% of their click and collect order value on an in-store purchase.

During the period of recovery following the impact of the warehouse relocation, while the performance level of the stores was improving, there was a pause in opening new space with the focus being on testing elements of potential change within the store environment ahead of committing to a refurbishment program.

During 2017, a store refurbishment program commenced, which has successfully delivered improved environments and enhanced the product choice available to the customer, through the use of updated layouts and fixtures, enabling more product to be merchandised within the store. The homeware offer in the refurbished stores has expanded, with new categories such as lighting, supported through improved visual merchandising, inspiring customers to make coordinated purchases. The 35 stores refurbished in the 39 weeks ended November 25, 2017 delivered a year over year revenue increase that was, on average, eight percentage points greater than stores yet to be refurbished.

Updated and more space efficient store layouts have enabled us to take advantage of downsizing or relocating to smaller store space where beneficial to do so without compromising product availability or selection, resulting in reduced operating costs, without reducing choice for the customer. Trials of how to better utilize excess space have commenced through testing new categories, such as branded toys, or the introduction of a coffee shop. This has the added advantage of improving the in-store experience for our customers.

Overseas Franchises. Since 2009, Matalan has had a franchise agreement with Business Trading Company in Qatar to open Matalan branded franchise stores across the Middle East. With 22 franchise stores as of November 25, 2017, 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. In 2016 and 2017, Matalan entered into new franchise agreements expanding its international operation via two franchise stores opened in Malta and one franchise store in Armenia. We have also signed an agreement to open stores in Gibraltar in 2018. For the 52 weeks ended November 25, 2017, our overseas franchise stores generated 2.5% of our total revenue. We will continue to evaluate strategic opportunities for future franchise agreements that we believe will help grow our international operation.

We supply our products to these franchises from both our U.K. distribution centers and our overseas hubs. Our franchises generally purchase merchandise at cost and we license the use of the Matalan name to them in exchange for a franchise fee. As a result, we do not bear the risk of unsold inventory normally associated with our U.K. stores. The products are shipped at the franchisee's risk.

Matalan Online

The 52 weeks ended November 25, 2017 has seen significant growth in the online business across all key metrics. We have focused on profitable growth and driving incremental sales via four key areas; improving our technology and platform, improving our customer experience on mobile and desktop, driving cost effective traffic at high volumes and increasing our trading capability.

This year we successfully replaced our website's platform to support greater flexibility, agility in our way of working and ongoing iterations to the site, allowing us to release improvements up to twice weekly and continually drive commercial performance. Since the platform's implementation in May 2017, our investment in improving our customer experience is critical to growth; we have made over 100 improvements to our navigation, filtering, product pages and checkout flows. Our investment has meant overall conversion rate was up 23% to 2.4% for the 52 weeks ended November 25, 2017 compared to 1.9% the 52 weeks ended November 26, 2016.

Consistent with the market, we have also seen a significant increase in the mobile element of our online traffic mix; with 65.1% of volume in the 52 weeks ended November 25, 2017 (up 4.4 percentage points from the 52 weeks ended November 26, 2016) and 50.8% of our revenue in the 52 weeks ended November 25, 2017 (up 12.7 percentage points from the 52 weeks ended November 26, 2016) now coming through this channel. The mobile element has resulted in a decline in the sales mix seen for both tablet and desktop traffic despite absolute increases in traffic across all device types; we are continuing to invest in the opportunity that mobile presents to ensure continued growth in this area. In the 52 weeks ended November 25, 2017 period, we have grown conversion on mobile by 53.0% to a 2.0% conversion rate as compared to the 52 weeks ended November 26, 2016 and have been highlighted by Google as one of the strongest mobile conversion rate success stories of this year.

In the 52 weeks ended November 25, 2017, 42.7% of new customers made their first online purchases with Matalan. This demonstrates the value of the online channel as an acquisition route for new customers engaged by our enhanced media and brand strategy. It was during that same period that 37% of the store customers, who also now shop online, first made the transaction.

Click and collect accounted for 56.4% of all online orders during the 52 weeks ended November 25, 2017, up from 50.3% in the 52 weeks November 26, 2016, driving a total of 1.5 million visitors to our shops to collect orders up 68% on the corresponding period of the previous year. Customers spend an additional 18.3%, or £3.77, on average when collecting a parcel in store. Home delivery accounted for 43.6% of all online orders during the 52 weeks ended November 25, 2017, down from 49.7% the previous fiscal year in the 52 weeks November 26, 2016.

The introduction of a £1.99 next day click and collect service along with extending our cut off time for next day orders has proven popular with our customers, with up to 7% of customers opting for the next day click and collect service in key trading periods. We also offer a three to five business day click and collect service at no charge to our customers. Customers may choose to have our product delivered within five business days for £3.95.

Advertising and Marketing

Being primarily an out of town retailer, we know that we must give compelling and constant reminders and "reasons to shop" in order to drive store footfall and sales. To do this, we use a truly "Always On" marketing strategy underpinned with content and advocacy to ensure that new customers find us, lapsed customers reappraise us and existing customers shop more frequently and are more engaged.

Over the last 12 months, we have reduced the amount of paper communications in favor of more profitable digital channels including email, the Matalan Reward Smartphone App and paid social and display media. Digital channels have been used to support the "Always On" strategy communicating to over five million customers each week, which creates a seamless omni-channel experience. Paid digital media is now a core part of our strategy and will continue to evolve and widen as our channel mix evolves and we become more responsive and efficient. As part of our new media strategy, we launched a social media "Influencer" campaign which used digital content from celebrities and bloggers. The Influencer campaign has been successful in promoting the brand and key products as well as supporting a broader market reach. We have been increasing the level of engaging multi-channel media content produced. We reach up to 15 million viewers a week through trailerverts, up to four million views of "the Show" per episode and up to eight million hard printed press and magazine readers. Through targeted campaigns, we are ever-present and fully engaged with our customers multiple times a day via our own channels as well as those of relevant partners.

We have carefully selected partnerships with some of the most trusted and well-known brands in the U.K. including ITV, Time Inc., Mumsnet and NSPCC. These partnerships are not only used as a platform to reach a potentially new and engaged audience, but also to collaborate and curate content that has credibility and substance. We partner exclusively with ITV on our TV strategy and this gives us the backing of the biggest commercial TV station in the U.K. We reach almost 80% of the population annually and the partnership also gives us access to, on average, eight out of ten of the biggest commercial TV shows. This exposure has been a large contributor to the recent improvements we have seen in our level of brand awareness which as of June 2017 was at a four year high.

As part of our TV strategy we launched "The Show" which was edited for TV while promoting the full video available through our website. This has been a great success, by increasing the frequency of website visits. Our TV strategy further evolved in spring 2017 when we began creating longer form videos, resulting in better viewing penetration and improved viewing coverage of the show, while promoting our brand and its products in a more impactful way. Denise van Outen, a celebrity presenter, serves as the host of "The Show" and has proved to connect extremely well with our customers.

Although our focus is now on digital channels, we have continued to use paper strategically to launch the season by sending magazine style brochures to our most valuable and profitable customers. These brochures communicate our fashion credentials with 91% of customers stating that the products featured were fashionable (increasing to 95% within our core shopper group).

Information Technology

We have information systems in place to support all of our business functions.

We outsource the management of these systems to Capgemini and recently renegotiated our contract resulting in better commercial terms and improved service offerings. 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. The hardware and software is being replaced by Diebold Nixdorft (UK) Limited which will facilitate the trailing of self-service checkouts.

We launched our new online platform developed by CTG in May 2017, which links in with a new Order Management System. This underpins our online growth aspirations and supports the move to a truly omni-channel business.

Our distribution centers currently use WMoS to manage inventory. WMoS is designed to improve order fulfillment and reduce order cycle time through efficient picking. We have a data warehouse holding transaction level customer data for the members of our loyalty program. This is hosted and managed by Optima.

We are also in the process of implementing RFID across the supply chain. This will improve cross channel inventory management, as well as product availability and certainty for customers.

We have a clear IT strategy and roadmap as to how we will continue to evolve the IT architecture and capability of the business in support of its broader growth strategy. This includes programs to improve our merchandising systems, business analytics and data insight via upgrading to cloud based Microsoft solutions. We believe these investments will significantly benefit business performance.

Intellectual Property

We own the rights to the Matalan name, which is our most important trademark and which we have registered in 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 label products and related products in the U.K. 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*", "*Marvel*" and "*Lucas* film" brands. We have registered variations of the "Matalan" domain name and other domain names with the appropriate authorities in the U.K. 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 November 25, 2017, we employed over 14,000 employees across our business, with over 700 employees working from our head office in Knowsley, over 1,100 working within our distribution centers/transport division and the over 12,000 employees, working in our retail store locations. Within our various distribution centers, we augment our employees, with agency staff from time to time. Our workforce is comprised of approximately 16% full-time employees, with the remainder working a variety of part-time schedules.

Employee and Labor Relations. Since 2003, we have had a partnership agreement with the GMB union; which covers warehouse employees, drivers and clerks at our Knowsley and Corby distribution centers. The voluntary agreements have been in place since at least 2003 and 2007 respectively and although they do not have expiry dates, we periodically review the terms for potential updates and to ensure they are still relevant and workable. We believe our relationship with our employees and the GMB union is generally very constructive and positive and we have not experienced any significant labor disputes or work stoppages.

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 though an expansion of their current role or through promotion. In addition to their salary, certain grades of 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 Legal & General for all employees. We currently contribute 1% of salary for all employees who have not opted out of the applicable scheme, in accordance with the legislative requirements. In April 2018, this contribution will increase to 2% and in April 2019 the contribution will be 3%.

Insurance

We maintain insurance to cover risks associated with the ordinary operation of our business, including general liability, property coverage, cyber 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—Risks 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. We are currently updating our processes and procedures in order to comply with the General Data Protection Regulation ("GDPR") which becomes effective in May 2018. There remains uncertainty regarding the enforcement and interpretation of the GDPR. It is also uncertain what impact, if any, further changes to data protection regulations could have on our operations. 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 U.K., 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. It is uncertain what impact, if any, Brexit will have on the governmental regulations with which we have to comply. 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—Risks 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. With the exception of Allan Leighton, who is not a director of the Issuer, 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:

Office	Name	First appointment date
Chairman	John Mills	January 1, 2007
Chief Executive Officer	Jason Hargreaves	July 12, 2013
Chief Financial Officer	Stephen Hill	September 16, 2013
Chief Operating Officer	Gregory Pateras	August 7, 2017
Non-Executive Director	Allan Leighton	February 18, 2013

John Mills—Chairman. John Mills returned to his position of Chairman in 2017, having previously held the positions of Chairman and Deputy Chairman since 2007. John 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 first became Chairman in early 2007. John has held and currently holds directorships in a number of small to medium-sized enterprises. John is Chairman of Nottingham University and is one of its two Pro Chancellors. He is also a Chairman of the NOVA Education Trust.

Jason Hargreaves—Chief Executive Officer. Jason Hargreaves has served as the Managing Director of Matalan since July 2013, transitioning to Chief Executive Officer from July 2017. He is the son of John Hargreaves, Founder and Owner of Matalan. Since 1985, Jason has held various positions within Matalan, starting off in the ladieswear department as a Buyer, and then swiftly moving into the Sourcing department where he was soon promoted to undertake to role of Sourcing Director in 2007 where he was responsible for setting up the whole supplier base. Jason spent a lot of time overseas while in this role, focusing on materials and suppliers, he held this position until his promotion to Managing Director in 2013 and he now runs the business as Chief Executive Officer on a day-to-day basis, responsible for Matalan’s overall strategy and growth. During his career, Jason was awarded a Doctorate of Design in 2014 by the Manchester Metropolitan University, in recognition of his outstanding contribution to the field of clothing, design and technology.

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 16 years with Matalan, Mr. Hill has undertaken roles across the Finance function, including Financial Planning Controller and 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.

Gregory Pateras—Chief Operating Officer. Gregory Pateras joined Matalan as Chief Operating Officer in June 2017 overseeing all operational matters. He was previously with Shop Direct for ten years, where he progressed from the role of Head of Group Finance to Group Finance Director, being instrumental in driving a digital and financial transformation of the business. Mr. Pateras graduated from the University of Liverpool and joined KPMG, training as a Chartered Accountant. He has gained a wealth of experience working in a number of sectors including retail, manufacturing and utilities in publically and privately owned groups.

Allan Leighton—Non-Executive Director. Allan Leighton has served as a Non-Executive Director of Matalan since February 2017, prior to which he served as Chairman of Matalan from 2013. Mr. Leighton has over 40 years of 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 Non-Executive Chairman at Co-operative Group Limited and Deputy Chairman of Pandora Jewelry. 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.

The business address of each member of the Board is Perimeter Road, Knowsley Industrial Park, Knowsley, L33 7SZ United Kingdom (telephone number: +44 (0)151 556 6000).

For the 2017 Fiscal Year, the Group paid the members of the Board an aggregate remuneration (including benefits) of £1.4 million (including a £0.2 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 Technology Officer	Howard Reed
Retail Director	Mike Jeans
Sourcing and Technical Director	David Mellett
Trading Director	Paul Solly
Human Resources Director	Emma Crossland
Supply Chain Director	Richard Kirk
Marketing Director	Simon Lee

Howard Reed—Chief Technology Officer. Howard Reed has served as the Chief Technology Officer at Matalan since 2015. He worked at Asda for 20 years in a variety of IT roles, which culminated in his appointment as IT Director. After leaving Asda in 2010 he has been the Group IT Director for New Look and the CIO for the Co-operative Retail business. He has a degree in Business Studies and a Master’s degree in IT and Management.

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 to 1988, Manchester Metropolitan. Prior to Matalan, Mr. Mellett worked for a 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.

Paul Solly—Trading Director. Paul Solly has served as Trading Director of Matalan since April 2015. He has previously worked at Marks & Spencer for 22 years, spending ten years in commercial store management and then 12 years in Buying and Merchandising including Senior leadership roles in Womenswear and Home. He then joined Tesco as the Category Director for Home and Furniture (UK) for nearly two years before joining Matalan.

Emma Crossland—Human Resources Director. Emma Crossland has served as Human Resources Director of Matalan since September 2015. She completed Woolworths’ internal management training scheme and held various store management roles before moving into Human Resources in 2000. After leaving Woolworths in 2003, Emma joined a Human Resources consultancy, working with clients across the public and private sectors. In 2005, Emma joined the Arcadia Group where she held a number of leadership positions across all Human Resources specializations before being promoted to Head of Human Resources for Outfit. Prior to taking the role of Head of Human Resources at Matalan, Emma was the General Manager leading the Operational Human Resources function at Jet2.com/Jet2 Holidays.

Richard Kirk—Supply Chain Director. Richard Kirk has been the Supply Chain Director since 2015. He has over 25 years of experience working within retail with companies including Arcadia, Next, Marks & Spencer and The Landmark Group. Richard’s roles have mainly been supply chain based with secondments into retail covering operational and strategic roles. He has a degree in Supply Chain Management.

Simon Lee—Marketing Director. Simon Lee has served as Marketing Director since August 2016. Previously, Mr. Lee spent 14 years in the U.S. most recently as the Chief Marketing Officer of Anthropologie, Vice President of Creative for Amazon subsidiary Shopbop, Creative Director of fortune 500 company TJ Maxx and Executive Creative Director of Global Advertising Agency Wednesday where he led projects from New York such as the re-branding of Calvin Klein (#MyCalvins), Estee Lauder flagship website, conception of Reese Witherspoon’s new brand Draper James and Cole Haan’s rebrand (History Begins Here). Prior to his time in the U.S. Simon worked in the U.K. for seven years on brands such as The Royal Mail, Mitsubishi and GE Capital. He studied Advertising, Graphics and Photography at The Leeds College of Art and is a fellow of The Royal Society of Art.

Simon Lee is currently working his contractual notice and is expected to leave the business in early 2019 Fiscal Year. We are confident that the investment made in the leadership and management team in recent years will enable a smooth transition with a further appointment to the leadership team being made in due course.

The business address for the senior managers is Perimeter Road, Knowsley Industrial Park, Knowsley, L33 7SZ United Kingdom (telephone number: +44 (0)151 556 6000).

For the 2017 Fiscal Year, Matalan paid its senior managers aggregate remuneration and other benefits of £2.3 million.

PRINCIPAL SHAREHOLDERS

The following table sets forth the principal shareholders' equity ownership of TopCo, the indirect shareholder of the Issuer, as of November 25, 2017:

Shareholder	Number of ordinary A shares	Percentage holding of ordinary A shares	Number of ordinary B shares
John Hargreaves	82,541,449	47.78%	—
Abacus Trust Company Limited and Colyb Limited(1)	73,394,756	42.48%	—
Abacus Trust Company Limited(2)	7,995,069	4.63%	—
John Jason Hargreaves	4,444,643	2.57%	—
Jamey Hargreaves	4,387,778	2.54%	—
Alistair McGeorge(3)	—	—	96,000
Matalan Retail Employee Benefit Trust(3)(4)	—	—	60,000
John Mills	—	—	64,000
Paul Gilbert(4)	—	—	40,000
Jeff Banks	—	—	40,000
Total	**172,763,695**	**100.00%**	**300,000**

(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 holds these shares as trustees of the John Hargreaves No. 2 Settlement. The trustees disclaim any beneficial interest in these shares.

(3) 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 of 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.

(4) 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 of 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 of November 25, 2017, 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 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
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
39 WEEKS ENDED 25 NOVEMBER 2017

Missouri Topco Limited
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Missouri Topco Limited
Results of operations for the 39 weeks ended 25 November 2017

Revenue

Revenue increased by 1.5% to £807.1m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £795.0m; 52 week period ended 25 February 2017: £1,037.3m).

Cost of sales and gross profit

Cost of sales decreased by 1.1% to £694.8m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £702.8m; 52 week period ended 25 February 2017: £925.7m).

Gross profit increased by 21.8% to £112.3m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £92.2m; 52 week period ended 25 February 2017: £111.6m).

Gross profit as a percentage of revenue increased to 13.9% in the 39 weeks ended 25 November 2017 (39 week period ended 26 November 2016: 11.6%; 52 week period ended 25 February 2017: 10.8%).

Administrative expenses (including exceptional items)

Administrative expenses (including exceptional items) decreased by £1.2m to £46.3m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £47.5m; 52 week period ended 25 February 2017: £65.5m).

Exceptional items of £1.0m were incurred in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £0.3m; 52 week period ended 25 February 2017: £1.8m).

Operating profit

Operating profit pre exceptional items increased by £22.0m to £67.0m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £45.0m; 52 week period ended 25 February 2017: £47.9m).

Net finance costs (including exceptional items)

Net finance costs (including exceptional items) decreased by £1.0m to £28.1m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £29.1m; 52 week period ended 25 February 2017: £36.2m).

Exceptional finance income of £nil occurred in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £nil; 52 week period ended 25 February 2017: £2.5m).

Taxation

Taxation in the 39 week period ended 25 November 2017 was a £7.4m charge (39 week period ended 26 November 2016: £4.1m charge; 52 week period ended 25 February 2017: £2.5m charge).

Profit/ loss for the period

The profit in the 39 week period ended 25 November 2017 was £30.5m (39 week period ended 26 November 2016: £11.5m; 52 week period ended 25 February 2017: £7.4m profit).

Cash flow

Cash flows from operating activities increased by £18.9m to £98.6m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £79.7m; 52 week period ended 25 February 2017: £81.9m).

Net cash used in investing activities was £55.7m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £20.1m; 52 week period ended 25 February 2017: £26.6m).

Net cash used in financing activities was £nil in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £nil; 52 week period ended 25 February 2017: £9.4m used).

Cash increased by £21.6m in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £21.1m increase; 52 weeks ended 25 February 2017: £6.6m increase). The cash balance as at 25 November 2017 was £102.7m.

Missouri Topco Limited

Condensed consolidated income statement

	Note	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
		£'m	£'m	£'m
Revenue	3	**807.1**	795.0	1,037.3
Cost of sales	3	**(694.8)**	(702.8)	(925.7)
Gross profit	3	**112.3**	92.2	111.6
Administrative expenses (including exceptional items)	3	**(46.3)**	(47.5)	(65.5)
Operating profit (including exceptional items)	3	**66.0**	44.7	46.1
Operating profit pre exceptional items		**67.0**	45.0	47.9
Exceptional items—administrative expenses	14	**(1.0)**	(0.3)	(1.8)
Operating profit		**66.0**	44.7	46.1
Finance costs		**(28.5)**	(29.4)	(39.2)
Finance income		**0.4**	0.3	0.5
Exceptional finance income		**—**	—	2.5
Net finance costs		**(28.1)**	(29.1)	(36.2)
Profit before income tax and exceptional items		**38.9**	15.9	9.2
Total exceptional items	14	**(1.0)**	(0.3)	0.7
Profit before income tax		**37.9**	15.6	9.9
Income tax	5	**(7.4)**	(4.1)	(2.5)
Profit for the period		**30.5**	11.5	7.4
Attributable to:				
Equity holders of the parent		**30.6**	12.0	8.1
Non controlling interest		**(0.1)**	(0.5)	(0.7)
Profit for the period		**30.5**	11.5	7.4

The notes on pages F-12 to F-18 form an integral part of this condensed consolidated interim financial information.

Missouri Topco Limited

Statement of comprehensive income

	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
	£'m	**£'m**	**£'m**
Profit for the period	**30.5**	11.5	7.4
Other comprehensive income:			
Cash flow hedges	**(77.8)**	11.7	(5.8)
Income tax element of cash flow hedges	**14.8**	(2.0)	1.5
Total other comprehensive income, net of income tax	**(63.0)**	9.7	(4.3)
Total comprehensive (expenditure)/ income	**(32.5)**	21.2	3.1

The notes on pages F-2 to F-18 form an integral part of this condensed consolidated interim financial information.

Missouri Topco Limited

Condensed consolidated balance sheet

	Note	25 November 2017	26 November 2016	25 February 2017
		£'m	£'m	£'m
Assets				
Property, plant and equipment		**201.8**	170.9	167.5
Intangible assets		**31.0**	28.1	29.0
Financial assets—derivative financial instruments	7	**—**	23.3	11.5
Total non-current assets		**232.8**	222.3	208.0
Inventories—goods for resale		**135.0**	129.0	114.7
Trade and other receivables		**37.7**	37.6	32.0
Financial assets—derivative financial instruments	7	**10.7**	66.7	60.0
Cash and cash equivalents		**102.7**	95.6	81.1
Total current assets		**286.1**	328.9	287.8
Total assets		**518.9**	551.2	495.8
Liabilities				
Financial Liabilities—derivative financial instruments		**(9.0)**	—	—
Trade and other payables		**(192.4)**	(165.2)	(145.0)
Current income tax liabilities		**(5.9)**	(2.4)	(1.5)
Provisions for other liabilities and charges	8	**(0.5)**	(0.5)	(0.5)
Total current liabilities		**(207.8)**	(168.1)	(147.0)
Financial liabilities—borrowings	6	**(478.0)**	(488.8)	(477.2)
Financial liabilities—derivative financial instruments	7	**(11.5)**	(0.2)	(0.4)
Trade and other payables		**(41.0)**	(43.0)	(42.9)
Deferred income tax liabilities		**(0.2)**	(19.5)	(14.8)
Provisions for other liabilities and charges	8	**(1.3)**	(1.6)	(1.7)
Total non-current liabilities		**(532.0)**	(553.1)	(537.0)
Total liabilities		**(739.8)**	(721.2)	(684.0)
Net liabilities		**(220.9)**	(170.0)	(188.2)
Shareholders' deficit				
Share capital		**17.3**	17.3	17.3
Share premium		**385.6**	385.6	385.6
Merger reserve		**(774.3)**	(774.3)	(774.3)
Hedge reserve		**(11.3)**	65.7	51.7
Capital redemption reserve		**5.7**	5.7	5.7
Warrant reserve		**3.1**	3.1	3.1
Non-controlling interest		**—**	(0.5)	(0.8)
Retained earnings		**153.0**	127.4	123.5
Total shareholders' deficit		**(220.9)**	(170.0)	(188.2)

The notes on pages F-12 to F-18 form an integral part of this condensed consolidated interim financial information.

The financial statements on pages F-4 to F-18 were approved by the Board of Directors on 4 January 2018 and signed on its behalf by S Hill, Director, Missouri Topco Limited (Registered Number: 00045618).

Missouri Topco Limited

Condensed consolidated cash flow statement

	Note	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
		£'m	**£'m**	**£'m**
Cash flows from operating activities				
Cash generated	10	**98.6**	79.7	81.9
Interest paid		**(18.5)**	(37.6)	(37.9)
Income tax paid		**(2.8)**	(0.9)	(1.4)
Net cash generated from operating activities		**77.3**	41.2	42.6
Cash flows from investing activities				
Purchases of property, plant and equipment		**(48.5)**	(13.8)	(17.2)
Purchases of intangible assets		**(7.2)**	(6.6)	(9.9)
Purchase of shares in investment		**(0.4)**	—	—
Interest received		**0.4**	0.3	0.5
Net cash used in investing activities		**(55.7)**	(20.1)	(26.6)
Cash flows from financing activities				
Bonds repurchased		**—**	—	(9.4)
Net cash generated used in financing activities		**—**	—	(9.4)
Net increase in cash and cash equivalents		**21.6**	21.1	6.6
Cash and cash equivalents at the beginning of the period		**81.1**	74.5	74.5
Cash and cash equivalents at the end of the period		**102.7**	95.6	81.1

The notes on pages F-12 to F-18 form an integral part of this condensed consolidated interim financial information.

Missouri Topco Limited

Condensed consolidated statement of changes in shareholders' equity

Group

	Share capital	Share premium	Merger reserve	Hedge reserve	Capital redemption reserve	Warrant reserve	Non-controlling interest	Retained earnings	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
As at 28 February 2016	**17.3**	**385.6**	**(774.3)**	**56.0**	**5.7**	**3.1**	**(0.2)**	**115.1**	**(191.7)**
Comprehensive expenditure									
Profit for the period	—	—	—	—	—	—	—	12.0	**12.0**
Total profit for the period	—	—	—		—	—	—	12.0	**12.0**
Other comprehensive income									
Cash flow hedges									
—fair value gain in the period	—	—	—	15.1	—	—	—	—	**15.1**
—transfers to inventory	—	—	—	(3.4)	—	—	—	—	**(3.4)**
—tax element of cash flow hedges	—		—	(2.0)	—	—			**(2.0)**
Total cash flow hedges. net of tax	—		—	9.7	—	—			**9.7**
Total other comprehensive income, net of tax	—		—	9.7	—	—			**9.7**
Transactions with owners									
Fair value charge for subscription for 'B' shares	—	—	—	—	—	—	—	0.3	**0.3**
Total transactions with owners	—	—	—	—	—	—	—	0.3	**0.3**
Non-controlling interest	—	—	—	—	—	—	(0.3)	—	**(0.3)**
As at 26 November 2016	**17.3**	**385.6**	**(774.3)**	**65.7**	**5.7**	**3.1**	**(0.5)**	**127.4**	**(170.0)**

Group

	Note	Share capital	Share premium	Merger reserve	Hedge reserve	Capital redemption reserve	Warrant reserve	Non-controlling interest	Retained earnings	Total equity
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
As at 26 February 2017		**17.3**	**385.6**	**(774.3)**	**51.7**	**5.7**	**3.1**	**(0.8)**	**123.5**	**(188.2)**
Comprehensive income										
Profit for the period		—	—	—	—	—	—	—	30.6	**30.6**
Total profit for the period		—	—	—		—	—	—	30.6	**30.6**
Other comprehensive income										
Cash flow hedges										
—fair value loss in the period		—	—	—	(80.8)	—	—	—	—	**(80.8)**
—transfers to inventory		—	—	—	3.0	—	—	—	—	**3.0**
—tax element of cash flow hedges		—		—	14.8	—	—			**14.8**
Total cash flow hedges, net of tax		—		—	(63.0)	—	—			**(63.0)**
Total other comprehensive income, net of tax		—		—	(63.0)	—	—			**(63.0)**
Transactions with owners										
Fair value charge for subscription for 'B' shares		—	—	—	—	—	—	—	0.2	**0.2**
Total transactions with owners		—	—	—	—	—	—	—	0.2	**0.2**
Changes in ownership interests										
Acquisition of NCI without change in control	9	—	—	—	—	—	—	0.8	(1.3)	**(0.5)**
As at 25 November 2017		**17.3**	**385.6**	**(774.3)**	**(11.3)**	**5.7**	**3.1**	**—**	**153.0**	**(220.9)**

Notes to the financial statements

1. General information

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

These condensed consolidated interim financial statements were approved for issue on 4 January 2018.

2. Summary of accounting policies

Basis of preparation

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the 52 weeks ended 25 February 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations, and specifically IAS 34 Interim Financial Reporting.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the 52 weeks ended 25 February 2017, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no new IFRSs or IFRIC interpretations that are effective for the first time for this financial period that would be expected to have a material impact on the Group.

At the date of approval of these condensed consolidated interim financial statements, the IASB and IFRIC have issued new or amended standards and interpretations which were in issue but not effective for the financial period and not early adopted. The adoption of these standards is not expected to have a material impact on the Company's accounts when adopted, except where stated:

New standards, amendments to standards or interpretations

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Share-based payments
- Amendments to 1AS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 16 Leases. The new standard is effective for annual reporting periods beginning on or after 1 January 2019. The impact of the new standard is expected to be material and is currently under review by the Group.

The Group 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 and appropriate sensitivities for the period to February 2019, 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.

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 25 November 2017, the Group is in a net current asset position and has adequate liquid resources to pay its liabilities as they fall due.

3. Operating profit

	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
	£'m	£'m	£'m
Total revenue	**807.1**	795.0	1,037.3
Cost of goods sold	**(401.3)**	(406.9)	(533.4)
Selling expenses	**(258.8)**	(257.4)	(341.5)
Distribution expenses	**(34.7)**	(38.5)	(50.8)
Total cost of sales	**(694.8)**	(702.8)	(925.7)
Gross profit	**112.3**	92.2	111.6
Administrative expenses—pre exceptional items	**(45.3)**	(47.2)	(63.7)
Exceptional items—administrative expenses	**(1.0)**	(0.3)	(1.8)
Administrative expenses	**(46.3)**	(47.5)	(65.5)
Operating profit	**66.0**	44.7	46.1

Further details of exceptional items are given in note 14.

4. Segment Reporting

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. This set of condensed consolidated interim financial statements is therefore presented as a single reportable segment.

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. This can be reconciled to statutory operating profit as follows:

	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
	£'m	£'m	£'m
Operating profit	**66.0**	44.7	46.1
Depreciation and amortisation	**22.9**	21.7	29.1
Exceptional items	**1.0**	0.3	1.8
EBITDA pre exceptionals	**89.9**	66.7	77.0

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.

5. Income tax

Income tax for the 39 week period ended 25 November 2017 is charged at 19.5% (39 weeks ended 26 November 2016: 26.3%; 52 weeks ended 25 February 2017: 25.3%) of profit representing the best estimate of the effective annual income tax rate expected for the full year, applied to the pre-tax profit for the 39 week periods.

The effective annual income tax rate of 20.7% for the period is higher than the standard rate of corporation tax in the UK of 19.0% at the end of November 2017 (November 2016: 20.0%, February 2017: 20.0%). The key reconciling items relate to non-deductible expenses. The rate of corporation tax is based on a weighted average rate. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on

26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016.

6. Financial liabilities—borrowings

	25 November 2017	26 November 2016	25 February 2017
	£'m	£'m	£'m
Non-current			
First Lien Secured Notes (net of £1.3m issue costs (Aug 2016: £2.3m; February 2017 £1.9m))	**(340.7)**	(339.9)	(340.1)
Second Lien Secured Notes (net of £0.7m issue costs (Aug 2016: £1.2m; February 2017 £0.9m))	**(137.3)**	(148.9)	(137.1)
	(478.0)	(488.8)	(477.2)

Borrowings are all denominated in sterling at 25 November 2017. The Group had no short-term borrowings during any of the reported periods. Issue costs of £5.2m were incurred in relation to the First Lien Secured Notes and Second Lien Secured Notes and are being amortised over the terms of the facilities.

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

We may from time to time seek to retire or purchase our outstanding debt through cash purchases in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In the 52 week period ending 25 February 2017 the Group purchased and cancelled £12.0m of Second Lien Secured Notes. Further details can be found in note 14.

Maturity of Secured Notes

	25 November 2017	26 November 2016	25 February 2017
	£'m	£'m	£'m
Less than one year	**—**	—	—
One to five years	**480.0**	492.0	480.0
	480.0	492.0	480.0
Issue costs	**(2.0)**	(3.2)	(2.8)
	478.0	488.8	477.2
Current	**—**	—	—
Non-current	**478.0**	488.8	477.2
	478.0	488.8	477.2

6. Financial liabilities-borrowings

Borrowing facilities

At 25 November 2017 the table below reflects the usage of the Revolving Credit Facilities (RCF). These facilities are subject to an annual review and incur fees at market rates.

	25 November 2017	26 November 2016	25 February 2017
	£'m	£'m	£'m
Letters of credit	**4.0**	3.0	3.3
Guarantees	**8.3**	8.3	8.3
Unused	**37.7**	38.7	38.4
Total available	**50.0**	50.0	50.0

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

7. Derivative financial instruments

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 25 November 2017 is £689.1m (26 November 2016: £544.2m; 25 February 2017: £518.6m).

The net fair value of losses as at 25 November 2017 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases is £9.8m (26 November 2016: gains of £89.8m; 25 February 2017: gains of £71.1m). These are transferred at their current fair value as an inventory based adjustment on receipt of the underlying inventory.

8. Provisions for other liabilities and charges

	Onerous contracts
	£'m
At 26 February 2017	**(2.2)**
Utilised in the period	**0.5**
(Debited)/credited in the period as an exceptional item	**(0.1)**
At 25 November 2017	**(1.8)**

	25 November 2017	26 November 2016	25 February 2017
	£'m	£'m	£'m
Analysis of total provisions:			
Non-current	**(1.3)**	(1.6)	(1.7)
Current	**(0.5)**	(0.5)	(0.5)
	(1.8)	(2.1)	(2.2)

During a previous period a lease previously assigned to another retailer was returned to the Company in 2009 on privity of contract after they entered administration. A provision was created at that time to recognise that the lease was onerous and this was treated as exceptional in nature and is being released over the remaining life of the lease.

During a previous period, the Group established a provision for anticipated future dilapidations costs, this was fully utilised within the period ending 25 February 2017.

9. Acquisition of NCI

In August 2017, the Group acquired an additional 25% interest in Matalan Direct Limited under its historic obligations for £0.4m in cash, increasing its ownership from 75% to 100%. The carrying amount of Matalan Direct Limited's net liabilities in the Group's financial statements on the date of acquisition was (£3.7m). The Group recognised a decrease in NCI of £0.9m and a decrease in retained earnings of £1.3m.

	£'m
Carrying amount of NCI acquired ((£3.7m) × 25%)	**(0.9)**
Fair value of consideration	**0.4**
A decrease in equity attributable to owners of the group	**(1.3)**

10. Cash flow from operating activities

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

	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
	£'m	£'m	£'m
Cash generated from operations			
Operating profit	**66.0**	44.7	46.1
Adjustments for:			
Depreciation	**17.6**	16.8	22.5
Amortisation of intangibles	**5.3**	4.9	6.6
Goodwill Impairment	**—**	—	0.9
Loss on disposal of PPE	**—**	—	0.1
Non cash exceptional items	**(0.1)**	—	1.3
Share based compensation charge	**0.2**	0.3	0.3
Hedge accounting	**0.8**	0.2	0.1
Operating cash flows before movements in working capital	**89.8**	66.9	77.9
Movements in working capital:			
Decrease/ (increase) in inventories	**(24.7)**	2.6	18.3
(Increase)/ decrease in trade and other receivables	**(5.9)**	(9.8)	(4.3)
Increase/ (decrease) in trade and other payables	**39.4**	20.0	(10.0)
Net cash flows from operating activities	**98.6**	79.7	81.9

11. Reconciliation of net debt

Net funds incorporate notes in issue, less cash and cash equivalents.

	Net debt at 26 February 2017	Cash movements	Non cash movements	Net debt at 25 November 2017
	£'m	£'m	£'m	£'m
Cash and cash equivalents	81.1	21.6	—	**102.7**
Debt due after 1 year	(477.2)	—	(0.8)	**(478.0)**
	(396.1)	21.6	(0.8)	**(375.3)**

12. Contingent liabilities

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank facilities as disclosed in note 6 are secured by fixed and floating charges over the assets of the guarantor group. Notes in issue as disclosed in note 6 are guaranteed by the assets of the guarantor group.

13. Related party transactions

During the period, the Group leased its head office from a company associated with the Hargreaves family. On 23 November 2017, the Group purchased the remainder of the long leasehold tenure from that company at a cost of £32.6m including stamp duty and legal fees. The rental expenditure incurred in the 39 week period ended 25 November 2017 was £1.6m (39 weeks ended 26 November 2016: £1.5m; 52 weeks ended 25 February 2017: £2.1m) of which £nil was prepaid at 25 November 2017 (26 November 2016: £nil; 25 February 2017: £nil).

The Group purchased from and provided IT services to companies associated with the Hargreaves family. The expenditure incurred during the 39 week period ended 25 November 2017 was £2.0m (39 weeks ending 26 November 2016: £2.5m; 52 weeks ended 25 February 2017: £3.3m) of which £0.2m was outstanding at 25 November 2017 (26 November 2016: £nil; 25 February 2017: £nil). The services provided during the 39 week period ended 25 November 2017 totalled £nil (39 weeks ending 26 November 2016: £0.8m; 52 weeks ended 25 February 2017: £0.9m) of which £nil was outstanding as a debtor at 25 November 2017 (26 November 2016: £0.2m; 25 February 2017: £nil debtor).

The Group purchased clothing for resale from companies associated with the Hargreaves family. Purchases during the 39 week period ended 25 November 2017 were £2.3m (39 weeks ending 26 November 2016: £1.5m; 52 weeks ended 25 February 2017: £2.2m) of which £0.1m was outstanding at 25 November 2017 (26 November 2016: £nil; 25 February 2017: £0.2m).

The Group used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred during the 39 week period ended 25 November 2017 was £1.1m (39 weeks ending 26 November 2016: £1.8m; 52 weeks ended 25 February 2017: £2.2m) of which £0.1m was outstanding at 25 November 2017 (26 November 2016: £0.1m outstanding; 25 February 2017: £0.5m was outstanding).

During the 39 week period ended 25 November 2017 a member of the Hargreaves family was paid £0.1m (39 weeks ending 26 November 2016: £nil; 52 weeks ended 25 February 2017: £0.1m).

The Group incurred costs relating to the Hargreaves family and associated companies. The expenditure incurred during the 39 week period ended 25 November 2017 was £0.4m (39 weeks ending 26 November 2016: £0.1m; 52 weeks ended 25 February 2017: £0.2m) of which £0.3m was outstanding at 25 November 2017 (26 November 2016: £0.1m, 25 February 2017: £ni1).

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

14. Exceptional items

Exceptional items are comprised as follows:

	39 weeks ended 25 November 2017	39 weeks ended 26 November 2016	52 weeks ended 25 February 2017
	£'m	£'m	£'m
Restructuring costs	**(1.1)**	(0.3)	(0.7)
Onerous contract provision	**0.1**	—	—
Closure of SportingPro division—administrative costs	**—**	—	(1.1)
Exceptional items—administrative expenses	**(1.0)**	(0.3)	(1.8)
Finance Income	**—**	—	2.5
Exceptional items—Finance Income	**—**	—	2.5
Total exceptional items	**(1.0)**	(0.3)	0.7

Restructuring costs

Restructuring costs of £1.1m were incurred in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £0.3m; 52 week period ended 25 February 2017: £0.7m).

Onerous contract provision

Onerous contract provisions of £0.1m were released in the 39 week period ended 25 November 2017 (39 week period ended 26 November 2016: £nil; 52 week period ended 25 February 2017: £nil).

Closure of SportingPro division

The Group closed the SportingPro division in a prior year. During the 52 weeks ended 25 February 2017 the remaining assets were either disposed of, or where the assets were identified as no longer in use but yet to be disposed of, impairments on the carrying value of those were made. This amounted to £1.1m.

Financing Income

During the 52 weeks ended 25 February 2017 the Group repurchased and cancelled £12.0m of Second Lien Secured Notes at a purchase price of £9.4m, resulting in finance income of £2.5m, net of £0.1m of issue costs in relation to the bonds, which was treated as exceptional.