

Your
Neighbourhood's
favourite shop

It's been an incredibly busy couple of years for McColl's, integrating a major acquisition, launching an extensive refresh programme and transitioning to a new wholesale supply partner, whilst dealing with unprecedented supply chain disruption, which has impacted like-for-like sales and profitability.

However, we have never lost our focus on improving the customer experience and providing convenient services to local communities. We remain committed to our vision to be **your neighbourhood's favourite shop.**



Revenue*

£1.24bn

+8.1% 2017

Adjusted EBITDA**

£35.0m

-20.5% 2017

Earnings per share

5.9p

-51.7% 2017

Profit before tax

£7.9m

-57.3% 2017

Net debt**

£98.6m

-30.7% 2017

* To better reflect the core operations of the Group, Post Office revenue, previously included in other operating income, is now recognised in statutory sales. In order to ensure comparability 2017 full year revenue, gross margin, gross profit and other operating income have been restated.

** The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 125-126. Full details of adjusted EBITDA can be found in note 6 on page 102.

2018 highlights

Continued strategic progress, despite supply chain challenges

Strategic report

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The start of a new partnership

18 months on from signing our partnership, Morrisons has helped us navigate a supply chain crisis and established a brand new distribution network to supply 1,300 of our stores across the UK.

[+ Read more](#)
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An exclusive deal bringing Safeway back to the shelves

We have been delighted to bring the Safeway brand back to the shelves. Customers love the freshness and quality of the products and there is a great opportunity to develop the range.

[+ Read more](#)
Page 16



Showcasing a great fresh offer

In 2018 we embarked on our refresh programme following its successful trial. The completely refurbished stores showcase our great fresh and chilled range, as well as our rapidly growing food-to-go offer and are delivering sustained, meaningful sales uplifts.

[+ Read more](#)
Page 19

A year of transition

It's been a challenging year as the McColl's team have navigated their way through unprecedented supply chain disruption. Having transitioned 1,300 of our stores to a new wholesale supply partner, the business can now look forward to rebuilding momentum and capitalising on the opportunities that lie ahead.

//The team have shown enormous strength, determination and resilience.//



The business began the 2018 financial year with great confidence, having successfully integrated a major acquisition and signed a new wholesale supply agreement with Morrisons.

However, just days into the new year we experienced a significant setback following the sad failure of Palmer & Harvey (P&H). The loss of supply to 700 stores created major disruption and required us to put in place an interim supply solution for nine months, during which we accelerated the transition of 1,300 stores to Morrisons supply.

Moving to a new wholesale supply partner, at a much faster pace than anticipated, created its own challenges and severely disrupted our plans for the launch of Safeway. We are working with our partner Morrisons and remain confident that together we can develop an optimal range and promotional offer for the future.

Strong cash performance and new financing arrangements provide flexibility

Whilst the considerable supply chain disruption we suffered held back like-for-like (LFL) sales and profit, the business continues to generate very strong cash returns. In the year, we have benefited from significant working capital improvements as we've transitioned to our new wholesale supply partner. We have also realised proceeds from the sale and leaseback of a number of freeholds we acquired as part of our acquisition in 2017. This has allowed us to continue to invest in our strategic initiatives that will drive future growth, such as new store acquisitions and our store refresh programme, as well as pay down debt more quickly than anticipated.

In addition, in the second half of the year we engaged with our banking syndicate, and have amended our financing arrangements to give us more flexibility to execute our business plans.

Dividends

We need to give careful consideration to our cash allocation, striking the right balance between investing in the business, reducing our debt and providing returns to shareholders.

The Board is recommending a final dividend of 0.6 pence per share, making a total dividend for the period of 4.0 pence, as part of our commitment to provide returns to shareholders. This dividend will be paid on 6 June 2019, to shareholders on the register at the close of business on 26 April 2019, subject to approval at the forthcoming Annual General Meeting. Our policy of a 50% payout ratio to profit after tax (before adjusting gains but after adjusting losses) is unchanged.

Strengthening the Executive team

I'm delighted that after a rigorous and extensive search, Robbie Bell has recently joined the business as Chief Financial Officer. Robbie has over 20 years of finance and retail experience, most recently as CEO of Welcome Break, and previously in senior finance roles at Screwfix, Travelodge and Tesco. He is a great addition to the Board and as he settles into his new role I am confident that the business will benefit from his extensive experience and expertise.

We have made a number of additional senior appointments during the year, including Tim Fairs, our first Customer Director, and Greg Goodwin who joined us in the newly created role of Head of Buying. We are committed to bringing in commercially focused talent to support the business in the future.

I'd also like to thank Simon Fuller for the significant contribution he has made during his time as CFO at McColl's.

Looking forward

Jonathan and the team have shown enormous strength, determination and resilience in the face of immense challenges, and after an exceptionally difficult 2018 we begin 2019 with a more secure supply chain.

In the coming year, the business can move forward with a renewed focus on customers and the core elements of convenience retailing, to rebuild confidence and momentum.

Ensuring a strong balance sheet will be imperative and we will maintain good capital discipline, exploring opportunities to take further action to reduce our debt whilst maintaining appropriate levels of investment in the business.

Whilst it may take longer than anticipated to deliver the benefits of the Morrisons partnership this will be important to our continued transition to a food-led convenience offer. With the distribution network firmly established we can continue to enhance our offer, through further development of Safeway as we realise further value from the relationship.

Although Brexit and the current political environment continues to create uncertainty for businesses and consumers, food and grocery retail has a history of resilience during economic downturn and long-term social and lifestyle trends support growth in the convenience channel.

The Board remains committed to our strategy and, as we get back on track, we can look forward to a brighter future.



Angus Porter
Chairman

Where we operate

Serving communities across the UK

Through our network of convenience stores and newsagents we provide essential groceries and neighbourhood services to 1,556 local communities across the UK.

2011

47%
Convenience



2018

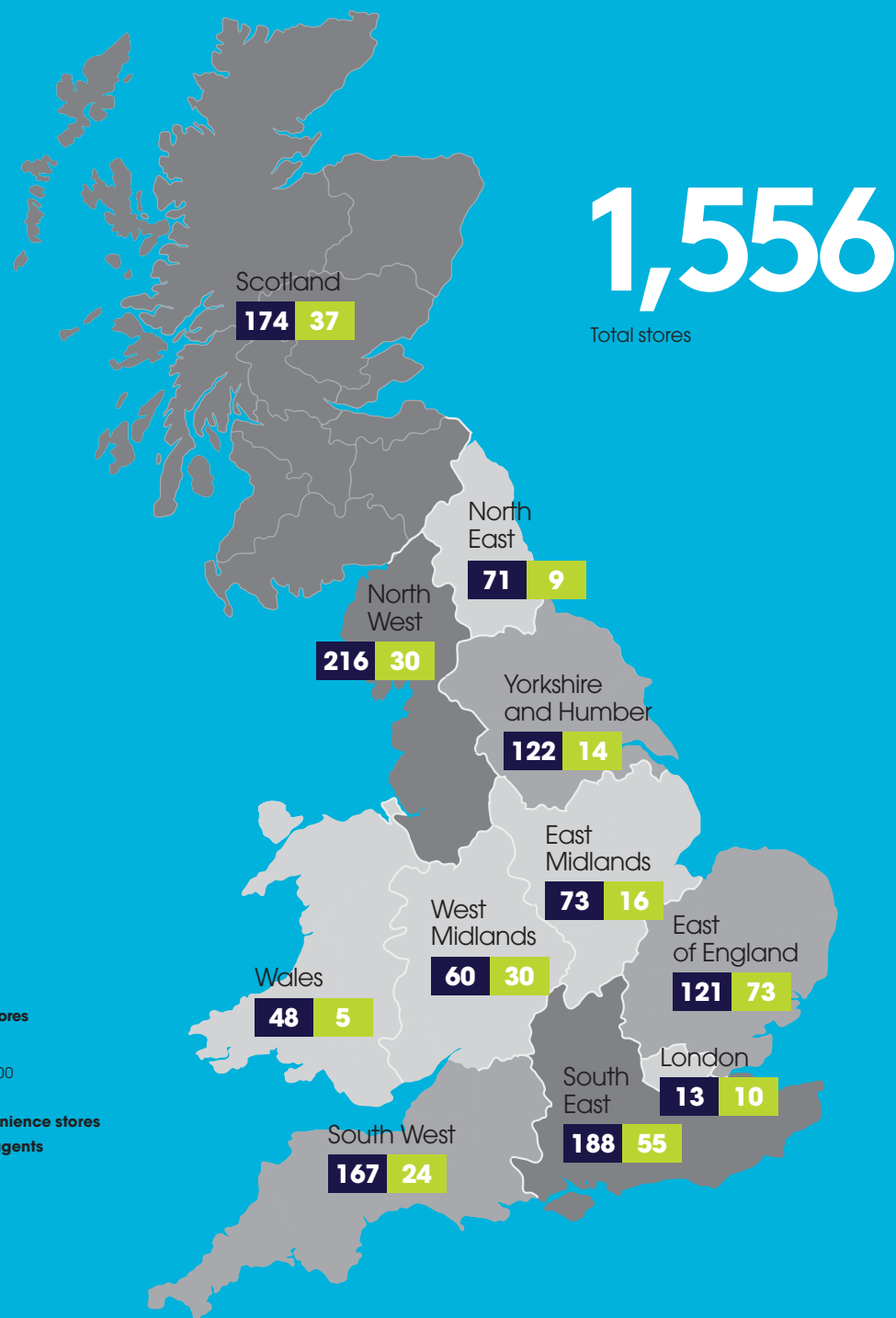
81%
Convenience



■ Convenience stores
■ Newsagents

Number of stores

Number of stores	Convenience stores	Newsagents
0 – 100	13	10
101 – 200	188	55
200+	167	24



Convenience stores



Convenience stores

McColl's has a long and rich history and we can trace our roots back to 1901 when the first RS McColl opened. In 1994, the strategy to convert to convenience was launched and the Group's first food-based stores were opened. Since then we have grown through acquiring new convenience stores as well as converting our newsagents.

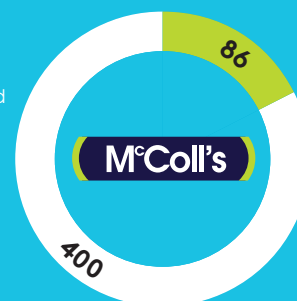
Today, we are a leading neighbourhood retailer with 1,253 convenience stores across the UK.

1,253

Convenience stores

Refreshed stores 2018

Since our early pilots at the end of 2016 we have completely refitted 86 of our convenience stores as part of Project Refresh, and these stores are delivering good, sustainable sales uplifts. We believe there are another c.400 stores that could benefit from this treatment.



59

in 2018

Newsagents



Newsagents

Our newsagents are an established part of the business and they have provided a valuable foundation for our continued growth in convenience through our programme of conversions.

Our newsagents are branded Martin's across the UK, except in Scotland where we operate under our heritage brand, RS McColl.

303

Newsagents

Macro conditions

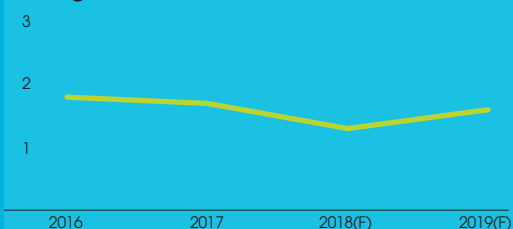
Economic outlook

For 2018 as a whole, UK GDP growth slipped to its lowest since 2012, and slowed in the final quarter as all three drivers – services, production and construction, shrank during December.

Although it remains difficult to predict how the UK economy will perform in the months ahead, assuming the planned exit from the European Union takes place smoothly, growth is expected to remain modest, reflecting the drag on business investment from ongoing economic and political uncertainty. However, higher government spending and short-term tax cuts announced in the 2018 Autumn budget should provide some boost to growth in 2019.

Source: Office for National Statistics, PwC UK Economic Outlook, November 2018.

GDP growth



Source: ONS for 2016-17, PwC main scenario for 2018-19

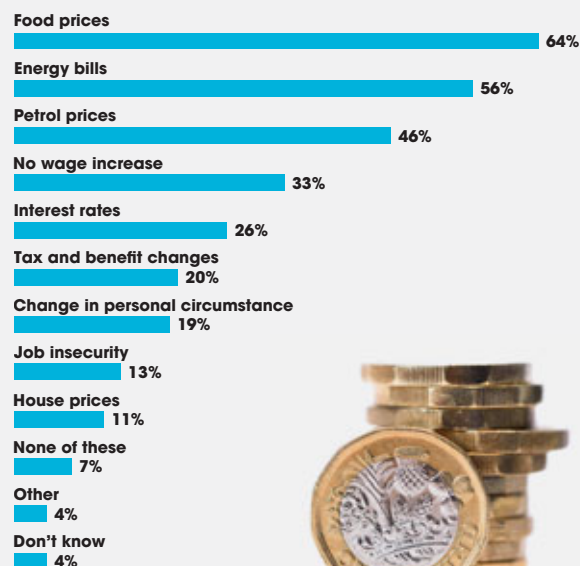


Food prices top personal economic concerns

Over the course of 2018 consumer confidence has been subdued and towards the end of the year fell, despite the easing of inflationary pressures, as consumers worried about the economic outlook for the next 12 months amidst uncertainty around Brexit.

Only 20% of consumers expect to be better off financially in the year ahead and the top personal economic concern for shoppers is food prices with 80% of shoppers expecting food and grocery prices to increase over this time period.

Shoppers' top personal economic concerns for the year ahead



Source: IGD Shopper Vista 2018, KPMG-BRC Retail Sales Monitor Dec 2018.



Brexit

The planned exit from the European Union (EU) creates some risks and uncertainties for many UK businesses, including grocery retailers.

It is estimated that around a third of the food we eat in the UK is sourced from the EU. In the event of a no-deal Brexit import tariffs could be higher, increasing the cost of goods, and import delays could mean short shelf life products expire before they can reach their destination. A number of grocery retailers, including Morrisons and the Co-op have applied for 'approved economic operator status', which means that goods will be fast tracked through customs, reducing the risk with their non UK suppliers.

The sector could also be impacted by a potential shortage of low skilled workers if a restriction on free movement is imposed following Brexit.

As the scheduled date for leaving the EU approaches consumer spending has been restrained, and until there is greater clarity on the exit process it is difficult to predict the impact on retailers.

[+ Read more about how McColl's is mitigating risks associated with Brexit Page 38](#)

However, the grocery sector has a proven record of withstanding economic downturn and in recent periods of uncertainty consumers have tended to manage their budgets by shopping little and often, locally. Therefore, the convenience channel in particular can benefit from, broader negative economic trends.

Source: The British Retail Consortium (BRC).

Competition in the grocery sector remains intense

The grocery sector remains intensely competitive and 2018 has been another year of significant change as businesses look to gain strength and scale through acquisitions, mergers and partnerships, including the proposed merger of the second and third largest retailers in the sector.

Although the hot summer and the World Cup provided a boost, towards the end of the year sales have slowed across the sector, and price competition between retailers has driven a slowdown in food inflation despite increasing input prices.

One of the main drivers of competition is that shoppers continue to use a range of channels for their grocery shopping. On average they use four to five channels per month, with nearly all shoppers visiting a supermarket or hypermarket, and nine out of ten visiting a convenience store. Shoppers are also increasingly combining channels with 76% using four or more channels in the last four weeks, and half of shoppers having visited a large store, convenience store, food discount store and variety discounter in the last four weeks.

Despite a recent slowdown growth is forecast across all the major grocery channels over the next five years, with online and discount set to account for over half of the increase in market value to 2023.

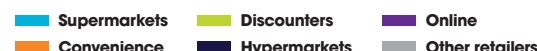
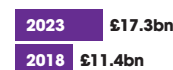
Source: IGD Shopper Vista 2018, IGD Channel Forecasts June 2018.

Convenience trends

Solid growth in convenience continues

Long-term lifestyle and societal trends continue to impact the way we shop with more people choosing to shop little and often, locally. For example, longer life expectancy, more single person households, lengthy commutes and a greater emphasis on leisure time all support convenience shopping and it has been one of the fastest growing channels in the UK grocery market over the last five years.

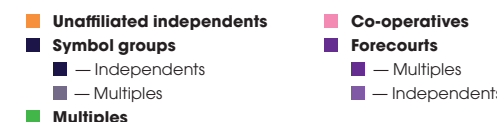
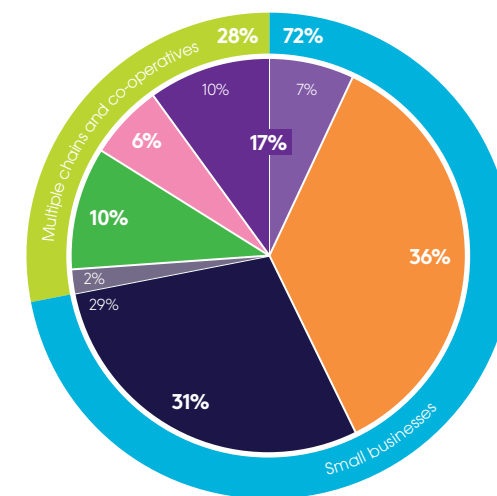
Over the next five years, the Institute of Grocery Distribution (IGD) are expecting this trend to continue and are forecasting solid growth in convenience, with the channel adding a further £7.1bn in value in the next five years, representing a compound annual uplift of 3.3%.



Source: IGD Channel Forecast June 2018.

Opportunities to consolidate a highly fragmented channel

The convenience channel remains highly fragmented and around three-quarters of the c.46,000 UK stores are independently owned. The number of stores has been fairly static in recent years with fewer opportunities for new greenfield and brownfield sites. However, there remains plenty of opportunity for consolidation, particularly for retailers with a flexible operating model.



Source: IGD Research, Wm Reed Business Media, Experian Catalist.

The top-up shopping mission remains popular, and shoppers value convenience

The traditional top-up shop is still the leading driver of convenience store visits and it accounts for around half of all shopping missions.

Two key product categories for top-up shopping are chilled foods and alcohol, and together these contribute over 28% of total convenience store sales.

Whilst it is in long-term decline, the newsagent mission remains important with one in five shoppers claiming to have last visited a convenience store for tobacco, news or lottery. Within this, tobacco remains the largest single product area, with its value supported by ongoing manufacturer price rises and duty increases, despite falling volumes.

Food-to-go and evening meal solutions are growing categories as these are two time-saving missions that are very popular with younger customers.

Shoppers are prepared to pay more to shop in convenience stores and 40% say they shop at their nearest store even though it is more expensive. This rises to over 50% for post millennials born between 1992 and 1999.

However, the premium shoppers are prepared to pay for convenience has somewhat reduced in the last four years, with customers expecting to pay on average 10% more than in a larger store versus 14% more in 2014.

Source: IGD Shopper Vista 2018, HIM! Convenience Tracking Programme 2018.



Shopping missions claimed to be conducted on shoppers' last convenience store visit

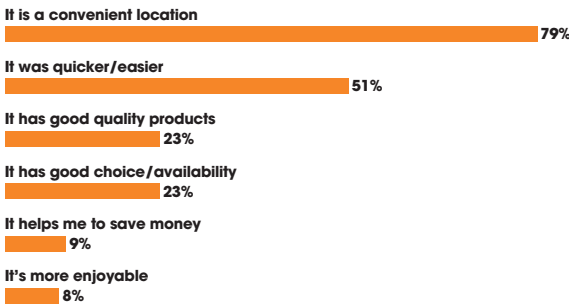


Source: IGD Shopper Vista 2018. Scale of circles indicates proportion of shopping missions conducted.

Saving time is a priority and choice is becoming increasingly important

The reasons for visiting a convenience store can significantly differ by shopper type, with older shoppers favouring their convenient location and younger shoppers choosing to shop in convenience stores because it's quicker and easier in store.

There has also been a significant increase in shoppers choosing convenience stores for the good choice of products as retailers continue to expand, develop and define their ranges in small stores. Almost a quarter of shoppers now claim this is their reason for shopping in a convenience store compared to less than 20% 12 months ago.



Source: IGD Shopper Vista 2018.



What our customers like

// I feel like a somebody in McColl's. //



// You've got good staff and that makes all the difference. //



// I think the Safeway range is just as good as a supermarket. //

What we offer

Our vision is to be your neighbourhood's favourite shop

Every community is different and with our flexible model we tailor our offer to meet the needs of local neighbourhoods, offering a wide range of groceries, everyday essentials, and useful services.



Customer focus

Our warm and friendly colleagues provide excellent customer service and are a driving force in our journey to becoming your neighbourhood's favourite shop.

Local

Being at the heart of neighbourhoods, with long opening hours, means we're a convenient choice for lots of our customers.

1/3

Around a third of our customers visit us every day



58%

of customers live or work within 400m of their local McColl's



+ See our business model
Page 12



Products

With essential food and groceries, fresh fruit and vegetables, ready meals and freshly prepared food-to-go, we cater for a wide variety of customer needs and missions. The new Safeway range offers quality food at a price that makes it easier to eat well.

Everyday services

We think of ourselves as a neighbourhood hub – providing great products and useful services, close to where people live, and available when they need them.

Communities

We know just how important it is to support communities around our stores. We've been able to help hundreds of local organisations and good causes through the 'Making a Difference Locally' programme.

12%

year-on-year increase in fresh, chilled and frozen food sales



591

Post Offices



500+

local organisations and good causes supported



Our business model

Our vision is to become your neighbourhood's favourite shop through our strategy focused on increasing our neighbourhood presence, growing our convenience offer and providing excellent customer service.

Our business model is underpinned by our core values:



Customer first



Simple and consistent



Caring and compassionate



Community champions

¹ In addition, a number of non-grocery categories are delivered directly by specialist suppliers, including news & magazines, and greetings cards.

² HIM! Convenience Tracking Programme 2018.

³ See glossary of terms on page 125 for definition

The resources and relationships we need

Colleagues

Our colleagues are our most important asset and a key driver in our vision to become your neighbourhood's favourite shop.

Stores

We operate 1,556 stores across the UK comprising of 1,253 convenience stores and 303 newsagents. We directly manage all of our stores which means we can ensure strong retail standards.

How we manage our supply chain



We have a long-term partnership with Morrisons. They supply c.1,300 of our convenience stores and newsagents with a range of branded products as well as a best in class 'own label' range of fresh food and groceries through the Safeway brand.



Partners & suppliers

Our ability to run our stores efficiently relies on a strong relationship with our supply partners.



We buy from wholesale distributors which means we do not have the investment and working capital costs associated with a distribution network. It gives us greater flexibility and allows us to focus on our retail operations.¹

Brand & reputation

The McColl's name has been around for over 100 years. Our brand and reputation are important to us and as the business evolves we are helping customers understand what they can expect from McColl's.

IT

The information systems we have in place are crucial to the smooth running and efficiency of our business, and we continue to invest to ensure our systems are fit for purpose.



Nisa supply the c.300 convenience stores that we acquired in 2017. These stores will transition to Morrisons supply over time.

Robust financials

We need a resilient balance sheet to invest in our strategic plans.



What makes us a leading neighbourhood retailer



The value this creates

Customers

We provide access to essential services, fresh food and grocery products for millions of people.

5m

customers every week

Colleagues

We are committed to looking after our colleagues so that they can look after our customers.

>90%

enjoy working for McColl's

Social

Our stores are run by local people for local people which gives us a strong sense of community. We support a wide range of local organisations and good causes.

500+

local organisations

Economic

We are investing for long-term growth, which helps both our suppliers and the overall UK economy prosper.

£25.3m

gross capital expenditure³

Shareholder returns

We are committed to delivering value to shareholders and sharing in our success through dividends.

4.0p

full year dividend

Margins

In the longer term a strengthening mix in our sales will drive improvement in our gross margin as we become less reliant on low margin traditional categories.

26.0%

gross margin

Strong cash generation

We are a cash generative business that enables us to manage our debt and invest in our strategic plans. In 2019 net cash was supported by proceeds from sale and leaseback transactions and working capital improvements.

£61.8m

Net cash from operating activities



Getting back on track

In approaching 30 years in the business I have never known a year as challenging as 2018. However, I couldn't be prouder of the McColl's team and how we have all pulled together in the midst of unprecedented supply chain disruption. We move into 2019 with a more stable and secure distribution network, and we remain a profitable, cash generative business. As we work to get back on track there are plenty of opportunities to grow.

We began the new financial year with the business in great shape. We had just surpassed the milestone of £1bn of annual revenues, with an improving sales trend and a strengthening product mix and margin. We were also excited to begin working with our new wholesale partner, Morrisons, and were making preparations for the launch of Safeway. However, just 48 hours into the year we received the sad news that P&H, the wholesale supplier to 700 of our convenience stores and newsagents, had entered into administration and deliveries would cease immediately.

In those early weeks, in the build-up to the busy festive period, we experienced significant availability issues as we established an interim supply solution with the help of our existing wholesale supply partner, Nisa, and our new partner, Morrisons. We are extremely grateful to both of them for their support.

A fresh partnership



Safeway

Renowned for British Quality and Value

1,300
Stores supplied

Morrisons began supplying our stores with a range of branded products, as well as a best in class 'own label' range of fresh food and groceries through the Safeway brand, in January 2018. The phased rollout was accelerated following the collapse of P&H and the transition of 1,300 stores completed in August 2018, three months ahead of schedule.

Renowned for British quality and value

Safeway is known for offering good value on everything from milk and juice to British meat and vegetables. We're committed to serving up quality food at a price that makes it easier to eat well. With a new range of around 350 Safeway products including convenience store essentials from a name they can trust, our customers can enjoy great tasting food and drink – knowing that they are getting freshness and quality at their convenience.

350

Safeway
products

Whilst we were able to largely ensure continuity of supply within a number of weeks, the interim solution was complex and more costly. It also diverted management focus from some of our wider strategic initiatives as we prioritised securing the supply chain.

Morrisons enabled us to re-establish tobacco supply within a week and agreed to accelerate the planned transition of 1,300 stores in 2018. This completed in August, three months ahead of schedule.

Setting up a national distribution network from scratch was an enormous undertaking and accelerating this process understandably created some operational issues which have impacted availability. This is improving week by week and we expect these issues to further improve as we move through 2019.

Prioritising the transition has also set back some of our wider plans including range development, and improving some of our cost prices. We are working together to develop an optimal range and promotional programme for our customers.

In the year, these supply chain impacts, in addition to the dilutive effect of a robust performance on tobacco, have weighed down on our gross margin, which has declined by 0.8%.

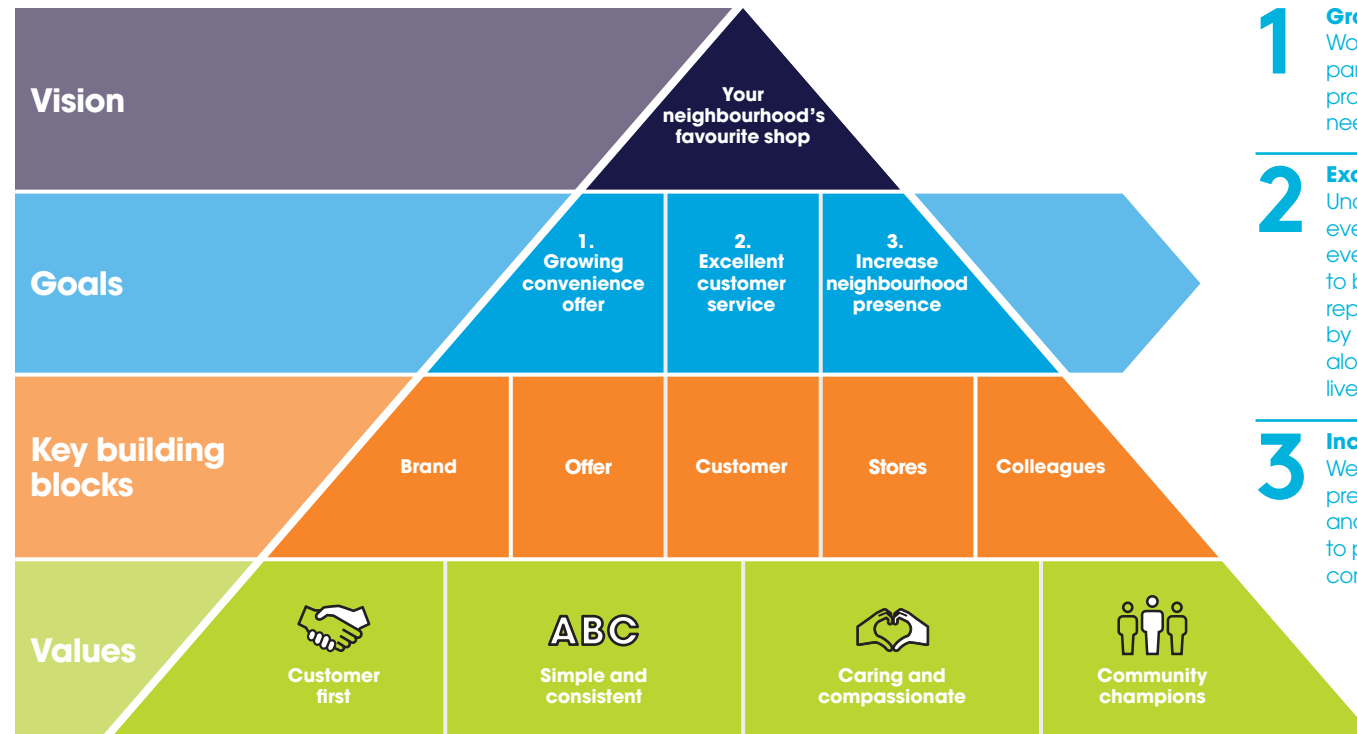
Increase neighbourhood presence

Following the major acquisition of 298 convenience stores in 2017, we resumed our single store acquisition programme. There is no shortage of opportunities, with around three-quarters of the UK's 46,000 convenience stores remaining independently owned.

However, given the challenges we have faced, we scaled back our programme, acquiring 11 new convenience stores during the year, and we expect to complete a small number in 2019.

Increasing our presence is also about fostering strong links with the communities we serve. Our neighbourhood locations and local colleague base provides us with regular opportunities to connect with customers.

In the last five years we have supported well over 500 local good causes, including scout groups, schools, hospitals and local charities. All of these have been chosen by colleagues and customers in our stores.



1 Growing convenience offer
Working with our carefully selected supply partners we offer an ever-greater range of products and services to meet the evolving needs of neighbourhoods across the UK.

2 Excellent customer service
Understanding customers and doing everything that we can to meet their everyday needs is at our core. We strive to build loyalty and strengthen our reputation in the neighbourhoods we serve, by providing a warm and friendly welcome along with a host of services that make the lives of our customers easier.

3 Increase neighbourhood presence
We will grow our neighbourhood presence by strengthening our brand and acquiring new stores. We will continue to play an important role in supporting the communities we serve.

Chief Executive's review continued

In addition, the recent launch of our social media channels (Facebook, Twitter and Instagram) is giving us new ways to engage with customers and get valuable feedback.

Growing convenience offer

We have taken an important step in growing our convenience offer with the launch of Safeway. The range of around 350 fresh, chilled and ambient groceries, and household products is now available in the majority of our stores and over time it will roll out to the entire estate. We are delighted with the quality of the products and customer feedback so far has been excellent.

We have seen good growth in a number of categories following the launch, including fresh meat and fruit and vegetables, but this has been offset to some extent by deflation as we've introduced lower price points on popular lines, such as eggs, microwave rice and soft drinks.

The accelerated transition to Morrisons supply led to a more rapid launch of Safeway than we had originally planned and constrained our ability to fully establish and promote the new range. As a result of this, and some challenges with availability, we have yet to see the meaningful increase in overall store performance that we would ultimately expect.

Despite this we have made progress towards our strategic target for grocery and alcohol to be our biggest sales category. It now represents over a third of our sales, and as we develop the Safeway range over the coming months we expect this to increase further. We are also commencing a full range review process, to respond to customer trends and get the most out of our newly established supply chain.

We have seen good growth in our average basket size which was up by 37p to £5.99. This was supported by the EUTPD2 regulations, introduced in May 2017, banning the sale of smaller packs of tobacco, and by growth in top-up shopping as we have grown grocery sales.

Food-to-go remains a small but growing category with lots of potential, as more meals are eaten outside of the home. We've extended our offer during the year and now have approaching 400 stores with a hot food-to-go offer and around 600 with a coffee unit. We now have 23 Subways trading, including the first of the new fresh forward concept.

Our store refresh programme presents a tremendous opportunity to grow our convenience offer and unlock the value inherent in our existing estate. During the year, we completed 59 refreshes, redesigning the store layout to provide more refrigerated space for chilled foods and new



food-to-go fixtures. These stores support a broader range of convenience products and we are seeing sustained sales uplifts of over 5%. In 2019, we plan to continue with our refresh programme and expect to complete a further 20-30 stores.

Excellent customer service

Our biggest strength has always been our warm and friendly colleagues and this year has been no different. We continue to score very highly in terms of colleague friendliness and helpfulness, and their dedication and hard work has meant that in a recent survey we have improved on every single customer metric, despite the challenges of the last 12 months.¹

A great shopping trip at McColl's also involves access to a range of useful neighbourhood services. It is a growing part of our offer and customers are twice as likely to visit our stores for this reason. We now have around 850 internet collection and return points and we've cemented our position as the UK's largest operator of Post Offices. We've opened over 25 in the year and plan to open another 20 in the year ahead.



¹ HIM! Convenience Tracking Programme 2018.

Continued investment

59

Stores refreshed
in 2018

We began our refresh programme in 2016 with our first pilot stores. Our refresh stores, are completely redesigned around shopping missions with more space dedicated to fresh and chilled foods and a greater focus on food-to-go. We've now completed 86 stores and they are delivering sustained sales uplifts of over 5%.



Post Office Retailer of the Year

McColl's Queensway Worle in Weston-super-Mare was awarded Post Office Retailer of the Year at the Retail Industry Awards 2018.

The Post Office is an important partner to McColl's, attracting over 600,000 visits to our stores every week. We know that it is the service that has the most positive impact on a local area¹ and we're proud to be the UK's largest Post Office partner with around 600 branches.

¹ Association of Convenience Stores (ACS) Local Shop Report 2018.

Following the completion of the transition of 1,300 stores to our new wholesale partner we are now refocusing on the core elements of neighbourhood retailing and prioritising what is most important to our customers. We have launched our Customer Champions – four characters that represent our four priorities – making sure all customers get a warm greeting, that our shelves are well stocked, that we highlight great offers and promotions, and that the shopping trip is quick and easy.

Driving efficiency and maintaining financial flexibility

Like all retail businesses, we have had to manage cost pressures during the year, the increase in the National Living Wage being the most significant. We remain focused on driving in-store efficiency and have made a number of improvements during the year, including the introduction of automated bake plans for hot food-to-go. We are also exploring new technological solutions. For example, we have recently introduced biometric scanners that monitor colleague time and attendance to ensure we can more accurately manage our payroll.

Cost pressures are expected to intensify in 2019, with a further increase in wage rates, energy inflation and an increase in our annual rent following our sale and leaseback activity. In light of this we continue to review our estate, assessing how future cost increases impact profit forecasts. During the year, we have closed or sold a number of underperforming stores and we expect to make further disposals in the year ahead.

We have completed a number of sale and leaseback deals on the freeholds we acquired as part of the major acquisition in 2017. The proceeds from these sales have helped to fund a number of strategic projects, including the store refresh programme and pay down debt to a significantly lower level than anticipated.

Whilst our existing financing is in place until mid-2021, to ensure that we maintain flexibility to execute our strategic plans, last summer we initiated discussions with our banking syndicate and a number of improvements have been made to the terms.

Looking ahead

Over the coming months the grocery sector will remain intensely competitive as we experience ongoing political and economic uncertainty making consumers cautious about spending. We will need to ensure that we manage cost pressures and maintain competitive retail pricing. But as we work through the issues we've experienced in 2018 there are exciting opportunities ahead. We remain confident in our strategy and will continue to enhance our convenience offer, through developing the Safeway range; increase our neighbourhood presence through stronger engagement with our communities; and continue to provide excellent customer service by focusing on the core elements of convenience retailing.

Finally, I would like to take this opportunity to thank all of my colleagues at McColl's for their continued hard work and commitment.

Jonathan Miller
Chief Executive

"As I reflect on the last 12 months I am reassured by the resilience of the business."



Q Did the failure of P&H take you by surprise?

A We were aware that P&H was vulnerable. It's one of the reasons we had re-tendered our wholesale supply contract earlier that year. What was a surprise was the speed with which they entered into administration and deliveries ceased. We were fortunate to have the support of Nisa and Morrisons which enabled us to move quickly to implement an interim supply solution.

Q Is it risky to move to one wholesale supply partner for the whole estate? What happens if they fail?

A Working with a FTSE 100 grocery retailer with a strong balance sheet gives us more security than we've had before. However, we're not complacent and have developed contingency plans in the event that there is an issue with supply.

Q When do you think you will recover from the setbacks of the last year?

A We expect to see LFL sales improvement during the year and a modest improvement in profit. As we resolve the issues we've experienced as a result of the rapid rollout to Morrisons supply and develop the Safeway range we expect to build momentum back into the business and see further improvement.

Q How do you plan to make Safeway a success?

A We've not yet been able to fully get behind the Safeway launch or develop the range as we'd planned. But we're getting on with it now – for example, there are some key categories that aren't currently in the range that we hope to be able to launch soon.

Q How are you feeling after such a difficult year?

A It's been without doubt the most challenging year I've experienced in almost 30 years in the business. I'm feeling incredibly proud of how hard the team have worked and relieved that the disruption is behind us. There are still headwinds – we face significant cost pressures that are not expected to abate any time soon and these are clearly uncertain times for consumers and the UK economy. But as I reflect on the last 12 months I am reassured by the resilience of the business. Despite a major supplier failure we have remained cash generative and profitable and I am positive about the future.

Our key performance indicators

Progress in 2018

In 2018, despite the challenges we faced we made progress against a number of our key performance indicators (KPIs).

We use six KPIs to monitor the performance of the business.

We keep KPIs under review to ensure they remain appropriate and help determine remuneration policy.

Successfully delivering against our three strategic goals drives improvements in our KPIs.

1. Growing convenience offer
2. Excellent customer service
3. Increase neighbourhood presence

Revenue¹

£1.24bn

+8.1% 2017



Total revenue grew by 8.1%, principally driven by the annualisation of the major acquisition in 2017.

Like-for-like sales²

-1.4%

2017: +0.1%



Like-for-like sales (LFL) decreased by 1.4%, impacted by supply chain disruption and availability issues.

Adjusted EBITDA^{2,3}

£35.0m

-20.5% 2017

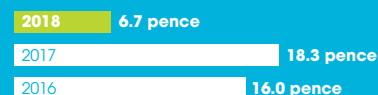


Adjusted EBITDA was down £9.0m year-on-year, driven by the adoption of temporary supply terms and accelerated transition to Morrisons supply.

Adjusted earnings per share²

6.7p

-63.5% 2017



Adjusted earnings per share decreased to 6.7 pence.

Average basket size

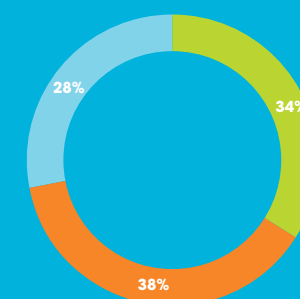
£5.99

+6.6% 2017



We have seen continued growth in our average basket size as we develop our convenience offer and increase the proportion of top-up shopping missions at McColl's.

Grocery and alcohol sales²



We have seen growth in grocery and alcohol sales and they now account for 34% of our total sales compared to 32% in 2017.

- Grocery and alcohol
- Cigarettes and tobacco
- Impulse, news and other

¹ To better reflect the core operations of the Group, Post Office revenue, previously included in other operating income, is now recognised in statutory sales. In order to ensure comparability 2017 full year revenue, gross margin, gross profit and other operating income have been restated. Details of the restatements can be found in note 4 on page 101.

² The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 125–126.

³ Full details of adjusted EBITDA can be found in note 6 on page 102.



A focus on strong capital discipline

Annual revenue growth supported by 2017 major acquisition

Full year revenue grew to £1.24bn (2017: £1.15bn¹), an increase of 8.1%. This year-on-year growth was driven by the major acquisition we completed in 2017 which has added around 30% to our total sales.

Like-for-like (LFL) sales performance was impacted throughout the year by the supply chain disruption we experienced following the collapse of P&H and continued operational challenges as we established our new partnership with Morrisons. Full year LFL sales were down 1.4%, but improved during the year, with sales in the final quarter being broadly flat.

Across the industry tobacco continues to face long-term structural decline. However, it currently remains our largest category and we saw strong sales growth during the year. It was the most resilient part of our supply chain and sales were supported by significant inflation as a result of manufacturer and duty increases. Sales in our other traditional categories, principally news and confectionery, continue to decline as expected.

We have, however, seen good overall growth in a number of key grocery categories, including fresh food, bringing us closer to our strategic target for grocery and alcohol to be our largest sales category. It now represents 34% of our total sales, an improvement of two percentage points year-on-year, and from 27% before the major acquisition in 2017.

Gross profit margin impacted by supply chain challenges

With the evolution of our sales mix towards higher margin products we would typically expect to see an improvement in gross profit margins. However, adjusted gross margin has declined by 0.8% year-on-year to 26.0% (2017: 26.8%¹, 2018 gross margin 25.9%). This is partly a result of the adoption of temporary supply terms as we implemented an interim distribution solution and a robust performance on tobacco, which is a low margin category.

In addition, as Morrisons established its wholesale operation this has initially resulted in some higher than anticipated cost prices on certain convenience lines. These are expected to improve during 2019 as we leverage and benefit from our joint buying capabilities and our partnerships with suppliers.

In terms of overall value, total gross profit grew by 4.5% to £321.1m (2017: £307.4m¹), benefiting from the contribution of stores acquired in 2017. Within gross profit, partly offsetting the decline is supplier income relating to both the wind down of a legacy contract and the transition to our new wholesale partner (recognised over the ongoing life of the contract).

Our financial performance in 2018 was inevitably impacted by the unprecedented disruption the business faced following the failure of a major supplier and the transition to a new wholesale supply partner. I am delighted to have joined the McColl's Board at this crucial time for the business. As we begin to recover from a difficult period we are focused on strong capital discipline and careful cost management to enable the business to rebuild momentum and return to sustainable value creation.

¹ To better reflect the core operations of the Group, Post Office revenue, previously included in other operating income, is now recognised in statutory sales. In order to ensure comparability 2017 full year revenue, gross margin, gross profit and other operating income have been restated. Details of the restatements can be found in note 4 on page 101.



// Cash generation continues to support investment in our strategic plans, whilst reducing debt. //

Good cost management in the face of significant headwinds

We continued to face cost pressures during the year, the most significant being wage inflation as a result of further increases in the National Minimum Wage and National Living Wage, which since inception in 2016 have resulted in 4–5% annual inflation in our biggest cost line.

We have kept good control of costs and in aggregate administrative expenses, before adjusting items, as a percentage of revenue, were broadly flat year-on-year at 25.1% (2017: 25.0%).

This has in part been supported by ongoing investment in systems and processes; for example, the introduction of colleague time and attendance technology.

In the face of continued cost pressures it is also essential to keep our estate under review to ensure that we maintain a sustainably profitable network of stores. We continue to enhance the quality of the estate through both the acquisition of high potential convenience stores and the planned closure or disposal of underperforming stores. During the year, we acquired 11 convenience stores and closed or disposed of 66 newsagents and smaller convenience stores.

Operating profit impacted by supply chain disruption and transition to a new supply partner

Other operating income¹ decreased by £1.0m to £6.8m (2017: £7.8m¹) reflecting a lower level of ATM cash withdrawals and lower commission rates in line with market trends.

Operating profit before adjusting items (see note 6 for definition), decreased to £18.3m (2017: £31.4m), impacted by the supply chain disruption and transition.

In total there were £(2.6)m of gross (pre-tax) adjusting items. This comprised £(14.5)m of costs and £11.9m of income. Net adjustments (post-tax) were £0.8m.

Adjusting items include £(1.7)m associated with the failure of P&H and £(4.9)m resulting from the set-up of our new partnership with Morrisons, which has now been expensed in 2018 rather than spread over the life of the contract. Included within this £(4.9)m cost is store set-up and merchandising, clearance of displaced product lines, new product establishment and other incremental store costs.

We also had adjusting items of £(0.6)m relating to pensions following the impact on our schemes of the GMP equalisation judgment made against Lloyds Banking Group and £(1.2)m of other adjustments, principally relating to fines for a historic health and safety incident (see page 31) and the cost of an HMRC ruling on minimum wage compliance.²

In addition, we had £(6.0)m of costs associated with closures and impairment and a net gain of £11.9m in property profits following the acceleration of our sale and leaseback activity, which was materially larger in 2018 than had been anticipated.

As well as releasing immediate value through this programme, the proceeds have allowed us to continue our capital investment programme including store refreshes, as well as reduce our net debt to a level materially better than expected.

We expect the final tranche of sale and leaseback transactions relating to the major acquisition in 2017 to conclude in the first half of 2019.

Finance costs increased to £8.0m (2017: £6.7m). This reflects the increase in our average debt as we annualised the major acquisition in 2017.

Profit on ordinary activities before taxation decreased to £7.9m (2017: £18.4m). This was impacted by the £2.6m of adjusting items described above, alongside the impact of supply chain disruption on sales and gross margin, partially offset by transitional support. However, included within this profit measure was £6.1m of net property profits (being the combination of sale and leaseback gains, impairments and store closures).

¹ To better reflect the core operations of the Group, Post Office revenue, previously included in other operating income, is now recognised in statutory sales. In order to ensure comparability 2017 full year revenue, gross margin, gross profit and other operating income have been restated. Details of the restatements can be found in note 4 on page 101.

² The HMRC ruling relates to missed payment in relation to a number of colleagues opening and closing stores outside of scheduled working hours. We have recently introduced biometric scanners in-store that monitor colleague time and attendance to ensure we can accurately manage our payroll.

Before adjusting items, profit before tax was £10.5m (2017: £26.3m).

Tax

The tax charge for the period decreased to £1.0m (2017: £4.2m), representing an effective tax rate of 12.9% (2017: 22.9%). The difference between the current statutory rate of 19.0% and the effective tax rate excluding the impact of non-deductible adjusting items of 26.6% in the period is due to the sale and leaseback and closure cost transactions, all of which are classified as adjusting items.

Earnings per share

Basic earnings per share reduced to 5.9 pence (2017: 12.3 pence). Adjusted earnings per share were 6.7 pence (2017: 18.3 pence).

Dividend per share

The Board has recommended a final dividend of 0.6 pence per share (2017: 6.9 pence). The total dividend for the period of 4.0 pence per share (2017: 10.3 pence), reflects our commitment to provide returns to shareholders. Our policy of a 50% payout ratio to profit after tax (before adjusting gains but after adjusting losses), is unchanged.

Improved payment terms drives an increase in current assets and liabilities

Total shareholder funds at the end of the year reduced by £4.4m to £141.5m (2017: £145.9m).

This reflects a reduction in the book value of goodwill and other intangibles, property, plant and equipment by £7.4m to £345.1m (2017: £352.5m) following our store closure and sale and leaseback programmes.

Current assets at the end of the period increased to £147.7m (2017: £130.6m). This increase of £17.1m is a result of an increase in stock of £1.2m and trade receivables of £2.2m, plus an increase in cash and cash equivalents of £14.3m.

Our current liabilities increased to £220.8m (2017: £173.4m), reflecting higher trade and other payables as a result of our improved payment terms.

Non-current liabilities reduced to £144.7m (2017: £177.6m), reflecting reduced borrowings.

Pension schemes

We operate two defined benefit pension schemes, the TM Group Pension Scheme and the TM Pension Plan, both of which are closed to future accrual.

The combined accounting surplus (based on corporate bond yields) in the two schemes at the end of the period was £11.9m (2017: £10.3m), as a result of strong returns on assets.

The last actuarial review of the two schemes in June 2017 concluded that the combined funding deficit of our two pension schemes was £12.6m.

The Company currently contributes approximately £1.6m per year, inclusive of fees and levies.

Strong cash generation supports deleveraging and investment in strategic initiatives

Cash generation continues to support investment in our strategic plans, whilst reducing debt levels.

Net cash provided by operating activities increased in the year to £61.8m (2017: £54.2m). This was aided by the transition to our new wholesale supplier with more favourable payment terms, and proceeds from the sale and leaseback programme.

Adjusted EBITDA (see note 6 on page 102 for definition), one of our key performance indicators, fell by £9.0m to £35.0m (2017: £44.0m), impacted by the supply chain disruption and transition.

We continue to invest in the business for growth, including our programme of store acquisitions and refreshes, alongside the development and extension of our services and food-to-go offer.

In the period, alongside our acquisitions, we completed 59 store refreshes and delivered five new Subways in our stores.

Gross profit¹

£321.1m
+4.5% 2017



Dividend

4.0p
10.3p 2017

Net cash from operating activities

£61.8m
£54.2m 2017

¹ To better reflect the core operations of the Group, Post Office revenue, previously included in other operating income, is now recognised in statutory sales. In order to ensure comparability 2017 full year revenue, gross margin, gross profit and other operating income have been restated. Details of the restatements can be found in note 4 on page 101.

Net debt¹

£98.6m

£142.2m 2017

Net debt/adj. EBITDA ratio¹

2.8x

3.2x 2017

After £26.3m of proceeds, predominantly from our sale and leaseback programme, net capital expenditure (which excludes the acquisition of stock), was £(1.0)m (2017: £20.3m).

Net finance expense of £8.0m was higher than the prior year, reflecting increased borrowings following the major acquisition that completed in July 2017. The interim and final dividends paid in the period totalled £11.9m.

Changes to banking terms provide flexibility

In 2016, we refinanced to support our major acquisition in 2017. This included a £100m working capital facility and a £100m repayment term loan. Both of these elements run through until July 2021, with the interest rate reducing as the business deleverages.

However, in light of the challenges we faced in the year, during the summer we initiated discussions with our banking syndicate to make a number of changes to the terms of our banking arrangements.

These included increasing the covenant headroom and increasing flexibility in the facilities. All of these agreed changes will provide extra flexibility to deliver our convenience strategy.

Net debt at the end of the period was £98.6m (2017: £142.2m), representing 2.8 times adjusted EBITDA (2017: 3.2 times adjusted EBITDA).

At the end of 2018 the banking covenant on net debt: adjusted EBITDA was 3.0x and this is maintained throughout 2019, other than at the end of the first quarter when it is 3.25x.

At the end of the period, drawings against the total facility were £125.5m (2017: £154.5m).

Future outlook

In the short term, mitigating cost pressures will continue to be a priority. In addition to a further c.5% increase in the National Living Wage, we will need to manage significant energy cost inflation and additional rental costs following the sale and leaseback programme. To improve efficiency we are continuing to invest in systems and processes, alongside pursuing further estate optimisation. We have already taken some further action in the new financial year, including a head office and overheads efficiency review.

Alongside a strengthened balance sheet, rebuilding gross margin momentum will be our key focus.

I am very much looking forward to working with Jonathan and the team to further our strategic plans in 2019 and beyond.



Robbie Bell

Chief Financial Officer

Non-Financial Information Statement

We aim to comply with the new Non-Financial Reporting requirements as set out in sections 414CA and 414CB of the Companies Act 2006.

Throughout the Annual Report and Accounts we report certain information on environmental, employee and social matters but in our Social and environmental review we have set out a summary of the Group's approach for the five areas covered by the new requirements, together with signposts to other relevant sections of the Annual Report and Accounts.

Environmental information pages 32-33

Employees pages 28-31

Human rights page 31

Social matters page 28

Anti-corruption and anti-bribery page 31

Business model pages 12-13

A number of Group policies and internal standards/guidelines are not published externally. Defining and implementing risk-related policies is an important element to our overall approach to risk management. Robust processes and controls to identify and report key policy outcomes are in place and were followed in 2018.

¹ The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 125-126.

McColl's and responsibility

We are committed to operating responsibly, supporting neighbourhoods where our customers live, and our colleagues work.

Our vision is to be your neighbourhood's favourite shop. We will only achieve this vision if we are a good neighbour in all respects and that means managing our environmental impact, supporting local communities and looking after our colleagues.

With everyday access to fresh food and groceries, plus a range of services such as ATMs, bill payment, Post Offices and online order collection points, our stores provide a vital service to lots of communities. In fact, based on a recent survey, convenience stores and Post Offices are the two services that have the most positive impact on a local area*.

Community champions

Our role in the local community goes beyond being a neighbourhood retailer and our stores are actively involved in supporting their local communities. Through the 'Making a Difference Locally' scheme, where a proportion of sales we make on selected products are donated to a charity fund, we have supported a range of local causes, chosen by each store, including scout groups, schools, hospitals and local charities.

To date we have supported over 500 local organisations, charities and good causes.

Through our Halloween charity campaign colleagues and customers also raised money to support St George's University Hospital's research into sudden cardiac death in young people.

We recently presented them with a cheque for £200,000 which brings our total to over £1.2m in funds to support this important research.



Colleagues

Making all the difference

Excellent customer service is essential to the success of our business and that's why it's a strategic priority for us. We can only deliver excellent customer service with the hard work and dedication of our colleagues. We have 20,551 colleagues, including over 5,500 Home News Deliverers, and altogether we employ the equivalent of 8,879 full-time colleagues. Many of our colleagues live locally to our stores which helps give them a strong sense of community and customers consistently rate us highly on colleague friendliness and helpfulness. In the HIM! Convenience Tracking Programme 2018 on average customers scored us 9.3 out of 10 for this measure.

* Association of Convenience Stores Local Shop Report 2018.

Listening to our colleagues

We want all our colleagues to feel a part of McColl's. Making sure they are engaged is really important to us, so that they enjoy working for McColl's and management can take into account their views when making decisions that will impact them.

We hold a series of regular business briefings and senior manager meetings that give colleagues an opportunity to ask questions and give feedback. We also conduct an annual colleague survey and an interim 'pulse' survey. This enables all our colleagues to share their views on working for McColl's, and helps us identify things we need to improve on. Last year, over 90% of colleagues said that they enjoy their job and over 80% would recommend McColl's as a great place to work.

We are also rolling out our colleague forums that will give us an opportunity to engage 250 colleagues on a deeper level to really understand any issues or concerns they may have and gain more insight into the data behind our colleague survey.

Through our business briefings, annual retail exhibition and colleague magazine, we keep colleagues updated on business strategy and performance, as well as any broader financial or economic factors that may impact us.

We encourage colleague involvement in our strategic performance through operation of a performance-related bonus scheme which applies to over 100 senior employees and provides an incentive to them. We also operate an active sales incentive that gives stores the opportunity to earn a bonus each period, creating an incentive for retail colleagues.

Developing our people

Whether they are at the start of their career with McColl's or looking to take the next step, we are investing in our colleagues and making sure they have the right skills they need to do their job. We want all our colleagues to be their best and to help drive individual performance we have introduced a new process called 'talking performance' that makes it easier to have effective conversations and support all colleagues.

For those colleagues wishing to progress, we operate our successful 'onward and upward' development programme focusing on some of the key roles within the business. We have a good track record of promoting colleagues with 58% of Store Manager vacancies being filled internally, 51% of our Area Managers having been promoted from store management and 60% of our Regional Managers having been promoted from area management. Many of our Store Managers started out with us on a paper round or as Sales Assistants, underlining the career opportunities we provide and the role we play for local people and the younger generation. We also have a successful apprenticeship programme, with 150 colleagues currently enrolled on the programme.

To help us identify individuals who have the potential to broaden their skills and move to more senior roles, we have also rolled out a new performance framework. Also, to ensure our leaders have the right skills to do their job, all managers are being offered coaching in our six new leadership skills – empathy, collaboration, results focus, leading change, developing yourself and others, and customer focus.



Rewarding and recognising our people

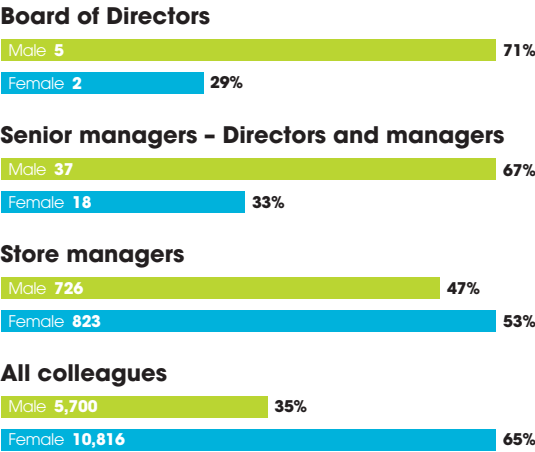
We offer a range of benefits for colleagues as well as flexible working opportunities. Through our colleague handbook, our online colleague portal updates and our Talking Shop magazine, we explain the benefits that are available. These range from colleague discount in our stores to health care plans and a wide range of offers on days out and experiences.

We know how important it is that colleagues feel valued and are recognised for their hard work. This year we celebrated outstanding contributions from a number of our store colleagues at our annual awards evening.



Supporting women to reach their potential
The Women at McColl's programme aims to develop the next female leaders in the business. As part of the programme, the colleagues involved wanted to find a way to work together and demonstrate our role as community champions. Supporting Girlguiding was an obvious choice – their events, adventures and regular meetings empower girls to be their best and become confident women. It seemed fitting, 100 years on from Parliament passing the law giving women the vote, to host a group of 120 girls to celebrate women, and the Girlguiding Association, through history at our Retail Support Centre in Brentwood.

Gender diversity (based on actual year-end headcount)



Fostering diversity and inclusion

We are an equal opportunities employer. We recruit and promote based on suitability and capability and do not discriminate against colleagues on the basis of age, disability, gender, marital or civil partnership status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, or sexual orientation. These principles of non-discrimination and equality of opportunity also apply to the way in which colleagues treat visitors, customers, suppliers and former colleagues.

If a colleague develops a disability during their employment with us we consider the matter carefully, trying to accommodate colleagues' needs, and if it is not possible to make reasonable adjustments to help them overcome any difficulties we try to find an alternative solution such as a different role.

From April 2018, the UK Government requires all employers with more than 250 employees to publish their gender pay gap, showing the difference in the average pay between men and women across the entire business, regardless of job role.

65% of our colleagues are women and our gender pay gap in 2018 was 2.7% (the UK average gender pay gap is 17.9% – ONS, 2018), compared to 3.0% in 2017. We are confident that men and women are paid the same salary for fulfilling the same job role at McColl's. We have made good progress in terms of the proportion of women represented in the highest paid quartile. However, a gender pay gap still exists in our business because women are under-represented in some of the most senior roles.

We know that taking considered and deliberate action to ensure talented women progress is important, together with instilling an inclusive culture. Last year, we launched our Women at McColl's programme to develop the skills and confidence in women who have the potential to move to more senior roles. Our leadership team has completed unconscious bias training and all senior managers will have accessed this by the end of 2019. We know that childcare commitments are one of the barriers to women progressing and we have reviewed our flexible working policy with the aim of providing more options for working parents.

More information on the results of our gender pay gap analysis and our approach to developing female talent can be found at www.mccollsplc.co.uk/genderpaygap.

Health and safety

We continue to demonstrate our commitment to health and safety across the Group. It is discussed by the Board, and through our health and safety committee we take a consistent and collaborative approach to creating a safe place for our colleagues, customers and visitors.

All initiatives are managed and monitored through a health and safety committee of Executives and Senior Management, together with the Health and Safety Manager.

In 2018, all Retail Board Directors and Senior Operations Managers completed nationally recognised training in health and safety.

As an increasingly food-led convenience business, food safety is a priority. In 2018, we launched our 'strive for five' programme designed to drive a consistent standard of food excellence across all stores and our field management teams all completed nationally recognised qualifications in food safety.

Colleague safety remains a key focus and we continued to invest in colleague safety technology across key locations, working with our two partners, SoloProtect and Positive Response, to install, and train colleagues to use lone working devices.

These devices have panic alarms connected to monitoring centres with audio capability and improved police response. Our partnership with Kingdom Services provides guarding cover in some of our more vulnerable stores; and our partnership with National Business Crime Solutions, provides us with a vital link to other retailers and the Police, allowing intelligence to be shared quickly and efficiently.

In addition, we work closely with insurers, brokers and local authorities to advance our risk management, for example, by increasing proactive risk management in stores. By improving the level of compliance across our business we saw a continued downturn in both employee and public liability claims, although across a large estate of stores, there are inevitably incidents and accidents.

We recognise we have a duty of care to understand and address the risks within the business in order to ensure, as far as possible, we keep our colleagues and customers safe. Where there are incidents, we examine the circumstances and draw learnings from what occurred so that we can continually improve our approach to safety. In December 2017, we received a fine of £0.6m relating to a historic health and safety incident following the installation of a ramp at one of our stores by a third party. Alongside the contractor involved, we take responsibility for this regretful incident and have taken a number of actions relating to contractor works, monitoring risk assessment, issue escalation and local training to ensure that the risk of such an event in the future is materially reduced.

Looking ahead

Our colleagues are our greatest asset and in the year ahead we will continue to work to ensure that every colleague feels welcome at McColl's, that they feel safe at work, that they have the training they need to do their job, and that they have the opportunity to progress if they wish to.



Human rights

We treat people in line with internationally recognised human rights principles. The Group does not have a specific human rights policy; however, a number of policies are in place that demonstrate effective management of human rights issues in the business, including an Anti-Bribery and Anti-Corruption Policy, Anti-Harassment & Bullying Policy, Health and Safety Policy and a Policy for Speaking up in Confidence.

We are absolutely committed to preventing modern slavery in all our activities and ensuring that our supply chain is free from slavery and trafficking. Our Modern Slavery Statement for the year 2018/19 (pursuant to section 54 of the Modern Slavery Act 2015) can be found at www.mccollsplc.co.uk/modernslaverystatement.



Reducing single-use plastics

We are committed to reducing single-use plastics. We have engaged our wholesale supply partner Morrisons to ensure that they are using appropriate packaging and understand the steps that they are taking to address this important environmental issue. They have set a target for all own brand packaging to be reusable, recyclable or compostable by 2025, which will include the Safeway range sold in McColl's.

Environment

As part of our commitment to being a responsible business, we aim to act in a sustainable way, through driving efficiency, reducing waste, and improving recycling and compliance.

Improving energy efficiency

We have an ongoing commitment to improving our energy efficiency. Many of our stores have live energy monitors so we can see how much energy each store uses in real time, which enables us to actively manage them accordingly.

We continue to remove surplus or particularly inefficient equipment from our stores and install 'last person out' switches (where all the lights can be switched off via one switch), as well as photocells that switch lighting on and off when areas aren't used.

Our store refit programme, Project Refresh, is helping us become more energy-efficient as we replace older refrigeration with new, more efficient models. This has led to as much as a 20% reduction in consumption in some stores.

In 2018, the energy-saving measures we have put in place have helped us reduce our LFL energy consumption by a further 0.5%, despite increasing our overall chilled and frozen space. We have also refreshed our energy policy and set new targets for reducing our carbon footprint.

To reduce our energy use in the years ahead we will work closely with our trusted energy consultants and partners. In 2018, we signed up to a new three-year SMARTservices programme with BIU, a leading energy and utility consultancy. This will allow us to work with their experts and use extensive data to identify opportunities across the estate to drive efficiency. We will be investing in our building energy management systems to give us greater control of our energy use at site level and surveying our most energy intensive sites in order to make targeted investment in energy-efficient technology.

We will also continue to engage with colleagues across the business to make sure they are following the correct routines and processes to minimise energy use at source.

Managing waste

Recycling

Through our arrangements with our key wholesale supply partners we recycle plastic and cardboard used in our business. The same lorries that arrive with products leave with plastic and cardboard, so no additional miles are involved – it's a neat energy-efficient way to recycle packaging.



Food waste

Our regular waste management routines ensure that we maintain very low levels of food waste. We have a strong focus on managing waste and it's a key metric for all our Store Managers.

We conduct weekly reviews of the previous weeks' waste which can result in a number of different actions, including, working with our wholesale distributors to supply smaller case sizes; changing our ordering algorithms; reviewing product quality and pricing; changing product pack sizes; reducing distribution of particular products, and in some cases delisting; and store training to improve waste routines such as stock rotation and mark-downs.

We are a supporter of The Grocer's campaign to reduce food waste, which aims to unite the grocery industry in tackling this important issue.

Climate change

We recognise the risk that climate change poses to our business and manage this by reducing carbon emissions throughout our operations. We continue to invest in ongoing carbon reduction initiatives, including LED lighting and energy-efficient refrigeration. We are committed to reducing our carbon emissions and achieved a 10.5% reduction in 2018.

Our overall carbon emissions were 48,033 tonnes CO₂ (2017: 53,651 tonnes CO₂). Scope 1 emissions were broadly flat year-on-year as increased fuel consumption, following the set-up of our temporary hub and spoke distribution network, was offset to some degree by a fall in refrigeration emissions as we have invested in the estate. Scope 2 emissions fell year-on-year, principally as a result of a significant reduction in the emission factor for UK electricity. Our carbon intensity ratio, which measures the level of emissions per £100,000 of revenue, reduced to 3.9, down from 4.7 in 2017.

The Group's total greenhouse gas (GHG) footprint is shown in the table below.



The Group is required to measure and report direct and indirect GHG emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. This is the fifth GHG emissions report in line with UK mandatory reporting requirements set out by the Department for Environment, Food and Rural Affairs (DEFRA) and we have therefore expressed the report alongside the 'base year' of 2014 for comparison. The mandatory requirement is for the disclosure of the Scope 1 and 2 emissions only. Scope 1 emissions include heating (gas), vehicle fuel and fugitive emissions (refrigerant leakage). Scope 2 emissions include purchased electricity.

Emissions data for period 27 November 2017 to 25 November 2018

	2014 Tonnes CO ₂ (e) (base year)	2017 Tonnes CO ₂ (e)	2018 Tonnes CO ₂ (e)
Scope 1			
Fuel combustion (natural gas, vehicle fuels and other fuels)	2,125	2,357	2,460
Refrigerants	2,122	4,569	4,401
Scope 1 total	4,247	6,926	6,861
Scope 2			
Purchased electricity	51,884	46,725	41,172
Total of Scope 1 and 2	56,131	53,651	48,033
Intensity – CO ₂ (e) tonnes per £100,000 of revenue	6.1	4.7	3.9

- The Group has reported on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013
- The Group has used the guidance as set out in DEFRA's Environmental Reporting Guidelines: including mandatory GHG emissions reporting guidance, dated June 2013
- Emission factors are based upon UK Government conversion factors for Company Reporting 2018. The electricity emissions are influenced favourably by a reduced emission factor for electricity in 2018, reflecting the UK's continued use of renewable energy in the overall electricity generation mix
- The Group has engaged a consultancy firm, The Miles Consultancy, to oversee the collection of vehicle data and provide guidance on complying with appropriate regulations. Data collected has included fuel use and mileage, and business mileage has been calculated on the basis of actual fuel use recorded, and emissions calculated by applying the 2018 emission factors for diesel and petrol (bio-fuel blends)
- The figures disclosed above for 2018 and the methodology used to collate the information has been reviewed and verified by Project Rome Ltd
- For electricity, gas and other fuels, consumption data has been extracted from billing information from the start of the reporting period to the date of the last bill received for each type of supply. Therefore some extrapolation has been required in order to calculate the full 52-week consumption figure. Data has been provided by British Independent Utilities
- Petrol and fuel data has been collated from information received from the Group's fleet management consultant, and for 2018 full year actual data is reported
- Refrigerant data has been calculated by reference to individual items of equipment and then extrapolating this based on an estimated level of equipment within each property used by the Group. The methodology employed utilises annual leakage rates as set out in Appendix C of the Environmental Reporting Guidelines for mandatory GHG emission applying the Screening Methodology

How we identify and manage risk

McColl's, like all businesses, is exposed to a number of internal and external factors which can positively or negatively affect its performance. Whilst minor variations in circumstances and outcomes will always occur, it is essential that we take a proactive approach to those significant matters that could threaten successful delivery of our short and long term goals.

Our risk framework seeks to identify those threats, quantify how likely it is they will occur and how significant their impact could be. Mitigating actions are then applied to reduce the likelihood and impact to a level that is acceptable to the Board. The effectiveness of those actions is monitored to ensure that they deliver the intended outcome. Our understanding of these risks also informs our strategic choices for the business.

We adopt a continual process of risk identification, assessment, management and monitoring. As our strategy and plans evolve and the environment in which we operate changes, our assessment and management of risk must keep pace.

Risk management framework



Risk identification and assessment

Risks are identified and assessed at all levels within the organisation, from individual store risk assessments through to identification and assessment of Group-wide strategic threats. We operate detailed procedures and appropriate training in store to ensure the safety and security of our colleagues and customers and protection of our assets. At Group level, we look at a wide range of factors including customer trends, competition, economic conditions, regulatory developments, technological issues, counterparty security and financial matters to work out the main threats to our business.

Risk ownership

Once a risk has been identified, responsibility for management of that risk is clearly defined. This equally applies in our stores, where an appropriate risk culture promotes personal responsibility for operating safely and for carrying out regular checks on potential hazards. Where a hazard cannot be dealt with simply and immediately, a reporting process exists to escalate the matter for resolution. Similarly, at Group level, risks relating to, for example, finance, legal, data, trading partners and operations, are monitored and managed through a variety of controls, including detailed procedures and delegations of authority to appropriately experienced and qualified individuals or groups such as our Group Health, Safety and Compliance Committee.

Risk appetite and risk policies

Having quantified and understood our risks, the Board, guided by the Audit & Risk Committee, considers what level of risk can be accepted in pursuit of our strategic goals. The Board requires all risks to be appropriately managed and, where they cannot be sufficiently reduced or removed entirely, considers whether the risk should be transferred, for example through insurance cover or hedging arrangements. A vital component of the Board's risk related responsibilities is that of fostering an appropriate risk culture.

During 2017 four new values were adopted, which were incorporated into some of our risk-related policies and introduced into others as they fell due for review during 2018.

Our values are:



Having understood the threats faced and the extent to which they have been reduced, eliminated or transferred, the Board determines its risk appetite and the strategy that can be delivered within acceptable risk parameters. A new or amended strategy can often give rise to new risks and these need to be identified and assessed and built into the management and reporting processes described above.

Risk reporting

The reporting of risk is an important step in the overall process. Reporting not only raises awareness and initiates discussion, it can also provide additional insight into the aggregation of risks that may not be immediately apparent when a single factor is considered or managed in isolation.

Risks, both operational and strategic, are reported to our Group Health, Safety and Compliance Committee (formerly known as the Group Risk Committee), which comprises our Retail Board members, Health & Safety Manager and Company Secretary. This Committee also brings together senior representatives from all areas of the business to consider collectively, and from their different functional perspectives, the more significant risks faced by the business.

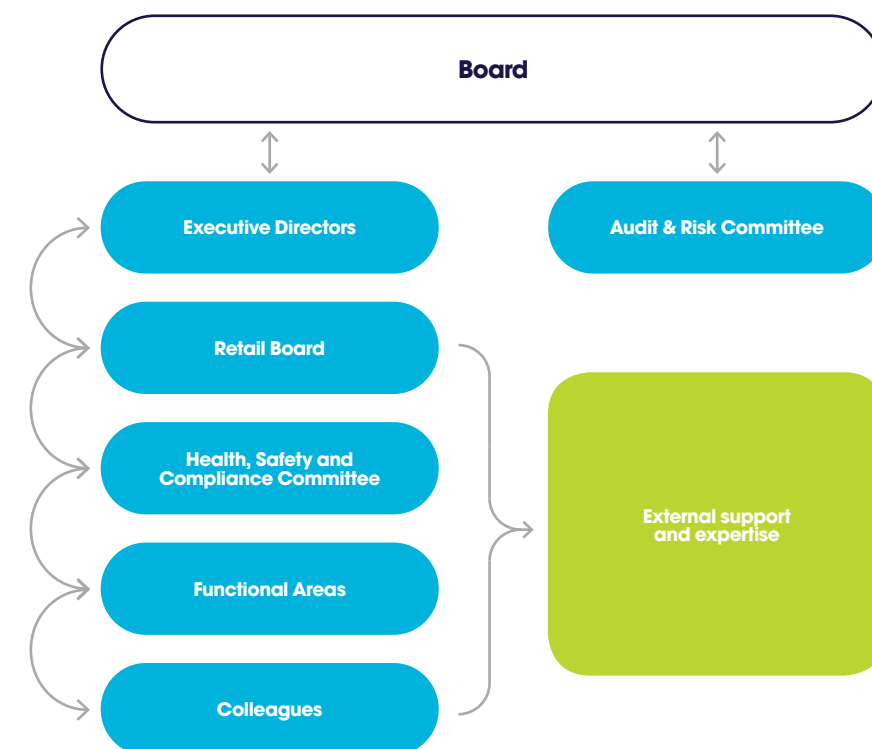
The Group Health, Safety and Compliance Committee reports, and escalates as appropriate, matters of risk to the Retail Board which has responsibility for supporting the Chief Executive in the delivery of the Group strategy and business objectives. The Audit & Risk Committee periodically reviews risks and makes recommendations to the Board. Individual matters of a significant nature are also escalated to the Board where appropriate.

Resources and structure

We have organised our internal resources in order to ensure that the risk management framework is appropriately understood by colleagues and embedded throughout the business.

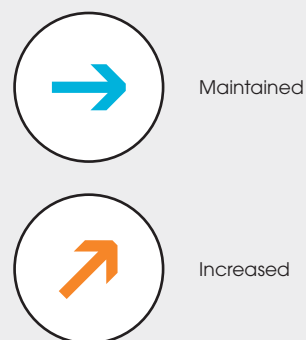
Risk management structure

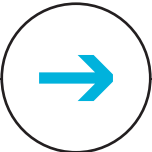
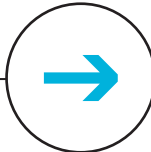
Our risk framework is supported by the risk management structure detailed below:



Principal risks and uncertainties continued

The risk management processes described above are continual and risks evolve. However, at present, the Board, with the assistance of the Audit & Risk Committee, considers the following to be the principal risks facing the Group.



	 Strategy	 Competition	 Customer Offer
Principal Risk			
Nature of the Risk	If the Board either adopts the wrong strategy or does not implement it effectively the aims of the business, its performance and reputation may suffer.	We operate in a highly competitive environment, which is continually changing and has been subject to ongoing consolidation. Failure to maintain market share could have an adverse effect on our core business.	Customer shopping habits are influenced by a wide range of factors. If we do not respond to their changing needs they are more likely to shop with a competitor, resulting in falling revenues.
Risk mitigations	- Our strategic development is led by an experienced Board and Senior Management - An annual strategic review takes place alongside our budget-setting process - The McColl's strategy is widely communicated and understood across the business - Business plans are developed, monitored and reviewed against strategic KPIs - Senior Management are incentivised with performance-related rewards to deliver our strategic goals	- We monitor competitor activity and customer trends - Regular meetings are held with key suppliers to optimise our offer - We are increasing brand awareness through marketing - Improvement of our estate and stores is ongoing - Local refit programmes are undertaken to counter specific competitive threats - We have launched the Safeway brand in store to differentiate our offer - We have increased our marketing ad campaigns and seasons events, both in store and through local advertising	- Membership of third party organisations (such as the Association of Convenience Stores) gives us greater insight into the convenience channel trends and developments - Our Customer Director has enhanced the Retail Board's capability to address changing customer needs - Promotional programmes offer customers great value - Our strong customer service standards are reflected in our evolving brand strategy - We complete detailed customer research for key projects, for example our store refurbishment programme - We have launched our presence in social media to better engage with customers
Current changes	Key strategic challenges for 2019 include the continuing work to deliver the supply chain benefits from our partnership with Morrisons and further developing our convenience offer. Ongoing change and consolidation in the sector may also impact our business and require us to adjust our strategy accordingly.	We will work through individual category reviews to ensure our offer, range and price is competitive. Our ongoing store refresh programme will enhance our customers' shopping experience.	Working with our new supply partner we will focus on the breadth and depth of our offer, particularly in key categories such as fresh and chilled food. We will also look to broaden our seasonal relevance e.g. in non food areas.



Supply chain

We rely on a small number of key distributors and may be adversely affected by changes in supplier dynamics and interruptions in supply.

- We establish long-term relationships with trusted suppliers
- Our distribution partners maintain their own contingency planning as do we
- We closely monitor supplier performance including service levels and hold regular discussions with them to address any issues (with contractual protections in place)
- We monitor the financial stability of key partners
- We regularly review our supply chain arrangements, with full tenders completed in 2013 and 2017
- We have a flexible electronic ordering process, with established links to the key UK wholesalers
- Our supply chain partner, Morrisons, is undertaking significant pre-Brexit planning (including becoming an authorised economic operator)

The collapse of P&H in November 2017 tested our contingency arrangements as did the accelerated transition to Morrisons supply in 2018. Going forwards into 2019 it is important to fully stabilise and then optimise arrangements, including responding to the outcomes of Brexit.



Ensuring supply chain continuity

2018 was marked by significant supply chain change and disruption for the business, as we transitioned arrangements. When P&H collapsed into administration in November 2017 we lost supply to over 700 of our stores (principally newsagents and smaller convenience stores). We worked with both Morrisons and Nisa to implement contingency plans and also accelerated our transition to Morrisons (our partnership was announced in summer 2017). This accelerated transition, whilst helping to ensure these stores continued to trade, has resulted in a number of challenges that our partners are working hard to address. Most significantly the McColl's gross margin has been impacted by the adoption of temporary terms and a delay in realising the benefits of the new partnership with Morrisons. It is anticipated that further progress will be made in 2019, which will also focus on the full realisation of the benefits of launching Safeway products in store. Going forwards, working with a FTSE 100 wholesaler provides additional reassurance over supply chain continuity.

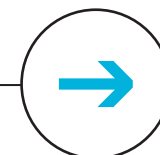


Supply chain transition

During 2018, we transitioned the wholesale arrangements for the majority of our estate to a new supplier. The accelerated timeline introduced additional complexity and risk.

- There is close oversight by the Retail Board and Senior Management
- We undertook a significant amount of planning and testing work to identify and resolve potential issues and have instigated close monitoring of performance
- We have a dedicated and skilled management team with extensive experience of managing supply arrangements
- We have established clear lines of communication and a joint project management approach with our new supplier
- The final phase of the transition will, in due course, incorporate all of the learnings from 2018
- Transitional support has been provided by our new wholesale partner

Issues relating to availability, product set up and cost prices are being worked through with suppliers and our new wholesale partner. We expect to exit 2019 with an improved trajectory.

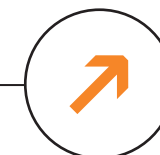


Information Technology

We depend on the reliability and capability of key information systems and technology. A major failure, a breach, or prolonged performance issues with store or head office systems could have an adverse impact on the business and its reputation.

- All business-critical systems are well established and are supported by an appropriate disaster recovery strategy designed to ensure continuity of the business
- Business continuity plans are tested on an annual basis
- Regular reviews assess our vulnerability and our ability to re-establish operations in the event of a failure
- Testing is performed to ensure data is controlled and protected
- We are currently investing in a new ERP system (Oracle Fusion) to improve head office efficiency
- We have processes in place to ensure GDPR compliance

We have a future IT roadmap and have plans to upgrade our EPOS systems in the next 24 months. We will also continue to evolve our store back office systems to improve efficiency and effectiveness.



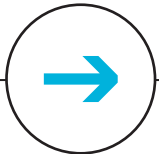
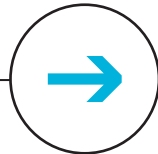
Financial and treasury

The main financial risks are the availability of short- and long-term funding to meet business needs, fluctuations in interest rates, movements in energy prices and other post-Brexit impacts.

- Committed loan facilities are in place to deliver our strategy, with amendments in the year delivering additional covenant headroom (see notes 20 and 27)
- Funding requirements are managed through regular forecasting and treasury management
- The Board approves budgets and business plans
- Relationships with lenders are managed through regular meetings
- Our risks associated with financial instruments are disclosed in note 27 on page 113

We will continue to work with our banking syndicate to optimally manage our funding position and further deleverage. We plan to conclude our 2017 acquisition sale and leaseback programme in H1 2019.

Principal risks and uncertainties continued

Principal Risk	 Economy	 Operational cost base	 Regulation
Nature of the Risk	All our revenue is generated in the UK. Any deterioration in the UK economy, for example as a consequence of Brexit, could affect consumer spending and cost of goods, which in turn would impact our sales and profitability.	We have a relatively high cost base, consisting primarily of salary, property rental and energy costs. Increases in these costs without a corresponding increase in revenues could adversely impact our profitability.	We operate in an environment governed by strict regulations to ensure the safety and protection of customers, colleagues, shareholders and other stakeholders. Regulations include alcohol licensing, employment, health and safety, data protection and the rules of the Stock Exchange. Failure to comply with relevant laws and regulations could result in sanctions and reputational damage.
	Risk mitigations - We sell food and household essentials which are not considered to be highly discretionary - We offer a wide range of products at different price points, e.g. value and premium brands - Our flexible business model allows us to respond to changes in customer behaviour, for example, by adapting our ranges - We are growing our range of own brand products through the rollout of Safeway - We are working with supply partners and manufacturers to build our Brexit contingency plans	- We continually seek to remove unnecessary complexity from our operational procedures to optimise performance - We operate a flexible staffing model aligned to revenue levels - We monitor legislation and developments related to our costs, e.g. minimum wage, rents and energy tariffs, to allow us to plan and mitigate increases - Property management is a key function with regular review processes in place - We minimise energy costs by combining energy efficiency initiatives and forward purchasing - We regularly retender external contracts to ensure they remain market-competitive - We have an ongoing programme of estate optimisation to remove unprofitable stores - We manage exposure to fluctuating energy prices by forward buying electricity. We acknowledge that the forward contracts in place are derivatives, they are treated as a pre-agreed price for electricity	- We have clear accountability for compliance with all laws and regulations - Our policies and procedures are designed to meet all relevant requirements - We train colleagues to comply with all relevant legislation - We have established governance groups, such as our Health and Safety Strategy Committee to review and manage our compliance - Through third party memberships and expert advice, we keep up to date with evolving statute
Current changes	As the impacts of Brexit on the UK economy become clearer we will continue to evolve our strategy to mitigate any impacts. As included with the section on going concern (page 77) we have modelled various scenarios to ensure we have sufficient mitigation options.	National Living Wage and National Minimum Wage will again increase above the rate of inflation in 2019. We have set up a group to focus on delivering efficiencies and process improvements in our operations.	Regulations impacting our business continue to change but we have processes in place to make sure we take proper account of regulatory developments in the way we conduct our business.
	Brexit We recognise that the UK's planned exit from the European Union (EU) creates some risks and uncertainties. We do not expect it to have a material impact on the business except in the event that the UK leaves the EU with no deal in place and this results in the most severe economic scenario. Customers Except in the event of a severe economic shock to the UK economy, we do not expect Brexit to have any significant impact on the behaviour of customers in McColl's. The grocery sector as a whole has a proven record of withstanding economic downturn. In recent periods of economic uncertainty consumers have tended to manage their budgets by shopping little and often, locally. Therefore the convenience sector in particular is largely protected from, and can even benefit from, broader negative economic trends. Supply chain It is estimated that around 35% of all the food we eat in the UK is sourced from the EU. Due to the nature of our product mix, we estimate that the proportion of products we source from the EU is considerably lower than average. The most significant risk to food supplies is in the event of a no-deal Brexit where import delays could mean short shelf life products expire before they can reach their destination. We sell a relatively low proportion of chilled and fresh food with a short shelf life and as such are less exposed to this risk than other grocery retailers. The majority of our products are sourced via UK wholesale partners. Morrisons is our largest wholesale partner, directly supplying c.1,300 of our stores. As the UK's second largest food manufacturer, they source and manufacture a high proportion of products in the UK. To mitigate the risk of a no-deal Brexit Morrisons have applied for and been granted "approved economic operator status", which means that goods will be fast tracked through customs, hence reducing the risk with their non UK suppliers. Labour It is likely that in leaving the European Union there will be a restriction on free movement that could lead to a shortage of low skilled workers. We do not believe this presents a significant risk to the business because we have a low number of transient workers. The majority of our store colleagues work on a part-time basis and live locally to their store. However, we recognise that there is some risk that we could be impacted by the UK experiencing a greater demand for low skilled workers that could create recruitment challenges and lead to wage inflation.	This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.	 Angus Porter Chairman



Strong corporate governance

As Chairman I am pleased to report that the Company has continued to strengthen its corporate governance arrangements. I and my fellow Directors are fully committed to making sure governance and leadership of the business are sufficiently strong and effective to embrace the challenge of becoming a successful grocery convenience retailer.

As a Board we will also be mindful of how we can do more to support and promote the McColl's values:

- Customer first
- Simple and consistent
- Caring and compassionate
- Community champions

It is important that we take the lead on incorporating these values into our work.

Following publication of the new UK Corporate Governance Code by the FRC in July 2018, which the Company will be reporting against for the financial year ending November 2020, the Board is reviewing the revised principles and provisions and will make any changes deemed necessary in due course.

Approved by the Board and signed on its behalf:

Angus Porter
Non-Executive Chairman

Compliance with the UK Corporate Governance Code

We will be reporting in compliance with the 2016 Corporate Governance code, but where practical will align some content to recognise the new July 2018 Governance code

Board leadership (including shareholder relations)

The Board is responsible for leading the business in the way which it believes is most likely to lead to long-term sustainable success. This includes effective engagement with our stakeholders and particularly our colleagues

Read more on pages 40 to 44

Division of responsibilities

We ensure we have the right combination of executive and non-executive directors without any individual or group of individuals who dominate the decision making

Read more on pages 44 to 45

Composition, Succession and Evaluation

Our practices aim to ensure that we have a balanced board with the appropriate skills to govern the business, and an effective evaluation and succession plan. The Nomination committee is appointed to act on behalf of the Board

Read more on pages 45 to 47

Audit, Risk and Internal control

The Board defines McColl's strategy, taking account of the need to avoid unnecessary or unacceptable risks. The Audit and risk committee is appointed to oversee this process on behalf of the Board

Read more on pages 51 to 56

Remuneration

Our remuneration policy aims to incentivise strong performance whilst avoiding excess. We are also mindful of the pay of our colleagues across the business

Read more on pages 56 to 73

It is the opinion of the Board that the Company has been compliant with all the applicable provisions of the Code throughout the year under review.

Strong leadership



Angus Porter
Non-Executive Chairman^{2, 3}

Current appointment: Angus was appointed as an Independent Non-Executive Director on 1 April 2016 and was appointed Non-Executive Chairman on 27 April 2017.

Key strengths: Angus has extensive knowledge and experience in strategy, innovation, and brand development as well as significant leadership skills.

Experience: Angus has held numerous executive and non-executive roles across a range of industry sectors, including senior marketing and general management roles at Mars, BT, Abbey National and WPP. Recently, he was Chief Executive of the Professional Cricketers Association from 2010–2016, Senior Independent Director and Chairman of the Remuneration Committee of Punch Taverns Plc. from 2012–2017, and a Non-Executive Director of TDC A/S until 2018.

Other directorships: Angus is Co-Chairman of Direct Wines Ltd and a Non-Executive Director of Hilton Food Group plc.



Jonathan Miller
Chief Executive³

Current appointment: Jonathan was appointed Chief Executive of McColl's in 2016. He has worked in the Group since 1991 when he was recruited as Financial Director of cigarette vending operations, becoming Finance Director of retail operations in 1998. Prior to his current role he was the Group's Chief Financial Officer.

Key strengths: Through his long history with McColl's, Jonathan has developed an in-depth understanding of both the business and the wider convenience retail market.

Experience: Jonathan has had a major role in all of the key initiatives that have shaped the Group, including a secondary buyout in 2005, numerous corporate acquisitions and the IPO in 2014. As Chief Executive he has put in place a clear strategy and vision for the Group and led the major acquisition of 298 stores in 2016, the negotiation in 2017 of the Group's new wholesale arrangements with Morrisons and in 2018 steered the business through the significant disruption following the collapse of P&H.



Robbie Bell
Chief Financial Officer

Current appointment: Robbie was appointed as the Group's Chief Financial Officer in January 2019.

Key strengths: Robbie has over 20 years of retail and finance experience.

Experience: Robbie was appointed CFO of Welcome Break in 2017 before taking on the role of CEO in early 2018, where he managed the sale and ownership transition of the business. From 2009–2017 he was CFO of Screwfix Direct Limited, a subsidiary of Kingfisher plc, where he oversaw significant business growth, driven by strong like-for-like sales and an extensive store opening programme. He was the UK Finance Director of Travelodge from 2006–2008. Prior to this he held a number of senior finance positions at Tesco PLC, including roles within commercial buying and convenience.

Other directorships: Robbie is a Non-Executive Director and Chair of the Audit Committee of UP Global Sourcing Holdings plc.

Simon Fuller

It was announced in July 2018 that Simon Fuller, Chief Financial Officer, had decided to leave the business to pursue his career in another sector. He left the business on 22 February 2019 following a period of handover to his successor, Robbie Bell, who succeeded him on 17 January 2019.

Simon was appointed as the Group's Chief Financial Officer in 2016, having joined McColl's in December 2015 as Deputy Chief Financial Officer.



Dave Thomas

Chief Operating Officer

Current appointment: Dave was appointed as the Group's Chief Operating Officer in 2014 but his history with McColl's dates back to 1998 when he joined the business as Regional Manager for convenience. He became Operations General Manager in 2000 and was made Operations Director in 2005.

Key strengths: His long career rooted in the UK supermarket and convenience sector means Dave has extensive operational knowledge, enabling him to orchestrate a process of continual improvement and modernisation of the McColl's offering across our evolving estate.

Experience: Dave's retail career began with Iceland where he led a programme of new store openings as well as conversion of Bejam stores. Subsequently he joined Southern Co-operative as Operations Manager, developing a modern convenience format for the business. More recently within McColl's, he successfully managed the 2017 conversion of the 298 acquired stores to the McColl's format as well as taking a key role in the negotiations and implementation of new supply arrangements.



Georgina Harvey

Senior Independent Director^{1, 2, 3}

Current appointment: Georgina was appointed as an Independent Non-Executive Director on 7 February 2014 and is Chairman of the Company's Remuneration Committee. On 24 May 2016 Georgina was appointed as the Company's Senior Independent Director.

Key strengths: Georgina has significant experience across highly competitive consumer-facing markets and delivering successful transformational change.

Experience: Georgina started her media career at Express Newspapers plc where she was appointed Advertising Director in 1994. She joined IPC Media Limited in 1995 and went on to form IPC Advertising in 1998, where she was Managing Director. Between 2005 and 2012, Georgina was Managing Director, regionals division and a member of the Executive Committee of Trinity Mirror.

Other directorships: Georgina is also an Independent Non-Executive Director of William Hill PLC and Big Yellow Group PLC.



Sharon Brown

Independent Non-Executive Director^{1, 2, 3}

Current appointment: Sharon was appointed as an Independent Non-Executive Director on 7 February 2014 and is Chairman of the Company's Audit & Risk Committee. Sharon previously served as the Group's Interim Chairman.

Key strengths: Sharon has deep knowledge of finance and audit-related matters, combined with over 25 years' experience in the retail sector.

Experience: Sharon is a management accountant and has extensive financial experience, gained whilst Finance Director and Company Secretary of Dobbies Garden Centres Limited between 1998 and 2013. She also held a senior financial position within the retail division of John Menzies plc from 1991 to 1998. She is, and has been, Audit Committee Chairman for a number of companies.

Other directorships: Sharon is a Non-Executive Director and Audit Committee Chairman of Fidelity Special Values PLC, F&C Capital and Income Investment Trust plc, and Celtic plc and is a Non-Executive Director of a number of limited companies in the retail sector.



Jens Hofma

Independent Non-Executive Director^{1, 2, 3}

Current appointment: Jens was appointed as an Independent Non-Executive Director on 1 July 2017.

Key strengths: Jens has particular expertise in consumer goods as well as the restaurant and food-to-go industry. He also possesses in-depth experience of growing multi-site businesses.

Experience: Jens is Chief Executive Officer of Pizza Hut Restaurants in the UK. He joined the Pizza Hut business in February 2009 and has since led a private equity funded buyout of its dine-in restaurants. Prior to his involvement with Pizza Hut, Jens spent five years with Yum! Brands, working in the UK and in Europe. He has also previously worked for Nestlé and McKinsey in various European countries.

Other directorships: Jens is Chief Executive Officer of Pizza Hut (UK) Limited.

1 Member of the Audit & Risk Committee.

2 Member of the Remuneration Committee.

3 Member of the Nomination Committee.

Retail Board

The Group's Retail Board comprises the Executive Directors and the most senior Managers within the business. The Retail Board is collectively responsible for supporting the Chief Executive in delivering the Group's strategic objectives.



Jonathan Miller

Chief Executive

Read more on page 40



Robbie Bell

Chief Financial Officer

Read more on page 40



Dave Thomas

Chief Operating Officer

Read more on page 41



Neil Hodge

Information
Technology Director

Current appointment: Neil was appointed Information Technology Director in 2011 but has worked for the Group since 1993, initially as Field Support Manager and then, from 1997, as Information Technology Manager.

Experience: As well as ensuring the day-to-day IT and data needs of the Group are well serviced, Neil plays a key role in the planning and delivery of numerous strategic initiatives across the business, the majority of which are technology-enabled. Before joining McColl's, Neil worked at Dexham Shops and Royal Doulton.



Steve Green
Retail Finance Director

Current appointment: Steve joined McColl's as Retail Finance Director in May 2016.

Experience: Since joining McColl's, Steve has restructured the finance team, improved controls, and delivered financial support to all of the business's major initiatives. Before joining McColl's, Steve was the Group Financial Controller for Tesco's Malaysian business. In total, Steve was with Tesco for 14 years, both in the UK and overseas.



Karen Bird
Colleague Director

Current appointment: Karen joined McColl's as Colleague Director in October 2016.

Experience: Since joining the business, Karen has restructured the HR team, focusing on the key processes and priorities to strengthen the function. Karen has developed a strategic HR plan for the business, working on capability, performance and talent development. Karen was previously People Director at Tesco, where she worked in both HR and Operational roles, including leading change programmes on culture and service.



David Archibald
Development Director

Current appointment: David was appointed Development Director in 2006 having joined the Group in 1993.

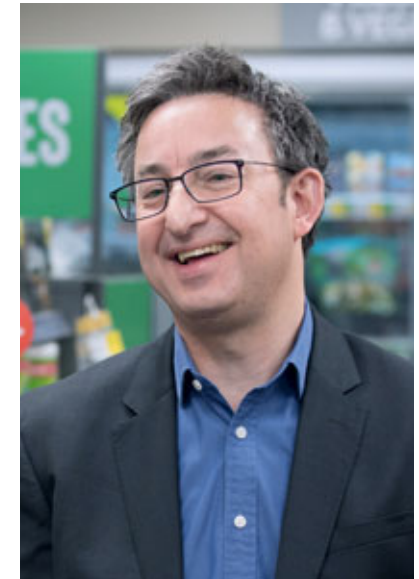
Experience: Responsible for our acquisitions and estate management, David has been instrumental in ensuring conversion of the 298 stores to the McColl's format proceeded to plan and is also playing a key role in our programme of shop refresh activity to deliver significant benefits from store modernisation. Previously David worked at Independent Stores, Fine Fare, Asda, Victoria Wine and the Ministry of Defence.



Peter Miller
Trading Director

Current appointment: Peter was appointed Trading Director in 2015, having originally joined McColl's as Buying Director in 2011.

Experience: Peter has a wealth of grocery sector experience, ensuring McColl's trading performance is supported through effective and competitive supplier relationships. Before joining McColl's, Peter was Group Trading Director at SPAR UK Ltd. Prior to this, Peter worked as Director of Trading at Big Food Group and Group Buying Director at Booker PLC.



Tim Fairs
Customer Director

Current appointment: Tim was appointed Customer Director in January 2018.

Experience: Tim is responsible for the customer agenda, a key pillar of our strategy, by helping to define our brand proposition and bringing the McColl's brand to life as well as establishing effective relationships with our customers after they have left the store. Tim is passionate about customers and has extensive relevant experience, most recently as VP Marketing and E-Commerce at Clintons, and prior to that as Head of Marketing at Dixons Carphone where he launched the service brand KNOWHOW.

Engaging with Stakeholders

The McColl's Board has responsibility for ensuring that dialogue with shareholders and other stakeholders is active and based on a mutual understanding of objectives

McColl's has continued with its investor relations activities, which comprise individual meetings with investors, investor presentations and investor and analyst store visits. The Board receives regular reports on the investor relations programme and, as part of this, shareholder views are fed back to the Board.

Specific consultations are undertaken from time to time with our major shareholders where deemed necessary. In addition the Chairman has direct dialogue with some of the major shareholders. The Board is conscious that the views and interests of other stakeholders in the business are important. Engaging with those other stakeholders is an aspect which the Board recognises will be a focus going forward. To enhance the Board's engagement with colleagues across the business, an employee survey was carried out in the latter part of the year.

McColl's general meetings are used to encourage investor communication and participation

The McColl's Board recognises that our shareholders are a key group of stakeholders in the business and their views and engagement are important. The Annual General Meeting provides an essential opportunity for shareholders to meet directly with our Directors and, in particular, the Chairmen of our Committees. We publicise the outcome of proxy votes received in advance of general meetings.

Shareholders who wish to raise issues with the Company may contact us via email at investor.relations@mccolls.co.uk.

Investor Store Visits

During the year we hosted analysts and investors on a number of store visits. It's a great way for them to see the business close up and get valuable insight into how we operate. It also gives them an opportunity to meet some of the wider management team and see how we execute our strategic plans such as the store refresh programme.

Division of responsibilities

McColl's is headed by an effective Board which is responsible for delivering long-term success in the business

The Executive team, under Jonathan's leadership, is ambitious in its vision, responsible in its management, cohesive in its leadership and effective in its delivery. During what has been a challenging year, Jonathan has received outstanding support from his fellow Executives, Dave Thomas (Chief Operating Officer) and, until February this year, Simon Fuller (Chief Financial Officer). Simon's successor, Robbie Bell, joined the Board on 17 January 2019. Simon left the business on 22 February 2019, following an orderly handover.

The responsibilities of the Board and the Executive are clearly defined and no individual has unfettered powers of decision

The Chief Executive is responsible for delivering the Group's strategy and for its operational performance. The Chief Executive is supported in carrying out their responsibilities by the Chief Financial Officer and Chief Operating Officer.

These responsibilities are defined as part of a scheme of delegation established by the Board. The scheme of delegation is one element of the controls by which the Board seeks to ensure that risk is adequately and appropriately managed within the business.

The starting point for those delegations is the schedule of matters reserved for the Board. This schedule sets out those decisions which will not be delegated to any other group or individual but will always require Board sign off.

The matters covered by the schedule are listed below. The schedule is periodically reviewed.

1. [Strategy and values](#)
2. [Annual budget and business performance](#)
3. [Major acquisitions and disposals and new business developments](#)
4. [Risk appetite, risk management and internal controls](#)
5. [Shareholder communications](#)
6. [Capital structure, borrowings and treasury policy](#)
7. [Dividend payments and recommendations](#)
8. [Key Group entity structure](#)
9. [Board and other senior appointments](#)
10. [Corporate governance matters and delegations](#)
11. [Group policies](#)
12. [Pensions and other legal matters](#)

Matters that are not reserved to the Board may be delegated, for example, by:

- [terms of reference to a committee;](#)
- [role description to an individual;](#)
- [policies and procedures to colleagues within certain functions or of a certain grade; or](#)
- [contract to external parties.](#)

The Group also has a Retail Board comprising the Executive Directors and the most senior Managers within the business. The Retail Board is collectively responsible for supporting the Chief Executive in delivering the Group's strategic objectives. Biographical details for the Retail Board members are provided on pages 42 and 43.

The Retail Board is supported by other specific operational committees within the business which help ensure that strategic actions are disseminated and managed, that progress and issues are appropriately reported and escalated and that management are properly accountable for the performance of their areas of responsibility.

Further details of the different roles performed by the Chief Executive and the Chairman are provided on the Group's website www.mccollspic.co.uk/leadership.

The Chairman is responsible for leadership of the Board and ensuring the Board is effective in all aspects of its role

Specific roles have been delegated to the Chairman. In the year the Chairman worked closely with the Chief Executive on the appointment of the new Chief Financial Officer. He is responsible for the operation of the Board and for leading the Group's governance. This includes setting the Board agenda and leading the Board's discussions and decision-making. In addition, the Chairman's role is to actively promote a culture of openness and debate by facilitating the effective contribution of the Independent Non-Executive Directors. He is available to discuss matters with shareholders and is responsible for ensuring that the Board is kept well informed about shareholder views. In order to assess the effectiveness of the Board and Committees, the Chairman leads the annual evaluation process. Further details of the Board evaluation are provided on page 47. The Chairman's performance is appraised by the Non-Executives who, led by the Senior Independent Director, meet in his absence annually to discuss this.

Our Non-Executive Directors constructively challenge and help develop McColl's strategy

Our shareholders have entrusted the Board with promoting the long-term success of the Company, whilst remaining true to the culture and values that we have set for the business. The Board does this by establishing a range of short and long-term objectives, monitoring and challenging progress made towards attaining them and incentivising behaviours that are likely to result in sustainable achievement of our vision for the business. All of this must be achieved without adopting an inappropriate approach to risk and risk management that could jeopardise enterprise value.

The Non-Executive Directors are key to this process, providing feedback based on their different backgrounds, experience and skills and with the benefit of having a degree of distance from the process by which initial proposals are developed. Active and robust debate of proposals with the Non-Executive Directors enables new perspectives to be considered and ensures that the ambitions and actions of management are subject to challenging oversight.

The Board sets the strategic direction of the Group, taking account of factors such as the external environment and trends, the resources and existing challenges of the business, opportunities and risks.

In the last year the Board has implemented an additional step in the strategy process designed to capture the inputs of the Board earlier in the development of the strategy and three year plan.

The Board takes time annually to review the existing strategy and to refresh the agreed approach, priorities and expectations. To inform and provide context for its consideration and debate of management's strategic proposals, the Board receives relevant reports and background presentations from both internal and external parties.

Having set the strategic priorities, the Board monitors and incentivises delivery of these objectives (whether short or long-term) on a continual basis, regularly reviewing the controls and resources that are in place, the risks faced by the business and how those risks are managed.

Separate reports by the Board's three main Committees – the Audit & Risk Committee, Remuneration Committee and Nomination Committee – are provided on pages 48 to 73.

Composition, Succession and Evaluation

The McColl's Board has a strong balance of skills, experience, independence and knowledge of the business

We made changes to the Board's composition, and that of its Committees, in 2017 in order to enhance the collective skills, experience and knowledge, and also address the independence issues of the Board and its Committees. Apart from the announcement that Simon Fuller was leaving the business the Board structure has been stable.

Details of the experience, background and skills of individual Directors can be found on pages 40 to 41.

Diversity in all its forms is something that the Board welcomes. Ultimately diversity brings different perspectives to our debates and ensures that, as a Board, we are considering matters from a variety of angles. In particular, the balance of skills, experience and qualifications of the Board and its Committees and the mix of different backgrounds is of great importance to the effectiveness of our strategic leadership and our governance arrangements.

Our Board recruitment processes are formal, rigorous and transparent

Our policy is not to set a quota or target for Board diversity but we are fully committed to transparent and robust practices to identify the individual best suited to any vacancy. Recruitment is based on an assessment of the skills, experience, qualifications and other attributes sought and we support this principle being applied throughout the organisation. Further details of our approach to issues of diversity and, in particular, support for women within the business, can be found within the Nomination Committee report on page 50 and in relation to our wider organisation, on page 30.

For our Board recruitment activity during the year, the recruitment of a Chief Financial Officer to replace Simon Fuller, we engaged an external firm, Redgrave Partners. They helped to ensure we searched a wide pool of potential candidates and assessed them against objective criteria in order to identify someone with the appropriate skills. Further details about this process, which was led by our Nomination Committee, are provided on page 49.

Our Directors should dedicate sufficient time to their responsibilities

The commitment of our Directors to their roles, including the time commitment of our Non-Executive Directors, is a crucial factor in ensuring that our skilled Board is able to lead the business effectively to build sustainable value for our shareholders. Non-Executive Directors' letters of appointment define their duties and, taking account of these, the Nomination Committee has reviewed the time commitment required of our Non-Executive Directors. Further details regarding this can be found on pages 48 to 49.

The number of meetings attended by our Directors does not fully reflect their involvement in the business as, between meetings, they are regularly involved in other activities. Such activities include meetings and calls with management and external advisers, shareholder dialogue and background reading. However, formal/scheduled meeting attendance statistics, set out below, can provide an indication of the degree of commitment.

New Directors receive a formal induction and ongoing development activities apply to the whole Board

The talents of our Board members can be put to best use when we ensure that they are properly informed. All Directors need to be kept up to date about the business including trends and developments in the market, changes in the regulatory environment and other factors.

This need particularly arises on appointment and, accordingly, all new Directors undergo a formal induction process that is described on page 50. However, Directors also need ongoing development in order to perform their duties as well as possible. As a Board we recognise this ongoing requirement and seek to identify and address these needs through a variety of individual and group activities such as in-depth board briefings, store and site visits and presentations by external advisers.

Attendance at meetings

	Board	Audit & Risk ¹	Remuneration ²	Nomination
Angus Porter	9/9	–	6/6	3/3
Jonathan Miller	8/9	–	–	3/3
Simon Fuller	9/9	–	–	–
Dave Thomas	9/9	–	–	–
Georgina Harvey	8/9	5/5	6/6	3/3
Sharon Brown	9/9	5/5	6/6	3/3
Jens Hofma	9/9	5/5	6/6	3/3

1 Angus Porter, Jonathan Miller, Simon Fuller and Dave Thomas attended meetings of the Audit and Risk Committee by invitation.

2 Jonathan Miller, Simon Fuller and Dave Thomas attended meetings of the Remuneration Committee by invitation.

Arrangements are in place to provide Directors with good quality information in a timely manner

Directors, and in particular Non-Executive Directors who are not involved in the business on a day-to-day basis, must receive high quality, relevant information in a timely manner if they are to be able to make appropriate decisions for the business. Meeting agendas need to prioritise salient matters and ensure that the Board is considering the right issues at appropriate times. Reports must be thorough so that Directors arrive at meetings well briefed and ready to dedicate the valuable time the Board have together to challenging and testing rationales, risks and alternatives, for example, as opposed to seeking background information and facts that could readily have been addressed in the original papers. The Company Secretary plays a key role at McColl's in ensuring that this is the case. Rachel Peat FCIS was appointed Company Secretary in November 2018.

The Directors of any business can face difficult issues from time to time and it is important that they always feel they are able to address those issues with the appropriate knowledge and advice at their disposal. Accordingly, all Directors, having notified the Chairman in the first instance, are able to take independent professional advice at the Company's expense if they feel such advice is necessary in the furtherance of their duties. During 2018, no Director felt it necessary to take such individual advice. They also have access to the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters, and who is also available to any Director who wishes to seek their counsel.

A Board evaluation has been conducted

As agreed last year, the Board and Committee evaluation for 2018 was conducted internally using a questionnaire approach followed up with discussions. The evaluation concluded that the Board was effective, however it identified some areas for continuing improvement, such as a greater focus on succession planning and talent management and the need to have an even longer term view on strategy.

The feedback from those discussions was reviewed by the Board and the committees during the year in order to assess progress since the last evaluation and to identify any further enhancements that can be made.

The Board wish to develop and enhance the opportunities available for Non-Executive Directors to engage with colleagues and are continuing to assess how we can do this looking for a range of ways in which we can listen to and learn from the people who make McColl's a success.

As part of the evaluation process, the Senior Independent Director led an evaluation of the Chairman's performance, after which it was concluded that he continues to provide effective leadership of the Board.

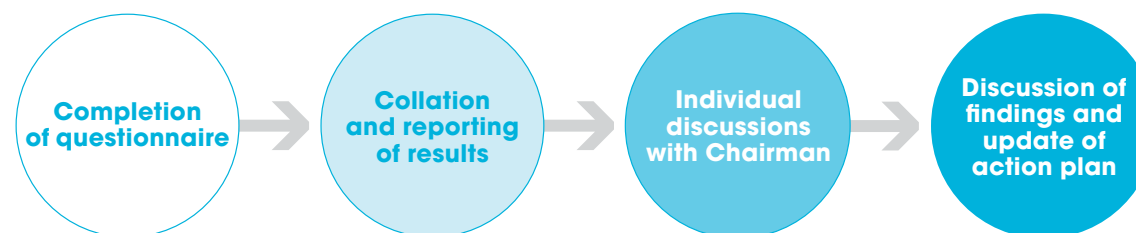
All Directors are subject to annual re-election

The re-election of the Directors is considered annually by the Nomination Committee in advance of the Company's Annual General Meeting. A recommendation for re-election is not automatic but is dependent upon the Nomination Committee being satisfied that the contribution of each Director warrants being proposed.

For the Annual General Meeting to be held on 3 April 2019, following an assessment of individual performance, all Directors are unanimously recommended by the Board for re-election, with the exception of Robbie Bell who, having been appointed to the Board on 17 January 2019, will stand for election by shareholders in accordance with the Company's Articles of Association. Biographical details for the Directors are provided on pages 40 and 41 and further details accompany the notice of Annual General Meeting, including the reasons the proposed re-election of each Director has been agreed by the Board.

Board evaluation process

Internally facilitated





// Our balance of skills, experience, qualifications and diversity remains appropriate to the strategic ambitions of the business. //

Angus Porter
Nomination Committee Chairman

Dear Shareholder

On behalf of the Nomination Committee, I am pleased to present our report for 2018.

Committee composition and effectiveness

The Nomination Committee comprises myself as Chairman, together with three Independent Non-Executive Directors and the Chief Executive. The Committee is actively supported by the Company Secretary.

As part of the Board's performance evaluation which conducted during the year, the Nomination Committee also reviewed its own performance. The results of this exercise will continue to shape the future activities of the Committee.

Attendance at Nomination Committee meetings during the year is indicated in the table below. Three meetings were held during the year.

	Meeting attendance
Angus Porter Chairman of the Board (considered independent on appointment)	✓✓✓
Sharon Brown Nomination Committee Member Independent Non-Executive Director	✓✓✓
Georgina Harvey Nomination Committee Member Senior Independent Director	✓✓✓
Jens Hofma Nomination Committee Member Independent Non-Executive Director	✓✓✓
Jonathan Miller Chief Executive	✓✓✓

The Nomination Committee's responsibilities and activities

The Nomination Committee's responsibilities, which are set out in full in the Committee's terms of reference (available from www.mccollplc.co.uk/committees), and the activities through which the Committee has discharged those responsibilities, are explored in more detail below.

During the year it was necessary to start the search for a Chief Financial Officer following the resignation of Simon Fuller in July 2018, a process led by the Committee. Redgrave Partners were selected as the executive selection agent. Redgrave Partners are signatories to the Voluntary Code of Conduct for Executive Search Firms which sets out best practice in relation to addressing gender diversity in executive recruitment.

The key matters considered at each of the Committee's meetings during the year are summarised in the following table.

Meeting date

Key agenda items



- review of Non-Executive Directors independence
- consideration of suitability of Directors for re-election at the Annual General Meeting
- performance evaluation



- recruitment of Chief Financial Officer
- review of Board Committee composition
- review of the Board and committee evaluation process



- review of Directors' conflict of interest authorisations
- review of Non-Executive Directors' time commitment
- review of Nomination Committee terms of reference
- agreement on future focus on succession planning and talent
- review of the balance of the Board

Composition of the Board and its Committees

The composition of our Board is fully compliant with the Code's higher standard of independence requirements that apply to FTSE 350 companies.

The Committee regularly reviews the composition of the Board and its Committees to provide assurance that our balance of skills, experience, qualifications and diversity remains appropriate to the strategic ambitions of the business and the challenges it faces.

Performance Evaluation

As well as reviewing its terms of reference during the year, the Committee also considered its performance and reviewed the outcomes of the Board evaluation process as a whole. The Board had an external evaluation in 2017 facilitated by Deloitte. This year the evaluation was conducted internally. The Board currently intends to conduct the 2019 evaluation internally, on the basis that the 2018 evaluation revealed no material issues requiring independent assessment.

Our Non-Executive Directors' key skills



Independence, interests and commitment

The Committee is responsible for reviewing, at least annually, the independence of Board members, Directors' potential conflicts of interest, the re-election of Directors at the Company's Annual General Meeting and Directors' time commitment.

The time commitments required of Non-Executive Directors are set out in their letters of engagement and are 25–30 days per year for the Chairman and 15–20 days per year for other Non-Executive Directors. However, a review by the Nomination Committee recognised that an additional five days per annum are required in order for the Chairmen of the Audit & Risk and Remuneration Committees to fully perform their roles in addition to their other duties.

The Committee reviewed all Directors' interests and concluded that conflicts of interest have been appropriately disclosed and authorised. Following the Committee's recommendations on these matters, the Board has confirmed that it considers all Non-Executive Directors to be independent and has proposed all Directors for re-election at the Company's Annual General Meeting to be held on 3 April 2019.

Corporate governance report: Composition, Succession and Evaluation continued

Nomination Committee report

Induction and Board development

The Director induction is a formal process that involves providing background information about the business and its regulatory environment through, for example, the sharing of reports and governance documents. Face-to-face meetings are arranged with other Directors, key personnel within the business and its advisers and site visits are also undertaken. The last Non-Executive Director to go through the induction process was Jens Hofma when he joined the Board in 2017. More recently Robbie Bell, who joined the business in January 2019 has gone through the induction process, together with a period of handover with Simon Fuller. The process is considered to be adequate.

The ongoing development of Board members is also a priority and regular in-depth reviews are undertaken to ensure that the Non-Executive Directors have a full understanding of the business, specific functional strategies and projects, changes to the regulatory environment and market developments. Additional development activities are planned over the coming months including various site visits, attendance at our annual colleague and supplier conference and an update on the evolving governance landscape for listed businesses.

Succession planning, talent management and diversity

There is a Group colleague plan which addresses issues including succession within the business, the identification and nurturing of talent, and the diversity and inclusion agenda. This is an ongoing area of focus.

The Board and Nomination Committee are committed to ensuring that inclusion and diversity, including gender diversity, are fully supported at Board level and throughout the business. We recognise that an organisation that embraces difference will benefit from the range of perspectives brought by variety of background and other influences. Accordingly, all appointments are based upon an assessment of the skills, qualifications and experience of individuals. It is not the Board's policy to establish a quota of women for appointment.

A number of wider initiatives have been established within the business during the year to ensure that we support our colleagues to achieve their aspirations and potential. We are particularly pleased with the progress that has been made in appointing more women to senior management positions.

Some of these are aimed at ensuring that we provide good support to women, whatever stage they are at in their life and career, to succeed in the workplace. More detail about our colleague engagement and initiatives and plans to support and develop colleagues can be found on pages 29 to 31.

As a business, McColl's is a significant employer of women. Like many other organisations, at McColl's women are under-represented at senior management levels but it is good news that more than half our stores are managed by women. A focus group was run to learn from the real experiences of our female colleagues, and we have been analysing the data gathered for our gender pay gap reporting to understand better where efforts need to be more focused.

Details of our gender pay gap are provided on page 30.

This report was approved by the Nomination Committee and signed on its behalf:



Angus Porter
Nomination Committee Chairman

Board Diversity



* The Chairman was deemed independent on appointment.

Audit, Risk and Internal control

The McColl's Board recognises its duty to present a fair, balanced and understandable assessment of the Group's position and prospects

The Annual Report and Accounts, together with other published information, provide important disclosures that enable shareholders and other readers to assess the performance, strategy and business model of the Company. The Group has thorough assurance processes in place in respect of the preparation, verification and approval of periodic financial reports, including:

- a system of financial and other internal controls,
- the involvement of qualified, professional employees with an appropriate level of experience (both in our finance team and throughout the business),
- a transparent process to ensure full disclosure of information to the external Auditor,
- access to external help and advice on highly technical subjects,
- comprehensive review and, where appropriate, challenge from appropriate senior managers and Executive Directors,
- oversight by the Audit & Risk Committee as described in more detail on pages 52 to 56.

These processes provide reasonable assurance to the Board when they approve the Annual Report and Accounts and other published documents that the disclosures they contain, including the viability and going concern statements, are not misleading and are sufficient for users of those documents to form a reasonable view of the business and its prospects.

Our Board is responsible for determining the principal risks that it considers to be acceptable in order to achieve McColl's strategic objectives

The Board recognises that effective risk management is essential to the long-term success of the business and to protecting shareholder value. It has overall responsibility for the Group's system of risk management and internal controls and for ensuring those systems are effective. Although no system can provide absolute assurance, our systems are considered adequate to appropriately manage the risk of failure to achieve business objectives and to provide reasonable protection from material misstatement or loss.

The McColl's approach to risk and risk management is described on pages 34 to 38 where a summary of our key risks and how they are mitigated is also provided. These principal risks have been agreed following robust and regular assessment. They include the risks that could threaten our business model, performance, solvency or liquidity.

Our Board has established formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles should be applied and how an appropriate relationship with the external Auditor can be maintained

The Board has established an Audit & Risk Committee comprising Independent Non-Executive Directors, including individuals who have experience relevant to the retail sector. This Committee is chaired by Sharon Brown, who has recent and relevant financial experience, and who has provided a separate report on behalf of the Audit & Risk Committee on pages 52 to 56.

The Audit & Risk Committee Report describes the membership, responsibilities and activities of the Committee and how it has discharged its duties during the year.



Safer for Stores

Our Safer for Stores programme is designed to help colleagues manage security risks. Across a large estate of stores, there are inevitably incidents and accidents. We recognise we have a duty of care to understand and address the risks within the business in order to ensure, as far as possible, we keep our colleagues and customers safe.



**//As highlighted last year,
we are in the process of
an audit tender for 2019.//**

Sharon Brown

Audit & Risk Committee Chair

Dear Shareholder

I am pleased to present, on behalf of the Board, the Audit & Risk Committee's formal report.

It has been a challenging year for the business but our strategy for the future remains on track (see page 17 in the Strategic Report). We must remain mindful of the risks and pitfalls that a developing business can face and ensure that controls are sufficiently robust and that behaviours are appropriate. The Audit & Risk Committee leads the Board's focus on matters of risk, as well as on integrity of the Group's financial reporting, and has been busy during the year in ensuring that we discharge our responsibilities carefully. The Committee's report which follows provides information on how we have done so.

As highlighted in last year's Annual Report, we are in the process of an audit tender. Deloitte LLP was first appointed as the Group's auditor in 2006. At that point the Group was a private business but following the Group's listing in 2014, the Group is now subject to regulatory requirements on audit re-tender. Although the Group's external audit arrangements need to be re-tendered no later than 2024, the Audit Committee recommended a tender for the 2019 audit. Deloitte LLP will be recommended for re-appointment as auditor until the tender process is complete and a successor is identified, at which point Deloitte will resign as auditor to the Group.

The composition of the Audit & Risk Committee and the skills we collectively bring to our work, the ways in which we have performed our role, the key matters that we have considered and the recommendations that we have made to the Board are described in the remainder of this report.

Sharon Brown

Sharon Brown

Audit & Risk Committee Chair

Committee composition and effectiveness

As part of the Board's performance evaluation, the Audit & Risk Committee also reviewed its own performance. The Audit & Risk Committee has confirmed that the collective financial and sector experience of its members is considered to be appropriate, relevant and sufficiently recent to enable the Committee to discharge its responsibilities in full.

	Meeting attendance
Sharon Brown Audit & Risk Committee Chairman Independent Non-Executive Director Member of the Chartered Institute of Management Accountants Previous experience as a Finance Director Chairs the Audit Committees of a number of other companies	
Georgina Harvey Audit & Risk Committee Member Senior Independent Director	
Jens Hofma Audit & Risk Committee Member Independent Non-Executive Director	

The biography of each member of the Audit & Risk Committee can be found on page 41.

Audit & Risk Committee's responsibilities

The Board has delegated a number of responsibilities to the Audit & Risk Committee in order to provide the Board and Shareholders with assurance that key financial and risk matters are being overseen and challenged by Independent Non-Executive Directors who are not involved on a day-to-day basis with the management or control of those functions. The Committee oversees financial reporting, external audit and internal controls, and reviews factors that influence the effectiveness of the external Auditor, for example their independence. The Audit & Risk Committee is responsible for making recommendations to the Board on a number of different matters including on the appointment of the Company's external Auditor and approval of financial disclosures, including the Annual Report and Accounts and Interim Financial Statements.

In addition, the Committee has responsibility for oversight of risk and risk management systems, in the absence of a separate risk committee. It reviews the Company's relevant key policies to ensure that wrong-doing such as bribery and fraud is, as far as possible, prevented and, where it occurs, is detected and lessons are learned. As part of this, the Committee is responsible for ensuring that there are effective arrangements in place to enable colleagues to speak up in confidence if they become aware of any wrong-doing occurring within the business, including any conduct that is illegal.

The Committee undertook a thorough review of its terms of reference during the year and adopted several changes to ensure continued compliance with best practice. A copy of the Committee's terms of reference is available on the McColl's website at www.mccollspc.co.uk/committees.

Audit & Risk Committee's activities

Given its extensive remit, it is vital that the Audit & Risk Committee organises its time so as to cover all its responsibilities regularly. Agendas are planned, with the support of the Company Secretary, to ensure that the responsibilities set out in the Committee's terms of reference are fully discharged at the most appropriate time in the annual calendar. For example, the Audit & Risk Committee conducted a full review of the risk register and risk management framework in advance of the Board's strategy meeting in order to inform the Board's consideration of strategic plans.

Planning the year ahead also helps ensure that less time-critical matters can be spread evenly across meetings so that adequate time can be provided at meetings for full discussion. The way in which the Audit & Risk Committee divided its time during 2018 is summarised in the table of key agenda items on page 54.

Corporate governance report: **Audit, Risk and Internal control** continued

Audit & Risk Committee report

Meeting date

Key agenda items



- draft Annual Report and Accounts 2017 and related matters
- new Enterprise Resource Planning (ERP) system



- year-end external audit outcomes
- Annual Report and Accounts 2017 and related matters
- external Auditor independence, objectivity and reappointment
- principal risk disclosures
- Committee performance evaluation
- consideration of Group guarantee for subsidiary companies



- half year external review outcomes
- half year 2018 announcement and related matters
- risk register
- Committee terms of reference



- early draft external audit plan
- IFRS 16 (lease accounting) project update
- risk register as background to the Board's strategy review
- policy on provision of non-audit services by the Auditor
- policy on related party transactions



- year-end external audit plan
- key accounting policies
- financial and internal controls
- risk management systems
- consideration of the requirement for an internal audit function
- compliance, fraud, whistleblowing, bribery incidents review
- policies on speaking up in confidence, anti-bribery and employment of former employees of the external Auditor

Making sure the Audit & Risk Committee is well informed

The information that is provided to the Audit & Risk Committee is key to ensuring that Committee members are sufficiently well informed to enable them to form a reasonable view of the matters they are considering. Written reports are provided in advance and meetings are attended, by invitation, by the Chairman, Executive Directors, external Audit Partner and others so that the written reports can be discussed and challenged.

Regular opportunity is also provided for the Committee to meet with the Auditor in the absence of management.

Between meetings the Chairman of the Audit & Risk Committee receives regular updates from the Chief Financial Officer relating to Audit & Risk Committee matters and responsibilities.

Another source of assurance to the Audit & Risk Committee could come from an internal audit function which the business does not currently have. The Audit & Risk Committee reviews annually whether it would be appropriate for an internal audit function to be established. During the year the Audit & Risk Committee received a detailed report on the existing controls within the business and, after discussion, concluded that it was not necessary to establish an internal audit function at this stage. This decision will be reviewed again in 2019.

After each Audit & Risk Committee meeting, actions are clearly identified, tracked and reported back to the Committee as progress is made in completing them. The Committee Chairman reports to the Board on the main items discussed at each meeting, including recommendations on any items requiring further consideration and decision by the Board. The Board also receives copies of the Committee's full minutes.

Non-audit services

The assurance provided by the external audit process is key to ensuring confidence in our financial reporting. The Audit & Risk Committee therefore regards the continued independence of the external Auditor as vitally important. The Group has a clear and robust policy relating to the provision of non-audit services by the external Auditor. The policy was adopted last year and is reviewed annually. There are specific services identified that are prohibited and may not be provided by the external Auditor in any circumstances. These include (but are not limited to) all tax services, bookkeeping, payroll, executive recruitment, internal audit, internal control and risk management, expert services (beyond audit) and valuations.

Where the external Auditor provides non-audit services which are not prohibited, the Audit & Risk Committee has established as part of the policy that, other than in exceptional circumstances, the total cost of all non-audit services provided by the external Auditor must not exceed 70% of the cost of statutory audit services (based on the average of the last three years). Audit and non-audit fees are shown here and disclosed in note 6 to the financial statements.

The non-audit fees paid during the year related to an interim review, turnover certificates and banking covenants.

Auditor re-appointment

The decision whether to recommend re-appointment of the external Auditor is reviewed annually.

Deloitte was first appointed as the Group's auditor in 2006. At that point the Group was a private business but, following the Group's listing in 2014, the Group is subject to regulatory requirements on audit re-tender. Although not required to tender until 2024, as reported last year, the Audit & Risk Committee has commenced a tender for the 2019 audit. This process is underway, the results will be reported to shareholders in due course. It is recommended that Deloitte be re-appointed until such time as a successor is identified.

Significant accounting judgements and uncertainties considered by the committee during the year

Summarised below are the most significant issues considered by the Committee in respect of these financial statements and how these issues were addressed. Having reviewed the audit plan initially and considered and discussed the draft financial statements and disclosures in the light of the external Auditor's work and findings, the Audit & Risk Committee were satisfied with the significant accounting judgements made in preparing them.

Supply Chain Transition

On 31 July 2017 the Group entered into a new wholesale supply agreement with Morrisons. Under this agreement the business received contract incentives. In addition, as a result of the complex launch and transition period after the collapse of P&H, the business has received transitional support payments.

Treatment of Supplier Income

Judgement is required on the level of accrued supplier income and the profit element recognised for the amounts not invoiced or specifically agreed with suppliers. Judgement is also required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to which the arrangements apply. As the process of appropriate recognition can involve significant manual adjustments, these have the potential for inappropriate manipulation.



Audit fees (£'000)
Non-audit fees (£'000)

Included within the audit fee total for the year is an amount of \$51,000 that is deemed to be non-recurring in nature.

Corporate governance report: **Audit, Risk and Internal control** continued

Audit & Risk Committee report

Impairment accounting

Given the difficult trading faced by the Group over the year, there is increased judgement in the carrying value of the Group's stores and consideration for impairment indicators. In addition, the Group holds a significant value of goodwill generated through acquisitions of businesses, individual and groups of stores. The goodwill balance is highly material. The value of stores and goodwill is supported by forecasts of future cash flows of the businesses. There are inherent risks within these forecasts due to uncertainties as a result of changing industry and economic conditions.

Presentation and classification of results

In reviewing the presentation of adjusted profits, the Committee fully recognise the importance of ensuring that the rationale applied in identifying items for adjustment is clear, appropriate and consistent with the Group's accounting policies. The most significant items of adjustment are identified in the Financial Review on page 23 and in the Auditor's Report on page 85. The Audit & Risk Committee challenged and debated the appropriateness of each of these significant adjusting items with Management and sought an explanation of the judgement made and confirmation that a consistent Group policy, which also took account of market norms to ensure the treatment was consistent with best practice and the practice of others in our industry, was applied to the treatment of such items. The Committee was also mindful of the need for adequate disclosure. The inclusion of relevant defined terms in the glossary is helpful in this respect.

Going Concern

The Committee has considered going concern by reviewing long-term forecasts, taking into account the revised banking facilities available to the Group. When considering the possible impacts of Brexit (details of which are contained in the Principal risks and uncertainties section on page 38), a number of scenarios have been modelled as detailed in the Going concern statement on page 77. The Committee challenged the assessment performed, including the severity of the downside scenarios and the reasonableness of the mitigating actions, to ensure that sufficient headroom still remained when applying these sensitivities.

Arrangements for speaking up in confidence

Consistent with the McColl's values, the Group seeks to operate according to the highest ethical standards. An important aspect of this is ensuring that, if a colleague becomes concerned about suspected wrong-doing within the business, they are aware of how they can report their concerns, in confidence, so that the matter can be investigated and dealt with appropriately. The Committee considers the policy for colleagues to speak up in confidence and the procedures that support it to be appropriate for the size and scale of the business with no further changes deemed necessary currently. The Committee will continue to review this at least annually.

Conclusion

The Audit & Risk Committee has advised the Board that the processes in place to ensure that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable, are adequate. The Committee is also satisfied that appropriate governance continues to be applied to the Company's systems of internal control, risk management and other compliance areas.

Approved by the Audit & Risk Committee and signed on its behalf:



Sharon Brown
Audit & Risk Committee Chairman

Remuneration

Our approach to Executive Directors' remuneration is designed to support strategy and promote the long-term sustainable success of the business

The Directors' Remuneration report on pages 57 to 73 describes in detail our approach to Executive Directors' remuneration, the different elements that make up their remuneration package, the targets on which performance elements are based, and termination arrangements. One of the key factors of which the Remuneration Committee takes account when it is considering potential changes to Executive remuneration, is the pay and conditions that prevail across the wider group and industry.

Non-Executive Directors are paid a fee that reflects the time commitment required of them and their responsibilities. Non-Executive Directors do not receive any performance-related benefits. There have been no changes to the fees of Non-Executive Directors during the year.

There is a formal and transparent procedure for developing Executive remuneration and for determining individual packages

The Remuneration Committee, comprised wholly of Independent Non-Executive Directors, is responsible for setting our Executive team's remuneration, including performance conditions, and for determining the extent to which relevant targets have been met. It consults with shareholders, in particular when changes are proposed, and did so prior to the 2018 Annual General Meeting at which a revised remuneration policy was approved. The Remuneration Committee's duties are set out in full in the Committee's terms of reference (available from www.mccollspc.co.uk/committees). The Directors' Remuneration report on pages 57 to 73 describes in more detail how the Remuneration Committee discharges these duties.



Georgina Harvey
Remuneration Committee Chair

Dear shareholder

I am pleased to present the Directors' Remuneration Report for the financial period ended 25 November 2018. This report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2013, as amended, and the principles of the prevailing UK Corporate Governance Code.

The report is split into three sections:

- This **Annual Statement** summarising the work of the Committee, our approach to remuneration and an 'at a glance' summary of Executive Director remuneration;
- The **Directors' Remuneration policy**, which sets out the current shareholder approved policy; and
- The **Annual Report on Remuneration**, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement the Policy in 2019.

There will be two remuneration-related votes at the 2019 AGM, the first being the advisory vote on the Directors' Remuneration Report (the Remuneration Policy was approved by shareholders at the 2018 AGM Policy so need not be approved this year as there are no changes). Secondly, a resolution will be tabled for shareholders to approve the deferred bonus plan rules which were approved in principle last year.

Strategic background

In the last 12 months, the supply chain disruption, which has resulted in the need to accelerate the rollout of our new supply agreement, has created significant challenges. This has impacted our LFL sales performance as well as put pressure on gross margin, resulting in lower profits for the 52 weeks ended 25 November 2018. Going forwards, continued cost pressures and uncertainty for consumers is likely to require us to demonstrate further competitive retail pricing.

Pay and Performance for 2018

As explained elsewhere in this Annual Report and Accounts, 2018 was a difficult year for the business. As such, no bonus will be payable to the Executive Directors in respect of the 2018 performance year and the LTIP awards granted in 2016 will lapse in full in 2019. While three-year TSR performance to 25 November 2018 resulted in part of these awards vesting (there was no vesting against EPS targets), the Remuneration

Committee exercised its discretion and determined that there should be no vesting in respect of the 2016 awards in light of recent share price performance.

Implementation of the Remuneration Policy for Executive Directors for 2019

No changes will be made to base salary, benefit or pension provision for 2019. The maximum bonus opportunity continues to be set at 100% of base salary. For 2019, 70% of the annual bonus will be determined by performance against operating profit targets, 10% will be determined by performance against revenue targets and 20% will be determined by strategic performance targets. This is to ensure that the Executive team will be focussed not only on delivering the current year's financial targets but also on establishing the foundations needed for sustainable future growth. These targets are currently regarded as commercially sensitive although disclosure of the targets and performance against the targets will be set out in the 2019 Directors' Remuneration Report.

Given the current share price volatility and noting the recent appointment of our new Chief Financial Officer, the Remuneration Committee considers it appropriate to delay the normal LTIP grant for 2019 for a period of time. LTIP award levels will be reviewed in advance of the awards being granted although it should be noted that the Chief Executive and Chief Operating Officer's LTIP award levels are expected to be materially lower than the normal 150% of salary grant level to reflect the recent share price decline (noting that the Chief Financial Officer's award level of 125% of salary was agreed as part of his recruitment package and will therefore be honoured, albeit granted later than originally envisaged). While the Committee is not in a position to agree and disclose the performance targets at this point, they will be appropriately challenging and fully disclosed in the RNS published shortly after the grant date and in next year's Directors' Remuneration Report. A two-year holding period will apply to any LTIP awards granted in 2019.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Georgina Harvey'.

Georgina Harvey
Remuneration Committee Chair

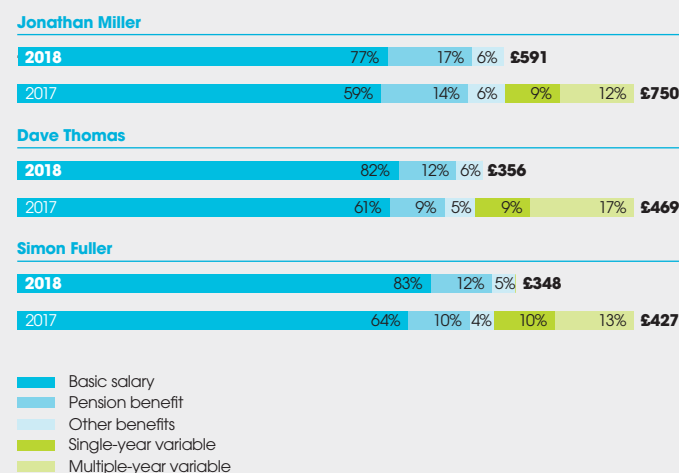
Remuneration at a glance

The following is a summary of the key components of Executive Directors' remuneration and their single figure total remuneration for the 52 weeks ended 25 November 2018.

Key components

Fixed pay		
	Basic salary	Pension benefits
Purpose	To attract and retain talent of the right calibre and with the ability to contribute to strategy, by ensuring basic salaries are competitive in the relevant talent market.	To provide post-retirement benefits for participants in a cost-efficient manner.
	Other benefits	
	To provide a competitive and balanced package of benefits.	
Variable pay		
	Annual bonus	Long Term Incentive Plan (LTIP)
Purpose	To incentivise focus on achievement of stretch profit targets as well as the delivery of key strategic priorities for the year.	To align the interests of Executives with shareholders in growing the value of the business over the long term.

Single figure remuneration of Executive Directors (£'000)



These figures are described in more detail on page 68.

Directors' remuneration policy

This section of the report sets out the Company's Directors' remuneration policy which was approved by a binding vote of shareholders at the 2018 AGM. It is intended that the policy will apply for the three years from the date of approval.

The Remuneration Committee's key objective in designing the policy was to ensure that it serves the business and its shareholders well by incentivising appropriate behaviours and management focus on strategic and financial objectives and by remaining attractive as an employer.

Summary Policy table

The key components of the remuneration policy approved by shareholders at the AGM held on 12 April 2018 are described below. The full policy can be found in the 2017 Annual Report.

Fixed pay			
	Basic salary	Pension	Other benefits
Purpose and link to strategy	To attract and retain talent of the right calibre and with the ability to contribute to strategy, by ensuring base salaries are competitive in the relevant talent market.	To provide post-retirement benefits for participants in a cost-efficient manner.	To provide competitive benefits for each role.
Operation	Basic salaries are reviewed annually, with reference to individual performance, experience, market competitiveness, salary increases across the group and the position holder's experience, competence and criticality to the performance of the business. Generally, the case for making any increases is considered annually.	All the current Executive Directors receive a salary supplement in lieu of pension but, in the case of the Chief Financial Officer, his supplement is reduced by the amount that is contributed towards his participation in the Group's defined contribution scheme. Any new Executive Director would be eligible to participate in that scheme (or any replacement scheme) or to receive a salary supplement in lieu of pension provision.	Benefits may currently include the provision of a car or car allowance, fuel, private medical insurance and life assurance. Reasonable relocation, travel and subsistence allowances and other benefits may be provided based on individual circumstances.
Maximum opportunity	Executive Directors' salary increases will normally be in line with those for the wider employee population. However, larger changes to salary may be made where there is a change in role or responsibilities or a significant market misalignment.	Pension contributions vary based on individual circumstances. Pension benefits will be capped at 20% of salary, excluding legacy arrangements for the current Chief Executive.	These benefits are set at a level that is comparable to market practice. The Committee retains the discretion to amend benefits in exceptional circumstances or in circumstances where factors outside of the Group's control have materially changed (e.g. increases in insurance premiums).
Performance metrics	Individual and Group performance is taken into account when determining appropriate salaries.	None.	None.

Directors' remuneration report continued

Directors' remuneration policy continued

Variable pay		
	Annual bonus	Long Term Incentive Plan (LTIP)
Purpose and link to strategy	To focus Executive Directors on achieving stretching profit targets as well as delivering the strategic business priorities for the financial period. The partial deferral of bonus into shares is intended to further align Directors' interests with those of shareholders.	To align the interests of Executive Directors with those of shareholders in sustainably growing the value of the business over the long term.
Operation	Performance measures and targets are set prior to or shortly after the start of the financial period. At the end of the financial period, the Remuneration Committee will determine the extent to which the targets have been achieved. One-third of any bonus award will be deferred into shares that must be retained for a period of three years, with the remainder paid in cash. The Committee has discretion to reduce the bonus in the event of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back annual bonus payments previously made.	The plan provides for annual awards of performance shares to eligible participants. Vesting is based on three-year performance. Executive Directors' vested shares are subject to an additional two-year holding period before being released to participants. The Committee has discretion to reduce any unvested long-term incentive awards (including those in a holding period), or to vary the opportunities for future awards, in case of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back vested long-term incentive awards. Participants are eligible to receive cash or shares equal to the value of dividends that would have been paid over the vesting period on shares that vest.
Maximum opportunity	The maximum bonus opportunity for Executive Directors is up to 100% of salary. 10% and 50% of maximum will be payable for threshold and on target performance respectively. Stretch targets apply to the full award.	Awards may be made up to a maximum of 150% of salary in normal circumstances and up to 250% in exceptional circumstances.
Performance metrics	The majority of the annual bonus will be based on achievement of a stretching profit target. The remainder will be based on strategic performance measures, selected annually by the Remuneration Committee to reflect other key performance indicators and strategic priorities for the year ahead. The latter is intended to ensure that Executive Directors maintain focus not only on current year financial targets, but also on longer-term strategic goals to drive sustainable growth. The Committee has discretion to adjust the formulaic bonus outcome downwards (or upwards with shareholder consultation) within the limits of the plan, to ensure alignment of pay with the underlying performance of the business.	Awards will vest on achievement of financial performance measures, measured over a three-year performance period, to include both EPS and TSR. EPS will receive a weighting in the LTIP of at least 50%. TSR will be measured on a relative basis against a relevant peer group. Other measures may be considered in future years to help capture the strategic goals of the business and may be used in conjunction with these metrics. Nothing will vest below threshold. 25% of each element will vest for achievement of threshold performance, then increase on a straight-line basis to full vesting for achieving stretch performance. The Committee has discretion to adjust the formulaic LTIP award downwards (or upwards with shareholder consultation), within the limits of the plan, to ensure alignment of pay with the underlying performance of the business.

Other arrangements

	Other arrangements	
	Shareholding guidelines	Non-Executive Directors' fees
Purpose and link to strategy	To align Directors' interests with the long-term interests of shareholders.	To reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the Non-Executive Directors.
Operation	Executive Directors will be required to build up and retain a minimum shareholding in the Company at least equal to 200% of basic salary.	An all-inclusive annual fee is paid to the Chairman. An annual base fee is paid to other Non-Executive Directors which is inclusive of their membership (but not chairmanship) of all Board Committees. Additional fees are paid to the Chairmen of the Audit & Risk and Remuneration Committees and to the Senior Independent Director. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or other benefits (other than reasonable out-of-pocket expenses incurred in the proper performance of their duties).
Maximum opportunity	To help Executive Directors achieve the required shareholding levels, some mandatory share deferral arrangements have been built into the variable elements of pay. One-third of any future annual bonus paid will be subject to mandatory deferral into shares to be held for three years. All share options that vest under the LTIP, but which must be held for a further period of two years prior to exercise, will count towards achievement of the shareholding guideline.	There is no prescribed individual maximum fee but there is an aggregate limit of £500,000.
Performance metrics	None.	None.

Directors' remuneration report continued

Directors' remuneration policy continued

Performance measure selection and approach to target setting

Annual bonus targets are selected prior to or shortly after the start of the financial period. Operating profit is considered to be the best measure of the Group's annual financial performance and will continue to determine the majority of the annual bonus. The profit target is calibrated with reference to the Group's budget for the upcoming financial period.

The profit target is supplemented by an element based on further financial and/or strategic performance measures which are selected annually to reflect the Group's key strategic priorities for the financial period ahead. No bonus pay-out can be made based upon the strategic measures unless the profit target is at least achieved at threshold level.

For the LTIP which incentivises delivery of longer-term success, EPS is considered to be the best measure of the Group's bottom line financial performance over this time frame and will always determine the vesting for at least 50% of the overall LTIP award. Relative TSR against an appropriate peer group will also be captured to further align the interests of LTIP participants with those of shareholders.

Threshold and stretch performance levels under the EPS element of the LTIP are set at the start of the three-year performance period. The Remuneration Committee aims to set stretching but achievable targets, taking account of a range of reference points, including broker forecasts and the Group's strategic plan. Threshold vesting for the TSR element is set at median ranking with the stretch target set at upper quartile. These targets are in line with market practice for other listed companies and are expected to capture a range of good to excellent performance for the Group.

The Remuneration Committee has established the following performance adjustment principles in order for there to be a shared understanding of the process for making adjustments to LTIP performance criteria in appropriate circumstances:

- the Committee will consider making an adjustment where a change is recognised as a Class 1 transaction (as defined by the UKLA Listing Rules);
- the Committee would not make an adjustment where the change results in less than a 5% impact on EPS; and
- adjustments will be considered between the upper and lower limits defined in a. and b.

Differences in remuneration policy operated for other employees

Senior management's remuneration has the same components as set out in the policy, being basic salary, annual bonus, pension, life assurance and other benefit provision. They may also be invited to participate in the LTIP or alternatively the Company's share option plan. Annual bonus arrangements have the same structure but are subject to lower salary multiples, with the potential varying with seniority. Payout arrangements are based on specific key performance indicators relevant to each job function and for Senior Managers below Board level, part of the Bonus may be deferred. Shareholding guidelines apply to Retail Board members.

All colleagues receive a basic salary and all eligible colleagues are automatically invited to enrol into a pension scheme. Store Managers participate in a bonus scheme that targets specific key performance indicators for their store.

Other

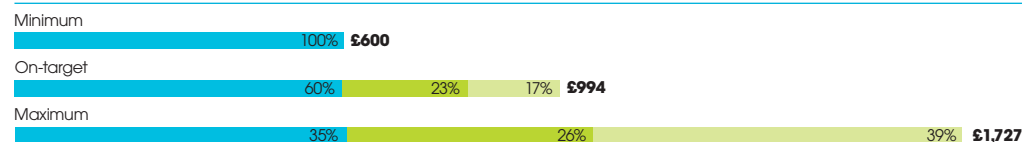
In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval and implementation of the policy detailed in this report will be honoured.

Performance scenarios

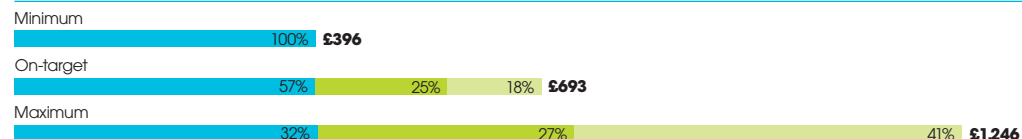
The graph below provides estimates of the potential future reward opportunities for Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios; 'Minimum', 'Target' and 'Maximum'. In these scenarios it has been assumed that the incentive arrangements are operated at the maximum level permitted under the policy, which for the LTIP will not be the case in 2019, as indicated in the Annual Statement on page 57.

Executive Director remuneration scenarios (£'000)

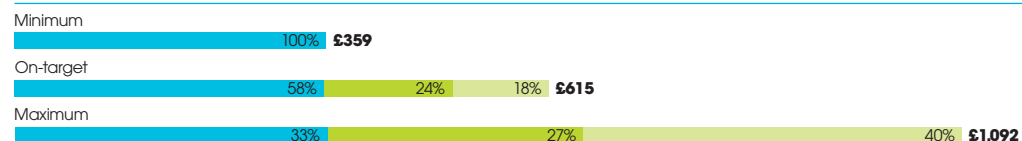
Jonathan Miller



Robbie Bell



Dave Thomas



■ Fixed pay
■ Annual bonus
■ Long Term Incentive Plan

Approach to remuneration for new Director appointments

When recruiting or appointing a new Executive Director, the Remuneration Committee may make use of all the existing components of remuneration, as follows:

Component	Approach	Maximum opportunity
Basic salary	The basic salaries of new appointees will be determined based on the experience and skills of the individual, relevant market data and their current basic salary.	
Pension	New appointees will be entitled to participate in the Group's defined contribution scheme (or any replacement scheme) or to receive a salary supplement in lieu of pension contributions.	20% of basic salary.
Other benefits	New appointees will be eligible to receive benefits in line with the policy which may include (but are not limited to) the provision of a company car or car allowance, fuel, private medical insurance and life assurance.	
Annual bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year.	100% of basic salary.
LTIP	New appointees will be granted awards under the LTIP on similar terms as other Executives, as described in the policy table.	150% of basic salary (250% in exceptional circumstances).

In determining appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of the Group and its shareholders. The Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, using Listing Rule 9.4.2 R if necessary. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. The fair value of any buyout will not exceed that of the award being forgone.

In cases of appointing a new Executive Director by way of internal promotion, the approach will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Group will continue to honour these arrangements. Incentive opportunities for below Board colleagues are no higher than for Executive Directors, but measures may vary.

In recruiting a new Non-Executive Director, the Remuneration Committee will use the policy as summarised above.

Directors' remuneration report continued

Directors' remuneration policy continued

Service contracts and exit payment policy

Non-Executive Directors

The Chairman, Angus Porter, was appointed as a Non-Executive Director on 1 April 2016. Georgina Harvey and Sharon Brown were both appointed as Non-Executive Directors on 7 February 2014 and Jens Hofma was appointed on 1 July 2017. All Non-Executive letters of appointment set out the terms of the individual's appointment and are available for inspection at the Company's registered office and at the Annual General Meeting. They are not eligible to participate in the annual bonus or any equity schemes, nor do they receive any additional pension or benefits (other than out of pocket expenses directly incurred in the performance of their role) on top of their standard fees disclosed. Non-Executive Directors have a notice period of one month and receive no compensation on termination.

Executive Directors

On 24 February 2014, Dave Thomas entered into a service agreement with the Company. Both Jonathan Miller and Simon Fuller entered service agreements with the Company on 1 April 2016. In the case of Jonathan Miller, the contract reflected his promotion from Chief Financial Officer to Chief Executive. Post year end, Robbie Bell entered into a service agreement dated 3 January 2019.

The Committee acknowledges that Executive Directors may be invited to become Independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and

knowledge to the benefit of the Company. Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

Each of the Executive Directors' service agreements is terminable by the relevant individual or the Company on not less than 12 months' prior written notice. Executive Directors may be put on garden leave during their notice period and the Company can elect to terminate their employment by making a payment in lieu of notice equivalent to up to 12 months' basic salary and benefits. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances which include, for example, where an Executive Director commits an act of serious misconduct, commits a material or persistent breach of any of the terms or conditions of his service agreement, has a bankruptcy order made against him, is convicted of a criminal offence, is disqualified from acting as a director or acts in a way which may bring the Company or any member of the Group into disrepute.

The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the Executive's contractual terms, the circumstances of termination and any duty to mitigate.

Executive Director service contracts are available for inspection at the registered office and at the Annual General Meeting.

Reason for leaving	Timing of vesting	Calculation of vesting/payment
Bonus		
Summary dismissal, resignation ¹	Awards lapse.	Not applicable.
Good leaver ^{1,2}	Normally at year end.	The annual bonus plan for the period under review would normally have performance measured to the end of the financial period. In exceptional circumstances, the Committee may bring forward the date of award to the termination date and base it on performance over the period to termination. Awards will normally be pro-rated for time unless the Committee determines otherwise.
Change of control ¹	On change of control, or shortly thereafter.	The annual bonus plan for the period under review would normally be paid immediately and be based on pro-rata performance to date, with Committee discretion to treat otherwise.
LTIP		
Summary dismissal, resignation	Unvested awards and vested awards that have not been called, including shares subject to a holding period, lapse.	Not applicable.
Good leaver ^{1,2}	In line with the vesting schedule at grant.	Unvested LTIP shares are normally pro-rated for performance to the end of the performance period. In exceptional circumstances, the Committee may bring forward the vesting date to the termination date and vest on performance over the period to termination. Awards will normally be pro-rated for time unless the committee determines otherwise.
Change of control	On change of control.	Unvested LTIP shares are normally pro-rated for performance to the date of change of control and paid immediately. Awards will normally be pro-rated for time unless the Committee determines otherwise.

¹ The treatment of shares subject to deferral or holding periods will be subject to the Remuneration Committee's discretion and will take into account the circumstances at the time.

² A 'good leaver' is a participant ceasing to be employed by the Group by reason of death, injury, ill health, redundancy, retirement with the consent of the Group, the company of employment ceasing to be a member of the Group or any other reason that the Remuneration Committee determines in its absolute discretion (excluding summary dismissal or resignation to join a competitor).

Consideration of employment conditions elsewhere in the Group

The Committee takes into account the levels of basic salary being offered to colleagues elsewhere in the Group and, when annually reviewing the salary increases and remuneration for the Executive Directors, it looks at what increases are planned for the wider employee population. During 2018, the Committee additionally received information about the Group's gender pay gap. Colleagues have not been consulted in respect of the design of the Group's Senior Executive remuneration policy although the Board is reviewing an employee feedback mechanism in light of the new UK Corporate Governance Code.

Consideration of shareholder views

The Committee considers shareholder feedback carefully when reviewing remuneration. As part of its work to propose the new remuneration policy for approval at the 2018 Annual General Meeting, it took advice on current best practice and institutional shareholder guidelines. The Committee also undertook an active consultation exercise with shareholders representing approximately 65% of the shareholder base in line with the Committee's policy to consult with significant shareholders prior to making any major changes to its Executive remuneration structure. Shareholder bodies and advisors were also consulted.

Feedback from the consultation indicated broad support for the proposals. Some respondents sought additional assurance that performance targets would be sufficiently stretching considering the proposed increase in potential. In its responses to these points, the Committee was able to make reference to the historically low annual bonus payouts (approximately 13% on average over the previous three years) as evidence of the Committee's commitment to setting challenging targets. The Committee also explained that increasing the proportion of the annual bonus that would be conditional upon strategic objectives was intended to ensure that management maintained appropriate focus on these important initiatives as well as on delivery of current year financial targets.

The shareholders and advisory bodies who responded, in particular, widely welcomed the introduction of mandatory bonus deferral and the proposed increase in the shareholding guideline to 200% of salary.

Directors' remuneration report continued

Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 25 November 2018 and sets out how we intend to implement our remuneration policy for the 2019 financial year. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the AGM on 3 April 2019.

Remuneration Committee composition

The Remuneration Committee is comprised wholly of Independent Non-Executive Directors and is supported by the Company Secretary who attends all meetings. The Chief Executive, Chief Financial Officer, Chief Operating Officer and Colleague Director, together with the Committee's independent advisers, FIT Remuneration Consultants LLP, attend committee meetings by invitation.

Meeting attendance during the year was as follows:

	Meeting attendance
Georgina Harvey <i>Remuneration Committee Chair Senior Independent Director</i>	
Sharon Brown <i>Remuneration Committee member Independent Non-Executive Director</i>	
Jens Hofma <i>Remuneration Committee Member Independent Non-Executive Director</i>	
Angus Porter <i>Remuneration Committee member Chairman of the Board (considered independent on appointment)</i>	

Remuneration Committee responsibilities

The Remuneration Committee has responsibility for deciding the terms and conditions of employment, remuneration and benefits of the Executive Directors, including pension rights and any compensation payments, and for setting the level and structure of remuneration for Senior Managers and the implementation of share option or other performance-related schemes. In discharging its responsibilities, the Committee must review and have regard to the pay and employment conditions across the business. It must also have regard to the views of shareholders, the risk appetite of the Group and McColl's strategic objectives.

To assist them in their work, the Committee appointed FIT as its principal external adviser during the year, replacing Kepler, following a competitive tender process. FIT's fees for advice provided to the Remuneration Committee from appointment were £4,500 (exc. VAT). Kepler's fees for 2018, up to the date FIT was appointed, were £51,635 (exc. VAT). FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

Remuneration Committee activities

During the 2018 financial year, the Committee met six times to consider the following remuneration matters:

Meeting date	Key agenda items
	- considered Remuneration policy consultation - approved Executive Directors' salary increases - considered 2017 annual bonus outturn - considered 2015 LTIP and CSOP vesting - reviewed gender pay gap reporting
	- approved 2017 annual bonus outturn - considered 2015 LTIP and CSOP vesting - approved, in principle, the 2018 LTIP and CSOP performance conditions - approved 2018 bonus targets - considered gender pay gap information - evaluated the Committee's performance as part of Board evaluation
	- reviewed 2018 LTIP and CSOP performance conditions - considered Remuneration resolutions for the AGM
	- commenced a formal review of the Committee's independent advisor - considered CEO pay ratio and Executive Directors' remuneration reporting - approved 2015 LTIP and CSOP vesting
	formally appointed FIT Remuneration Consultants LLP as the Committee's independent advisor following a competitive tender process
	- approved updated terms of reference - considered gender pay gap and pay ratio information - reviewed proposed pay increases for colleagues across the Group - reviewed the Committee's terms of reference in light of the new UK Corporate Governance Code - reviewed proposed salary increases for Senior Managers - reviewed potential 2018 bonus outturn - reviewed progress against targets on existing LTIP and CSOP awards

Making sure the Remuneration Committee is well informed

In considering remuneration arrangements, Remuneration Committee members need sufficient information to enable them to take account of factors including the Group's strategy and attitude to risk, its financial position and prospects, competitive markets including peer

group practice, and pay and conditions in place for the wider work force. Examples of the information that may be provided to the Remuneration Committee, when making key decisions, is set out below.

Decision		Information needed
1. Determining the remuneration policy	→	• understanding of Group strategy and risk appetite • remuneration consultancy advice • benchmarking data • best practice and shareholder guidelines, including new developments and emerging trends • feedback from shareholder consultations
2. Deciding Executive Directors' and Senior Managers' basic salary increases	→	• benchmarking or market data • assessment of individual effectiveness • shareholder views • details of pay and conditions across the business and in particular the pay increases proposed for the wider workforce
3. Determining annual bonus potential and performance conditions	→	• remuneration policy limits • market data • Group budget information • strategic priorities for the business • Group risk appetite • shareholder views
4. Determining annual bonus payouts	→	• financial results for relevant period • information on the extent to which relevant strategic priorities have been achieved • consideration of underlying performance of the business and wider circumstances, as appropriate
5. Determining LTIP awards and performance conditions	→	• remuneration policy limits • LTIP rules and share dilution limits • market data • relevant financial forecasts based on Group strategy • Group risk appetite • shareholder views
6. Determining extent of LTIP vesting	→	• LTIP rules and share dilution limits • EPS and TSR performance • consideration of underlying performance of the business and wider circumstances, as appropriate
7. Determining Executive Directors' or Senior Managers' benefits on recruitment	→	• benchmarking or market data • evidence of existing pay and rewards package • shareholder views • evidence of potential payouts under existing employer's incentive arrangements (where applicable)
8. Considering pay and conditions across the business	→	• details of pay and conditions across the business • details of proposed pay increases • alignment of incentives and reward with culture • pay ratio calculations • gender pay gap information

Directors' remuneration report continued

Annual report on remuneration continued

Shareholder views are expressed through formal consultation as well as the shareholder advisory vote on the remuneration report and, every third year, the binding vote on the remuneration policy. In addition, account is taken of published institutional investor guidelines.

Shareholder consultations are conducted periodically when more significant issues arise or when changes to the remuneration policy are being considered.

Written reports are provided in advance and meetings are attended, by invitation, by the Executive Directors, Colleague Director and external remuneration adviser so that the written reports can be discussed with them and challenged appropriately.

After each Remuneration Committee meeting, actions are clearly identified, tracked and reported back to the Committee as progress is made in completing them. The Committee Chairman reports to the Board on the main items discussed at each meeting. The Board also receives copies of the Committee's full minutes unless their circulation is deemed inappropriate.

The information provided in this part of the Directors' Remuneration Report is subject to audit.

Single figure for total remuneration of Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director employed by the Company for the period ended 25 November 2018 and the prior period:

£'000	Salary		Pension Benefit ¹		Taxable Benefit ²		Annual Bonus ³		LTIP ⁴		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Jonathan Miller	450	441	103	103	38	46	0	66	0	94	591	750
Dave Thomas	293	284	44	43	19	21	0	43	0	78	356	469
Simon Fuller	289	273	43	41	16	16	0	41	0	56	348	427

1 Pension benefits comprise pension contributions and/or salary supplement payments. Pension contributions were paid during the year for Simon Fuller of £10k (£10k in 2017).

2 Taxable benefits for Jonathan Miller, Dave Thomas and Simon Fuller include healthcare and a car allowance.

3 Annual bonus awarded for performance over the relevant financial period (no bonus was awarded for 2018). Further details are provided below.

4 The LTIP values presented above for 2017 represented an estimate of the value of the awards that were expected to vest in 2018. The actual values, based on the share price at vesting for Jonathan Miller, Dave Thomas and Simon Fuller were \$45k, \$37k and \$28k respectively, based on the 30% of the total awards which vested. No vesting has been assumed in respect of the 2016 LTIP awards vesting in 2019.

Single figure for total remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the period ended 25 November 2018.

£'000	Salary		Taxable Benefit ³		Total	
	2018	2017	2018	2017	2018	2017
Sharon Brown	53	50	4	2	57	52
Georgina Harvey	58	55	-	-	58	55
Jens Hofma ¹	45	19	1	-	46	19
Angus Porter ²	145	103	2	-	147	103

1 Jens Hofma was appointed a Non-Executive Director on 1 July 2017.

2 Angus Porter was appointed a Non-Executive Director on 1 April 2016 and became Non-Executive Chairman on 27 April 2017.

3 Taxable benefits include nominal travel expenses to and from Company meetings and tax incurred on those expenses.

The aggregate fees paid to Non-Executive Directors for the year fell within the £500k aggregate limit set out in the Company's Articles of Association.

Basic annual salary (audited)

Current basic salary levels are as follows:

Executive Director	1 January 2019	1 January 2018	% change
Jonathan Miller	£450,840	£450,840	0%
Dave Thomas	£293,550	£293,550	0%
Robbie Bell ¹	£340,000	n/a	n/a

1 Robbie Bell was appointed a Director with effect from 17 January 2019.

Annual bonus (audited)

The Group operates an annual performance related bonus scheme for a number of Senior Managers including Executive Directors. For the 2018 financial period, annual bonuses for the Executive Directors were based 70% on operating profit and 30% on key strategic performance measures.

For the operating profit element of the 2018 annual bonus, the performance condition was set such that no vesting would occur below threshold, being 95% of target. At threshold and target, 10% and 50% of the profit element of the bonus would be awarded respectively. Maximum vesting of the profit element would be awarded for achievement of the stretch condition of 110% of on-target operating profit. Payments in between these points of measurement increase on a straight-line basis. Achievement of threshold operating profit is required before any of the strategic performance element of the bonus can vest.

The maximum total bonus potential for 2018 was 100% of salary for Executive Directors. The targets, and achievement against them, were as follows:

Measure	Weighting (% of salary)	Threshold	Target	Stretch	Achievement	Payout (% of maximum)
Adjusted operating profit*	70%	£33.9m	£36.7m	£41.3m	£17.9m	0%
Strategic performance	30%				See table below	0%
Total						0%

* Before bonus, profit on asset disposals and exceptional items.

Strategic performance	Weighting (% of salary)	Committee assessment	Payout (% of salary)
Successful transition of all stores to the new wholesale supply arrangements, including the launch of the Safeway range*	10%	Since the threshold operating target was not reached, no bonus is payable against any of the three strategic targets, notwithstanding that some of the objectives (x, y, z) had been achieved.	0%
Delivery of the Group's store refresh programme for 2018	10%		0%
Implementation of a new customer plan	10%		0%

* Except the 298 Co-op stores acquired in 2017 which are subject to a separate supply agreement.

Anticipated value of 2016 LTIP Awards (audited)

The LTIP values included in the single figure table above relate to awards granted on 11 April 2016 which vest on 11 April 2019 dependent on EPS and TSR performance measured over the three year period ended 25 November 2018.

Under the EPS performance target (70% of awards), 25% of this part of an award vests for cumulative EPS of 52.5p increasing pro-rata to 100% vesting for cumulative EPS of 60.1p. The vesting level is as follows:

Performance target	Threshold EPS	Maximum EPS	Actual EPS	Vesting % (max 100%)
Cumulative 3 Year Adjusted EPS	52.5p	60.1p	40.9p	0%

Under the TSR performance target (30% of awards), 25% of this part of an award vests for median TSR increasing pro-rata to full vesting for upper quartile TSR, as follows:

Performance target	Median TSR	Upper quartile TSR	Actual TSR	Vesting % (max 100%)
v FTSE All Share General Retailers, Food & Drugs Retailers	-31%	13%	10%	97%

Notwithstanding the vesting against the TSR performance condition, the Remuneration Committee used its discretion to determine that there should be no vesting in light of share price performance following the year end.

Directors' remuneration report continued

Annual report on remuneration continued

As a result of EPS (70% of awards) and the downward discretion applied in respect of the TSR (30% of awards) performance, the gross value of LTIP share awards expected to vest on 11 April 2019 are as follows:

Performance target	Total shares under award	Proportion to vest based on EPS (70%)	Proportion to vest based on TSR (30%)	Number of shares to vest	Value (£'000)
Jonathan Miller	259,036	0%	0%	0	0
Dave Thomas	166,265	0%	0%	0	0
Simon Fuller	159,638	0%	0%	0	0

LTIP awards granted in 2018

The following LTIP awards were granted to Executive Directors during the year:

Executive	Date of grant	Proportion of salary	Maximum shares awarded	EPS (70% of awards)	TSR (30% of awards)
Jonathan Miller	21 March 2018	100%	196,017	Note 1	
	15 August 2018	50%	168,223	Note 2	
Dave Thomas	21 March 2018	100%	127,630	Note 1	Note 3
	15 August 2018	50%	109,533	Note 2	
Simon Fuller	21 March 2018	100%	122,704	Note 1	

1 25% of this part of an award vests for cumulative EPS for 2018, 2019 and 2020 of 60.4p increasing pro-rata to 100% vesting for cumulative EPS of 71.9p.

2 25% of this part of an award vests for cumulative EPS for 2018, 2019 and 2020 of 64.5p increasing pro-rata to 100% vesting for cumulative EPS of 71.9p.

3 25% of this part of an award vests for median performance increasing pro-rata to 100% vesting for upper quartile against the constituents of the FTSE All Share General Retailers and FTSE All Share Food & Drugs Retailers.

In addition, for the LTIP awards to become exercisable the Committee must be satisfied that the formulaic LTIP outcome is a genuine reflection of the underlying performance of the business. The Committee has discretion to adjust the formulaic LTIP outcome downwards, or upwards (with shareholder consultation), within the plan limits.

An additional holding period of 2 years will apply.

Outstanding LTIP Awards

Unvested LTIP grants in respect of Executive Directors who served during the year are outlined below:

Executive Director	Date of grant	Number of shares	Share price ¹ (pence)	Face value (\$'000)	Face value (% salary)	Vesting for threshold performance ^{2, 3, 4} (% of maximum)	End of performance period
Jonathan Miller	11 April 2016	259,036	166.00	430	100%	25%	25 November 2018
	15 March 2017	237,634	186.00	442	100%	25%	24 November 2019
	21 March 2018	196,017	230.00	451	100%	25%	29 November 2020
	15 August 2018	168,223	134.00	225	50%	25%	29 November 2020
Dave Thomas	11 April 2016	166,265	166.00	276	100%	25%	25 November 2018
	15 March 2017	153,225	186.00	285	100%	25%	24 November 2019
	21 March 2018	127,630	230.00	294	100%	25%	29 November 2020
	15 August 2018	109,533	134.00	147	50%	25%	29 November 2020
Simon Fuller	11 April 2016	159,638	166.00	265	100%	25%	25 November 2018
	15 March 2017	147,311	186.00	274	100%	25%	24 November 2019
	21 March 2018	122,704	230.00	282	100%	25%	29 November 2020

1 Call Price per Award Share: \$0.001.

2 2016 LTIP EPS performance conditions range is 52.5 pence to 60.1 pence (70% of awards), TSR versus retailer comparator group (30% of awards).

3 2017 LTIP EPS performance conditions range is 60.4 pence to 68.6 pence (70% of awards), TSR versus retailer comparator group (30% of awards).

4 2018 LTIP EPS performance conditions are set out in the section above.

Directors' shareholdings and interest in shares (audited)

The current Remuneration Policy sets shareholding guidelines which require Executive Directors to acquire and maintain, over time, a personal shareholding in the Company of at least equivalent to 200% of salary.

The table below sets out, for Directors who served during the year, their interests in McColl's shares and share options as at 25 November 2018.

Director	Options held ³				Shares held ³			
	Unvested and subject to deferral	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Owned outright	Current shareholding (% of salary/fee ¹)	Shareholding requirement (% of salary/fee)	Guideline met?
Executive Directors								
Jonathan Miller ²	–	860,910	33,568	–	11,399,500	3,192	200%	Yes
Dave Thomas	–	556,653	27,972	–	1,183,792	509	200%	Yes
Simon Fuller	–	429,653	20,134	–	–	–	200%	No
Non Executive Directors								
Georgina Harvey	n/a	n/a	n/a	n/a	10,471	24	n/a	n/a
Sharon Brown	n/a	n/a	n/a	n/a	17,471	40	n/a	n/a
Angus Porter	n/a	n/a	n/a	n/a	5,814	5	n/a	n/a
Jens Hofma	n/a	n/a	n/a	n/a	–	–	n/a	n/a

1 Based on closing share price of \$1.2625 at 23 November 2018 (the last trading day before the year-end) and prevailing salaries/fees on 25 November 2018.

2 The ordinary shares held by Jonathan Miller include shares held beneficially via holdings of connected persons.

3 There have been no changes in the Directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this report.

Directors' remuneration report continued

Annual report on remuneration continued

Executive Directors' pension arrangements (audited)

Jonathan Miller, received a salary supplement in lieu of pension for the full year. As a percentage of salary this payment represented 22.9% of basic salary paid to him in the year. The monetary amount of his pension supplement shall remain fixed until it reaches 20% of his salary, at which point it will increase in accordance with the Remuneration policy. Dave Thomas received a salary supplement in lieu of pension equivalent to 15% of his basic salary. Simon Fuller received a combination of salary supplement in lieu of pension and pension contributions equivalent, in aggregate, to 15% of his basic salary.

Non-Executive Director fees (audited)

Non-Executive Director fees are as follows:

	From 1 February 2019	From 1 February 2018	From 1 February 2017
Chairman	£145,000	£145,000	£145,000 ¹
Base fee	£45,000	£45,000	£45,000
Additional fee for Senior Independent Director	£5,000	£5,000	£5,000
Additional fee for Audit & Risk Committee Chair	£8,000	£8,000 ²	£5,000
Additional fee for Remuneration Committee Chair	£8,000	£8,000 ²	£5,000

1 From appointment on 27 April 2017.

2 As reported last year, these fees were increased on 1 February 2018 to reflect the increasing time commitment required for these roles.

Payments for loss of office (audited)

No compensation payments were made for loss of office during the year.

Simon Fuller ceased to be a Director on 22 February 2019. He was paid salary and benefits to the date of cessation. He is not eligible for an annual bonus for 2019 and all LTIP awards lapsed at cessation. No other payments will be made.

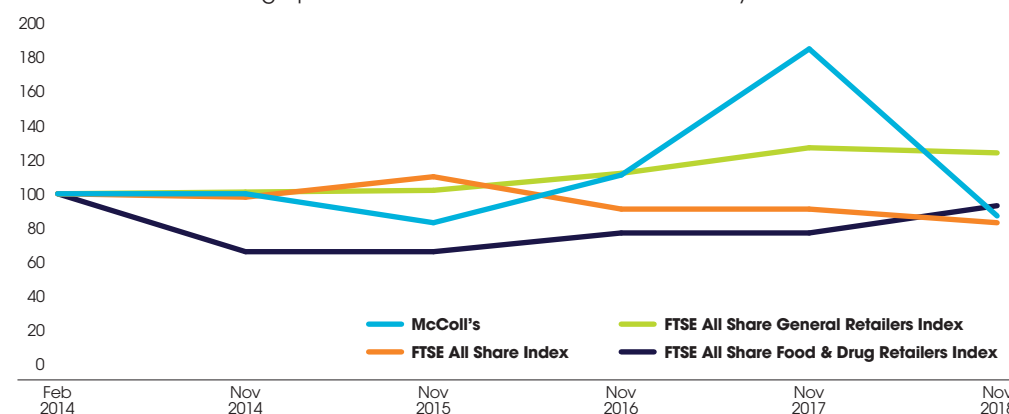
Payments to previous Directors (audited)

No payments were made to previous Directors during the financial period under review.

The information in this part of the Annual Report on Remuneration is not subject to audit.

Total shareholder return

Historical Performance graph – Value of £100 invested on 28 February 2014



The graph above shows the total shareholder return of the Group and the FTSE All Share Index and the FTSE All Share Food & Drug Retailers Index since listing. The FTSE All Share Index is chosen as it is a broad market index of which the Group is a member, and the FTSE All Share Food and Drug Retailers Index is chosen to illustrate performance relative to sector comparators.

Chief Executive single figure of remuneration

	2013	2014	2015	2016	2017	2018
James Lancaster						
Single figure of remuneration (£'000)	834	3,199	840	339	n/a	n/a
Annual bonus outcome (% of max)	0%	0%	0%	39.4%	n/a	n/a
LTIP vesting (% of max)	n/a	n/a	n/a	n/a	n/a	n/a
Jonathan Miller¹						
Single figure of remuneration (£'000)	–	–	–	504	750	591
Annual bonus outcome (% of max)	–	–	–	39.4%	15.0%	0%
LTIP vesting (% of max)	–	–	–	n/a	30.0%	0% ²

1 Jonathan Miller was appointed Chief Executive upon the retirement of James Lancaster from that position on 1 April 2016.

2 The Remuneration Committee used its discretion to reduce the formulaic vesting of 29% to zero.

Change in Chief Executive's remuneration

The table below sets out the percentage change in the remuneration of the Chief Executive and the average increase across all employees excluding the Board between the years 2017 and 2018.

	Chief Executive annual cash (£'000)			Average change across all employees
	2017	2018	Change	
Salary (£'000)	441	450	2%	2.7%
Pension benefit (£'000)	103	103	0%	0%
Taxable benefits (£'000)	46	38	-17%	0%
Annual variable (£'000)	160	0	-100%	-52.9%

Distribution statement

The following chart shows for the current and preceding financial period the actual expenditure and percentage change in total remuneration paid to or receivable by colleagues and distributions to shareholders.

Employment remuneration



Distribution to shareholders



The Group paid an interim dividend of 3.4 pence per share and the Board has recommended a final dividend of 0.6 pence per share subject to approval by shareholders at the Annual General Meeting, representing a total payment of £4.6m for 2018.

Statement of shareholder voting

The following table shows the results of the binding vote on the remuneration policy and the advisory vote on the 2017 Annual Statement and Annual Report on Remuneration at the 12 April 2018 Annual General Meeting.

Votes	For		Against		Withheld
	Number	%	Number	%	
2017 Annual Statement and Annual Report on Remuneration	101,088,652	99.9	110,235	0.1	3,000
Remuneration policy 2018	85,683,168	86.1	13,850,649	13.9	1,668,070

Shareholder consultations

In December 2017 the Remuneration Committee Chairman wrote to advisory bodies and shareholders holding 1% or more of the Company's capital, who collectively represented approximately 65% of all shares. The letter described changes to the remuneration policy

that the Committee wished to propose to shareholders for approval at the Annual General Meeting in 2018 together with some details about potential changes to the Committee's implementation of the policy. Feedback indicated broad support for the proposed changes although the Committee noted a small minority of shareholders failed to support the new policy.

Implementation of the Remuneration Policy for 2019 and details of new Chief Financial Officer's package

In respect of the Chief Executive (Jonathan Miller) and Chief Operating Officer (Dave Thomas):

- There will be no changes to base salary, benefits and pension provision.
- The maximum bonus opportunity will continue to be set at 100% of base salary. 70% of the annual bonus will be determined by operating profit targets, 10% will be determined by revenue targets and 20% will be determined by strategic performance. The targets are commercially sensitive although disclosure of the targets and performance against the targets will be set out in the 2019 Directors' Remuneration report.
- Given the current share price volatility and noting the recent appointment of our new Chief Financial Officer (see below), the Remuneration Committee considers it appropriate to delay the normal LTIP grant for 2019 for a period of time. Awards will be granted to the Executive Directors, although it should be noted that the Chief Executive and Chief Operating Officer's LTIP award levels will be reduced from the normal 150% of salary level to reflect the recent share price decline (noting that the Chief Financial Officer's award level of 125% of salary was agreed as part of his recruitment package and will therefore be honoured). While the Committee is not in a position to agree and disclose the performance targets at this point, they will be appropriately challenging and fully disclosed in the RNS published shortly after the grant date and in next year's Directors' Remuneration report. A two year holding period will apply to any awards granted in 2019.

As announced on 4 January 2019, Robbie Bell was appointed Chief Financial Officer on 17 January 2019. Details of the main elements of his package are as follows:

- Base salary: £340,000
- Pension: 12% of salary
- Annual bonus: 100% of salary (pro-rated for the year of joining) with targets aligned to the Chief Executive and Chief Operating Officer.
- LTIP: 125% of salary for 2019 with targets aligned to the Chief Executive and Chief Operating Officer.

Approved by the Remuneration Committee and signed on its behalf:

Georgina Harvey
Chair of the Remuneration Committee

McColl's Retail Group plc (the "Company" or "McColl's", or "Group") operates more than 1,550 convenience and newsagent stores offering a wide range of products and services to neighbourhoods across the United Kingdom. Our principal activities are described in more detail in the Strategic Report on pages 1 to 38.

Governance at McColl's

Corporate governance

The Board comprises three Executive Directors, led by our Chief Executive, Jonathan Miller, our Chairman, Angus Porter who was deemed independent on appointment, and three Independent Non-Executive Directors. The Board fully meets the higher standard of independence requirements that apply to FTSE 350 companies under the provisions of the UK Corporate Governance Code (the Code).

The Board's full commitment to the Code is described in the Corporate Governance report, together with the memberships, remits and activities of the Nomination, Audit & Risk and Remuneration Committees, all of which are set out on pages 44 to 73 and form part of this Directors' report.

Directors

Details of our current Directors can be found on pages 40 and 41. The following Directors served during the year, with the exception of Robbie Bell who was appointed Chief Financial Officer in January 2019.

Director	Position	Appointment date ²
Angus Porter	Non-Executive Chairman	1 April 2016
Jonathan Miller	Chief Executive	3 February 2014
Simon Fuller ¹	Chief Financial Officer	1 April 2016
Robbie Bell	Chief Financial Officer	17 January 2019
Dave Thomas	Chief Operating Officer	3 February 2014
Georgina Harvey	Senior Independent Director Remuneration Committee Chairman	7 February 2014
Sharon Brown	Independent Non-Executive Director Audit & Risk Committee Chairman	7 February 2014
Jens Hofma	Independent Non-Executive Director	1 July 2017

¹ Simon Fuller resigned as a Director and left the business on 22 February 2019 following a period of handover to his successor, Robbie Bell.

² Appointment dates for Jonathan Miller, Dave Thomas and Simon Fuller indicate when they were appointed to the Board of the Company. All were employees of the Group prior to the appointment dates shown and, in the case of Jonathan Miller and Dave Thomas, were Directors of the previous holding company prior to IPO.

Powers of Directors

The general powers of the Directors are set out in article 94 of the Company's articles. This provides that the business and affairs of the Company shall be managed by the Directors, subject to any limitations imposed by the articles, prevailing legislation or any directions given by special resolution of the shareholders of the Company.

Conflicts of interest

The Board considers and authorises potential or actual conflicts as appropriate and these decisions are kept under review by the Nomination Committee. Directors with a conflict do not participate in the discussion or vote on the matter in question. Further detail can be found in the Corporate Governance Report on page 49.

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Remuneration Report on page 64.

Directors' indemnities and liability insurance

As is standard practice for listed companies, the Company has granted a third party indemnity to each of its Directors against any liability that attaches to them in defending proceedings brought against them to the fullest extent permitted under English law. In addition, the Company maintains directors' and officers' indemnity insurance cover for any legal action brought against its Directors. Specific public offering and securities insurance cover was also placed on 28 February 2014 with a six year run-off period.

The Company's articles of association

The Company's articles of association ("articles") set out the rights of shareholders including voting rights, distribution rights, attendance at general meetings, powers of Directors, proceedings of Directors as well as borrowing limits and other governance controls. A copy of the articles can be requested from the Company Secretary. The Company may alter its articles by special resolution passed at a general meeting of the Company and intends to seek shareholder approval at the forthcoming AGM. Further details on the proposed changes can be found on page 79.

Disclosures required under Listing Rule 9.8.4

Details of long term incentive schemes are included in the Directors' Remuneration Report. The remaining disclosures required by Listing Rule 9.8.4 are not applicable to McColl's.

McColl's shareholders

Share capital

Details of the share capital from 27 November 2017 to 25 November 2018 are shown in note 25 of the financial statements. The nominal value of the total issued ordinary share shares of 0.1 pence each in the capital of the Company at the start of the year was £115,172.77 (being dividend into 115,172,774 fully paid ordinary shares) and at the end of the year was £115,173.51, (being divided into 115,173,515 fully paid ordinary shares).

The rights attached to the shares can be summarised as follows:

1. the ordinary shares rank equally for voting purposes;
2. on a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held;
3. each ordinary share ranks equally for any dividend declared;
4. each ordinary share ranks equally for any distributions made on a winding up of the Company; and
5. each ordinary share ranks equally in the right to receive a relative proportion of shares on the event of a capitalisation of reserves.

The Group has an Employee Benefit Trust (EBT) for the benefit of employees and former employees of the Group. Currently the EBT holds no ordinary shares in the Company.

Shareholders' rights

The rights attaching to the ordinary shares are governed by the articles and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to applicable law and the articles, holders of ordinary shares are entitled to receive all shareholder documents, including notice of any general meeting; to attend, speak and exercise voting rights at general meetings, either in person or by proxy; and to participate in any distribution of income or capital.

Restrictions on transfers of securities

As at 25 November 2018, the ordinary shares are freely transferable with the following specific exception.

In compliance with the Company's share dealing code, the Directors, designated employees and their connected persons require approval to deal in the Company's shares. There are no restrictions on the transfer, or limitations on the holding of ordinary shares. The Company is not aware of any other agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Substantial shareholdings

Information on major interests in shares provided to the Company under the Disclosure and Transparency Rules (DTR) of the UK Listing Authority is published via a Regulatory Information Service and on the Company's website at www.mccollspc.co.uk/rns.

As at the financial year-end and as of 28 February 2019 (being the last practical day before printing) the Company has been notified of the interests detailed in the following table, each of which represented holdings of 3% or more of the ordinary shares of the Company. This information was correct at the date of notification.

It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Shareholder	25 November 2018		28 February 2019	
	Number of shares	% interest in shares	Number of shares	% interest in shares
Klarus Capital Limited	13,118,391	11.39%	13,118,391	11.39%
Aberforth Partners LLP	11,598,247	10.07%	11,598,247	10.07%
Jonathan Miller ¹	11,399,500	9.90%	11,399,500	9.90%
FIL Limited	6,713,277	5.82%	6,713,277	5.82%
Miton Group plc	6,305,354	5.47%	4,243,296	3.68%
Chelverton Asset Management	5,950,000	5.17%	5,950,000	5.17%
FMR LLC	5,779,091	5.01%	5,779,091	5.01%
Laxey Partners Ltd	3,867,360	3.36%	3,867,360	3.36%
CI Investments Inc	3,600,000	3.13%	3,600,000	3.13%
Jerry Zucker Revocable Trust	–	–	3,500,000	3.04%

Directors' interests

There is a shareholding guideline within the Remuneration Policy that encourages Executive Directors to establish and hold McColl's shares equivalent in value to 200% of salary. The Directors are not required to hold shares in the Company under the articles or under their letters of appointment or service agreements. All of the Directors, except Simon Fuller, Jens Hofma and Robbie Bell, hold McColl's shares and details of their shareholdings can be found in the Remuneration Report on page 71.

¹ The ordinary shares held by Jonathan Miller include shares held beneficially via individual holdings of connected persons (as defined in sections 252 to 255 of the Companies Act 2006).

McColl's stakeholders

Colleague engagement

Further information about our colleague engagement is provided on pages 29 to 31.

Corporate responsibility and the environment

The Company's social and environmental review, including information about our greenhouse gas emissions and approach to corporate responsibility, is set out on pages 27 to 33.

In 2017 we defined four corporate values to inform the way the business, through its colleagues, operates and behaves. Our values are:



Customer first



Simple and consistent



Caring and compassionate



Community champions

The process overall to embed these values into our everyday operations by incorporating them into policies and procedures and by communicating them clearly so that there is a good level of awareness and understanding about what is expected of McColl's colleague is ongoing.

The Board and its Committees regularly review the Group's policies and take responsibility for them.

Financial matters

External Auditor

Deloitte LLP have given their independent report on the financial statements to the shareholders of the Company on pages 81 to 90.

Directors' statement of disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Companies Act 2006) of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Post year-end events

Between 25 November 2018 and the date of this report there have been no material events.

Financial risk management

The Company manages its risks to ensure that the Group's performance is not adversely affected by its exposure to financial risks resulting from its operation and sources of finance. Financial risk management objectives and policies, including information on financial risks that materially impact the Group can be found in notes 20 and 27 of the Group's financial statements. Details are also available in the summary of the principal risks and uncertainties faced by the business and management's approach to identifying and managing risk which are provided on pages 34 to 38.

Future developments within the Group

Disclosures in relation to likely future developments within the Group are contained in the Strategic Report.

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements. The Directors continue to adopt the going concern basis in preparing the financial statements. The financial position of the Group, its cash flows and liquidity position are set out in the financial statements section on pages 91 to 124. Furthermore, notes 18 and 27 to the Consolidated Financial Statements include the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

In November 2018, the Company signed an amended credit facility agreement, which provides improved headroom against the covenants. The updated facility consists of a £100m Revolving Credit Facility and an amortising £87.5m term loan (originally £100m initially being repaid at £2.5m per quarter). In addition, there is a £50m unsecured accordion facility available at the Company's option. At the end of the period, the Group had drawn down £125.5m (2017: £154.5m) of its facilities.

Following a disruptive year, the Directors reviewed the long-term forecasts covering all elements of income, balance sheet and cash flow. The Directors, taking into account these forecasts and the revised facilities available to the Group, continue to adopt the going concern basis in preparing the financial statements.

In considering going concern, the Directors have assessed the possible impacts of Brexit on the business and specifically its financial covenants. These potential impacts could include a short-term reduction in sales, due to product shortages, pressures on gross margin and a higher level of cost inflation. The overall going concerns scenarios the Company has modelled include assessing a 1% LFL worsening compared to plan, nil year on year gross margin growth despite anticipated product mix improvements and delays to the intended sale and leaseback programme. This review has been completed alongside a general consideration of the potential medium term impacts of an unfavourable Brexit.

As well as this, other scenarios have been modelled to consider potential shorter term effects, including looking at a more material sales reduction of approximately 11% in April and May and then 2% thereafter, as customers migrate to new products and/or supply chains stabilise. In both the short and medium term considerations it is expected that the majority of product cost inflation would be passed on to customers and therefore could be mitigated overall. Whilst in the short term the covenant headroom is tighter, having modelled these scenarios and the mitigating actions, the directors remain confident that the business is a going concern.

In the event of a far more challenging Brexit than the scenarios modelled or the business currently anticipates, there remain a number of further mitigating actions that could be taken, including significantly reducing capex and dividends and, for the most severe outcomes, reviewing our current arrangements with our supportive banking syndicate.

The Directors have made this assessment after consideration of various scenarios covering the sensitivity of assumptions and management actions to mitigate, and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council in September 2014.

Viability statement

In accordance with provision C.2.2 of the Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'going concern' provision. The Directors have assessed the viability of the Group over a three year period through to 2021 which coincides with the Group's strategic review period.

This assessment has considered the potential impact of the principal risks on the business model, future performance and liquidity over the period. In making this statement the Directors have considered the resilience of the Group under varying market conditions together with the effectiveness of any mitigating actions.

As already described in the statement of going concern, as part of this assessment the Directors have taken account of the Group's revolving credit facility with accordion option which runs through to July 2021, strong track record of operational cash inflow and revised long-term forecasts.

Additionally, the Directors have considered the impact of government and legislative changes primarily Brexit and concluded that whilst uncertainty exists, the business has sufficient options available to mitigate these risks.

Finally it is noted that even in the event of a very severe impact on the business through continued food deflation and cost inflation, the business could reduce or suspend acquisitions activity, re-assess the dividend payouts and make further asset disposals.

Based on this assessment, the Directors have a reasonable expectation that the Group will have sufficient resources to continue in operation and meet its liabilities as they fall due over the period to November 2021.

Annual General Meeting

AGM

The Board welcome the opportunity to meet and engage with shareholders at the AGM which will be held on 3 April 2019 at 1.30pm at the registered office: McColl's House, Ashwells Road, Brentwood, Essex CM15 9ST. The Chairman of the Board and of each of its Committees will be in attendance at the AGM to answer questions from shareholders.

All Directors will be standing for reappointment at the AGM. The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report and Accounts.

The Board fully supports all the resolutions and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

Appointment and retirement of Directors

Following recommendation of the Nomination Committee, all current Directors, with the exception of Simon Fuller and Robbie Bell, will stand for re-election at the Company's Annual General Meeting (AGM) in voluntary compliance with provision B.7 of the Code. This practice also exceeds the requirement of the articles for Directors to retire by rotation at every third AGM. Robbie Bell will stand for election having been appointed to the Board on 17 January 2019. Simon Fuller is leaving the business on 22 February 2019.

The Company may, in accordance with and subject to the provisions of the Companies Act 2006, remove any Director before expiry of his or her term of office by ordinary resolution of which special notice has been given. The Company must have a minimum of two Directors.

Further information on appointments to the Board is set out in the Corporate Governance Report on pages 44 to 47 and the Nomination Committee report on pages 48 to 50.

Dividend

The Board's policy is that the Company will generally pay an interim and a final dividend in the approximate proportions one-third and two-thirds respectively.

An interim dividend of 3.4p per share was paid on 7 September 2018. The Directors have also proposed a final dividend of 0.6 pence per share, amounting to £691k, which is subject to shareholder approval at the AGM. Provided shareholder approval is received the final dividend will be paid on 6 June 2019 to those shareholders on the register at the close of business on 26 April 2019.

Reappointment of Auditor

Deloitte LLP was originally appointed as McColl's Auditor in 2006 when it was a private limited group. Although the Company has until 2024 to tender the external audit, the Company advised last year that the audit tender process would take place in 2019 and that process has now commenced. Deloitte LLP, have indicated their willingness to continue as the Company's Auditor until the tender process is completed. Accordingly a resolution to reappoint Deloitte LLP as Auditor of the Company and the Group will be proposed at the 2019 AGM. Further details regarding the re-appointment of Auditor may be found in the Audit & Risk Committee Report on page 55.

The Audit Partner last rotated during the year ended 30 November 2014 so this is the final year for the current Audit Partner.

Authority to allot shares

The Company was granted a general authority by its shareholders at the 2018 AGM to allot shares pursuant to a rights issue up to an aggregate nominal amount of £76,780. The Company also received authority to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £38,390. As at the date of this report, no shares have been issued under these authorities. These authorities will expire at the conclusion of the 2019 AGM unless revoked, varied or renewed prior to that meeting.

Resolutions will be proposed at the 2019 AGM to renew these authorities.

Authority for the Company to purchase its own shares

A resolution was passed at the 2018 AGM authorising the Company to purchase up to approximately 10% of its ordinary shares (11,517,351 ordinary shares) at the Directors' discretion. At the date of this report, no ordinary shares have been purchased under this authority. A similar resolution is proposed to be passed at the 2019 AGM which will, if approved, replace the existing authority and will lapse at the conclusion of the 2020 AGM.

Political donations

Further to shareholder approval at the 2018 AGM empowering the Directors to make political donations or incur political expenses, it is confirmed that no such donations were made or expenses incurred in the year ended 25 November 2018 (2017: £nil). The Company's policy is not to make political donations or incur political expenses but a resolution to renew this authority on its expiry will be put to the 2019 AGM in order to avoid any inadvertent breach of the regulatory requirements that might occur if a wide interpretation of political donation were to be applied to, for example, some of the Group's community support activities.

Articles of Association

It is proposed that the Company adopts new Articles of Association, principally in order to reflect developments in law and practice since the Company's current articles were adopted in 2014. Full details of the changes can be found in the Notice of Meeting.

A copy of the New Articles and a copy marked to show the changes from the current Articles are available for inspection and can be viewed on the Company's website. Copies of the New Articles will also be available for inspection at the Annual General Meeting.

Deferred Bonus Plan

The Company's Remuneration Policy requires Executive Directors and members of the Retail Board to use a proportion of their net bonus to acquire shares, which must be held for a period of three years. In order to implement this requirement, and to enable the Company to issue shares to satisfy awards, the Board is proposing to adopt the McColl's Retail Group plc Deferred Bonus Plan (the "**DBP**"). A summary of the DBP is set out in further detail in the Notice of AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board.

By order of the Board



Rachel Peat

Company Secretary

17 February 2019

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- (state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.¹

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 18 February 2019 and is signed on its behalf by:



Jonathan Miller
Chief Executive

17 February 2019



Robbie Bell
Chief Financial Officer

17 February 2019

¹ Where the financial statements are published on the internet we would encourage inclusion of this paragraph in the directors' responsibility statement unless there is a disclaimer to similar effect on the website. If there is no disclaimer on the website and it is not included here, consider inclusion in the auditors' report.

Independent Auditor’s report to the members of McColl’s Retail Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of McColl’s Retail Group plc (the ‘parent company’) and its subsidiaries (the ‘Group’) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 25 November 2018 and of the Group’s profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 31 and C1 to C7.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Accounting treatment of supplier income; - Impairment of goodwill and retail stores; - Presentation and classification of results; and - Going concern. Within this report, any new key audit matters are identified with ⚙ and any key audit matters which are the same as the prior year identified with ➡.
Materiality	The materiality that we used for the Group financial statements was £1.24m which was determined on the basis of 0.10% of revenue of the Group for the 52 week period. In the prior year, the basis for materiality was profit before tax adjusted for certain items due to their nature and significance; due to the trading difficulties faced by the Group in the current year we considered revenue to be a more appropriate and stable measure.
Scoping	The Group consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as disclosed in note 4 to the financial statements. The segment was audited as a single component by the Group audit team.
Significant changes in our approach	Given the difficult trading period experienced by the Group and the impact on our work relating to management’s going concern assessment, we identified going concern as a new key audit matter this year.

Independent Auditor's report to the members of McColl's Retail Group plc continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. See key audit matters.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 34 to 38 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 51 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 77 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting treatment of supplier income

Key audit matter description

Supplier income is generated from commercial agreements with suppliers including incentives, rebates and discounts. This represents a deduction to cost of sales which is material to the Group financial statements.

During the year, the Group experienced supply disruption as a result of a key supplier, Palmer and Harvey, entering into administration in November 2017. McColl's had entered into a substantial wholesale supply agreement with WM Morrison Supermarkets on 31 July 2017. The supply chain disruption meant that McColl's transition to the new arrangement was accelerated compared to the timetable originally planned.

We identified a key audit matter in respect of the accounting treatment and disclosures relating to arrangements specific to McColl's transition to the wholesale agreement with Morrison's, as these involved complex elements.

We also identified a key audit matter relating to the ongoing supplier income arrangements McColl's has with its two principal suppliers, Morrison's and Nisa. Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to which the arrangements apply. Our key audit matter focused on judgements around supplier income accrued by the Group for amounts that had not been invoiced or agreed with suppliers at year end.

As the process of appropriate recognition in the financial statements can involve significant manual adjustments to estimate the level of supplier income as at the balance sheet date, these have the potential for inappropriate manipulation. We therefore considered this to be a potential area for fraud due to the opportunity to manipulate results in the treatment of this income.

The costs of sales accounting policy is outlined in note 2 to the financial statements. The Audit & Risk Committee has included this as a key risk on page 55.

Accounting treatment of supplier income continued »

How the scope of our audit responded to the key audit matter

Our audit procedures to address this risk included, but were not limited to:

Transition to the Morrison's wholesale agreement

- developing a detailed understanding of the contract terms between McColl's and Morrison's by reviewing the wholesale agreement and evaluating the accounting policies and treatment applied by management for supplier income arising from the agreement;
- obtaining confirmation from Morrison's as to the completeness of the current and effective contracts and amendments provided to us by management;
- performing a detailed review of disclosures and classification applied to supplier income from Morrison's in the accounts;
- evaluating the design and implementation of controls in place over supplier income;
- obtaining management's report on the availability of products from the Morrison's wholesale agreement to perform a recalculation of the transitional support payments received and ensuring the classification of these payments is appropriate;
- inspecting a sample of transitional support payments received prior to the year end;
- for accrued income amounts in respect of Morrison's at the year end, we have obtained evidence as to subsequent invoicing and payment; and
- reviewing the presentation of the amounts received to assess whether these have been appropriately disclosed within the results for the period.

Accrued supplier income

- evaluating the design and implementation of controls in place over accrued supplier income;
- reviewing a statistical sample of supplier income agreement contract terms to recalculate the expected supplier income and testing the IT controls over system-generated reports relating to supplier income for accuracy, validity and completeness;
- applying data interrogation tools to perform an analysis to determine if any manual adjustments were recorded within the supplier income balance;
- detailed look back procedures to ensure amounts accrued at the previous year end were appropriately invoiced and recovered; and
- performing detailed testing on amounts accrued at the year end for subsequent invoicing and payment.

Key observations

The results of our detailed testing in respect of accrued supplier income at the year end were satisfactory and we consider the disclosure around supplier income to provide a reasonable understanding of the types of supplier income received and the impact on the Group's balance sheet and profit as at 25 November 2018.

In respect of the Morrison's contract we are in agreement that the contract has been accounted for appropriately, taking into account the timing over which the contributions are recognised. We have also evaluated the disclosure of the overall contract and the impact that it has had in the year and over the length of the contract. We are satisfied with the accounting treatment adopted and the related disclosure.

Independent Auditor's report to the members of McColl's Retail Group plc continued

Impairment of goodwill and retail stores » ⚠

Key audit matter description

As at 25 November 2018, the Group held £252.7m of goodwill from acquisitions of businesses and Groups of stores, in the current year and previous years, as disclosed in note 13.

The Group also held 1557 retail stores, which make up the majority of the carrying value of property, plant and equipment held on the balance sheet at 25 November 2018 (£92.3m, as disclosed in note 12).

IAS 36 requires that the value of goodwill and retail stores are tested for impairment annually or where indicators of impairment are identified.

The value of the stores and goodwill is supported by forecasts of future cash flows of the businesses. There is inherent uncertainty within these forecasts arising from changing industry and economic conditions and thus significant management judgement is required. There is a risk that assets held in, and associated with, each store are not recoverable.

The key assumption applied by the Directors in the impairment reviews are:

- cash flow forecasts in the context of the going concern review, including assumptions of future growth, gross margin and store costs;
- future revenue growth; and
- discount rates.

Management performed a full impairment assessment for goodwill and the loss-making stores to determine if the carrying value of these assets is supported. As a result, a charge of £3.3m has been recorded in respect of impairment provisions against property, plant and equipment, as disclosed in note 12.

Due to the risk of management bias in the key assumptions input into the impairment reviews we consider there to be a potential for fraud in respect of this key audit matter.

The Group's accounting policies are disclosed in note 2 and goodwill is included as a key source of estimation uncertainty in note 3. The Audit & Risk Committee have considered this risk on page 56.

How the scope of our audit responded to the key audit matter

Our audit procedures to address this risk included, but were not limited to:

- evaluating the design and implementation of controls around the process of preparing and performing the impairment reviews of the Group's goodwill and retail stores;
- evaluating and challenge management's impairment models by:
 - reviewing management's workings for mechanical accuracy and compliance with IAS 36;
 - determining an acceptable range for the discount rates applied to future cash flow and working with our internal valuation specialists to challenge management's rates;
 - benchmarking the resulting discount rates against other companies operating in the retail sector;
 - assessing the reasonableness of the assumed growth rates in management's workings;
 - evaluating the third party market value reports received for a sample of stores, as data points for the calculation; and
 - reviewing management's sensitivity analysis on the inputs applied (including discount rates and growth rates) to check that these are within a material level of acceptability.
- challenging the key assumptions utilised in management's cash flow forecasts by comparing the assumed growth rates, forecast cash flows and fair value calculations to recent trading activity, historical trends and our understanding of the future prospects of the business; and
- reviewing the disclosures in the annual report, to assess whether they are in line with the requirements of IAS 36.

Key observations

We have challenged management on a number of the key assumptions, particularly the discount rate and allocation of overheads in the store impairment model, and note that the impact on the overall assessment of store impairment is appropriate.

In respect of goodwill, we are satisfied with the additional disclosure provided in the year and the disclosure of the impact on goodwill of reasonably possible downside scenarios.

Presentation and classification of results

Key audit matter description

Management present adjusted profit excluding items that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's adjusted profit measure due to their size and nature in order to reflect management's view of the performance of the Group.

The presentation of income and costs within adjusted measures (to derive 'adjusted profit before tax') under IFRS is judgemental, as IFRS only requires the separate presentation of material items.

In the Group's reported results, significant adjustments have been made to statutory profit before tax of £10.5m to derive adjusted profit before tax of £7.9m. The Group's accounting policy for adjusting items can be found in note 2. Detail of these adjustments can be found in note 5 of the financial statements.

Given their judgemental nature there is a risk that the adjusted items should be presented as underlying results. In particular, we focused on the judgements relating to the treatment of property profits resulting from sale and leaseback activity completed (£11.9m), the costs associated with the supplier disruption in the year (£0.9m) and the overall treatment of Morrison's income (£5.4m).

We have identified this key audit matter as a fraud risk as management have the opportunity to manipulate results of the business through classification of items as adjusting. In addition, we note that the calculation for one of the Group's covenants, Leverage Ratio, is based on adjusted profit measures.

The Audit & Risk Committee has included this as a key risk on page 56.

How the scope of our audit responded to the key audit matter

Our audit procedures to address this risk included, but were not limited to:

- evaluating the design and implementation of controls in the classification of the results and presentation of these in the accounts;
- evaluating the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted items, this included:
 - assessing the consistency of items year on year; and
 - evaluating adherence to IFRS requirements and latest guidance from regulators;
- report on the total adjusted items and the classification of these adjustments;
- auditing a sample of exceptional income and expenses at year end to confirm that items recognised as adjusting meet the relevant definition as adjusting;
- assessing unadjusted items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature and/or quantum for whether they should be included within adjusted items;
- reviewing the quality of earnings to ensure any perceived 'one-off' debits or credits have been appropriately disclosed; and
- recalculating the adjusted items and considering the appropriateness of related disclosures provided in the annual report.

Key observations

We have challenged management on the rationale and disclosure for the amounts included within adjusting items. We have also challenged management and reviewed amounts not included within adjusting items for appropriateness. On balance we are satisfied that these have been appropriately disclosed and given the appropriate prominence with reported numbers.

Independent Auditor's report to the members of McColl's Retail Group plc continued

Going concern »

Key audit matter description

Two profit warnings were issued by management throughout the year. These were largely driven by the supply disruption caused by the Palmer & Harvey collapse in November 2017, contributing significantly to the decline in performance year-on-year. The Group's adjusted profit before tax for the period ended 25 November 2018 was £10.5m (2017: £26.3m).

Given the key financial covenant conditions on the Group's funding facilities are linked to adjusted EBITDA, there is an increased risk that the business may fail to comply with the required covenant conditions and continue to operate as a going concern.

Management have performed an analysis of future trading performance and determined the impact of this performance on future covenant requirements.

Management have also prepared a downside scenario for the business plan that models changes in the forecast performance to test how resilient the business is to these, including in the event of a no-deal Brexit, and what mitigating actions may be required to rectify forecast loss of headroom.

The Audit & Risk Committee has included the adoption of the going concern basis of accounting as a key risk on page 56, see also management's going concern disclosure in the Director's report on page 77 and note 2 to the financial statements.

How the scope of our audit responded to the key audit matter

Our audit procedures to address this risk included, but were not limited to:

- assessing the design and implementation of the controls in place around the preparation of managements going concern assessment;
- obtaining an understanding of the financing facilities, including the nature of the facilities, repayment terms, covenants and attached conditions and any amendments to the facilities;
- obtaining and challenging management's documented assessment of going concern and the underlying workings to support their conclusion;
- challenging management's assessment of a reasonable downside and Brexit scenario for their going concern assessment that included consideration for the impact on availability of products and gross margin as experienced during 2018;
- assessing the facility and covenant headroom calculations, and performing sensitivities on each of management's base case, downside and 'no-deal Brexit' scenarios;
- challenging the appropriateness of management's forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy and understanding management's consideration of downside sensitivity analysis;
- considered the consistency of management's forecasts with other areas of the audit, such as the impairment financial models and the forecasts underpinning the viability statement; and
- reviewed the wording of the going concern disclosures, and assessed its consistency with management's forecasts.

Key observations

Management have provided detailed disclosures, including the impact of an unfavourable Brexit outcome on their going concern assumption, along with the mitigating actions that are available to them should the impact be more severe than is anticipated. We are satisfied that Management have performed appropriate sensitivities, including combined sensitivities which are reasonably possible, and disclosed the impact this may have on covenants and the need for appropriate action by Management.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1,240,000 (2017: £1,240,000)	£744,000 (2017: £154,000)
Basis for determining materiality	0.10% of revenue	The Parent company materiality equates to 1.5% of net assets, which is capped at 35% of Group materiality.
Rationale for the benchmark applied	We considered a number of different measures and concluded that revenue is the most stable year on year measure for determining materiality; this reflects the overall size of the business, which is largely consistent year on year, although profit margins have decreased. In the prior year, we used 4.7% of adjusted pre-tax profit. The materiality applied in the prior year was equivalent to 0.11% of that year's revenue.	As a holding company, we considered net assets to be the most appropriate measure of the parent company's performance.

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £62,000 (2017: £62,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group business consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as defined in note 4 to the financial statements. The financial results of the Group are aggregated at a consolidated level without the need for consolidation adjustments to account for eliminations between Group statutory companies.

Therefore we identified only one reporting component being the Group itself, which includes the parent company audit (which we audit to a lower materiality level), on which we perform our audit using a single audit team.

Independent Auditor's report to the members of McColl's Retail Group plc continued

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic and Governance Reports, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit & Risk Committee reporting* – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the Audit & Risk Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud as bias in estimates, judgements, and inappropriate adjustments in the accounting treatment of supplier income, assessment of the impairment of goodwill and retail stores and the presentation and classification of results; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the accounting treatment of supplier income, presentation and classification of results, and accounting for goodwill and store impairment as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit & Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's report to the members of McColl's Retail Group plc continued

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the Board of Directors on 3 February 2014 to audit the financial statements for the year ending 2014 and subsequent financial periods. The entity was listed on the London Stock Exchange on 28 February 2014. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 2014 to 2018.

Prior to 2014, we were appointed by the Board of Directors on 1 October 2006 to audit the financial statements for the year ending 2006 and subsequent financial periods of McColl's Retail Group Ltd which was previously the parent company to the Group. The period of total uninterrupted engagement including previous renewals and reappointments of the firm was 13 years, covering the years ending 2006 to 2018.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sukhbinder Kooner, (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
17 February 2019

Consolidated income statement

for the 52 week period from 27 November 2017 to 25 November 2018

	Note	Adjusted 2018 £'000	Adjusting items 2018 Note 5 £'000	Total 2018 £'000	Adjusted restated 2017 £'000	Adjusting items 2017 Note 5 £'000	Total restated 2017 £'000
Revenue	4	1,241,539	–	1,241,539	1,148,747	–	1,148,747
Cost of sales		(919,003)	(1,428)	(920,431)	(841,370)	–	(841,370)
Gross profit		322,536	(1,428)	321,108	307,377	–	307,377
Administrative expenses		(311,442)	(7,118)	(318,560)	(286,889)	(3,730)	(290,619)
Other operating income	4	6,811	–	6,811	7,787	–	7,787
Profits arising on property-related items		416	6,109	6,525	3,110	(2,621)	489
Operating profit	6	18,321	(2,437)	15,884	31,385	(6,351)	25,034
Finance income	4	–	–	–	93	–	93
Finance costs		(7,859)	(158)	(8,017)	(5,200)	(1,521)	(6,721)
Net finance cost	8	(7,859)	(158)	(8,017)	(5,107)	(1,521)	(6,628)
Profit before tax		10,462	(2,595)	7,867	26,278	(7,872)	18,406
Income tax (expense)/receipt	9	(2,778)	1,762	(1,016)	(5,228)	1,014	(4,214)
Profit for the period		7,684	(833)	6,851	21,050	(6,858)	14,192
Earnings per share (pence)	11	6.67p		5.95p	18.28p		12.32p
Diluted Earnings per share (pence)	11	6.66p		5.94p	18.19p		12.26p

The above results were derived from continuing operations.

Consolidated statement of comprehensive income

for the 52 week period from 27 November 2017 to 25 November 2018

	2018 £'000	2017 £'000
Profit for the period	6,851	14,192
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit pension scheme	859	3,039
Tax on defined benefit pension scheme	(150)	(517)
Total comprehensive income for the period	7,560	16,714

Consolidated statement of financial position

as at 25 November 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	92,314	103,565
Intangible assets	13	252,747	248,899
Deferred tax assets	24	97	172
Retirement benefit asset	28	14,122	13,609
Investments	14	36	36
Total non-current assets		359,316	366,281
Current assets			
Inventories	16	77,146	75,965
Trade and other receivables	17	41,984	39,810
Cash and cash equivalents	18	28,547	14,273
Assets in disposal groups classified as held for sale		-	581
Total current assets		147,677	130,629
Total assets		506,993	496,910
Equity and liabilities			
Current liabilities			
Trade and other payables	19	(213,337)	(163,670)
Loans and borrowings	20	(2,148)	(1,799)
Income tax liability		(673)	(2,633)
Provisions	23	(4,627)	(4,508)
Liabilities directly associated with assets classified as held for sale		-	(830)
Total current liabilities		(220,785)	(173,440)
Net current liabilities		(73,108)	(42,811)
Non-current liabilities			
Loans and borrowings	20	(124,989)	(154,722)
Other payables		(9,552)	(10,367)
Provisions	23	(1,042)	(593)
Deferred tax liabilities	24	(6,895)	(8,528)
Retirement benefit obligations	28	(2,250)	(3,352)
Total non-current liabilities		(144,728)	(177,562)
Total liabilities		(365,513)	(351,002)
Net assets		141,480	145,908

	Note	2018 £'000	2017 £'000
Equity			
Share capital	25	(115)	(115)
Share premium	25	(12,580)	(12,579)
Retained earnings		(128,785)	(133,214)
Total Equity		(141,480)	(145,908)

These financial statements of McColl's Retail Group, registered number 08783477, were approved and authorised for issue by the Board on 17 February 2019 and signed on its behalf by:



Robbie Bell
Director

Consolidated statement of changes in equity

for the 52 week period from 27 November 2017 to 25 November 2018

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 27 November 2017		115	12,579	133,214	145,908
Profit for the period		-	-	6,851	6,851
Remeasurement of defined benefit pension scheme		-	-	709	709
Total comprehensive income		-	-	7,560	7,560
Dividends	10	-	-	(11,862)	(11,862)
New share capital subscribed		-	1	-	1
Deferred tax	24	-	-	(127)	(127)
As at 25 November 2018		115	12,580	128,785	141,480

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 28 November 2016		115	12,579	127,812	140,506
Profit for the period		-	-	14,192	14,192
Remeasurement of defined benefit pension scheme		-	-	2,522	2,522
Total comprehensive income		-	-	16,714	16,714
Dividends	10	-	-	(11,748)	(11,748)
Share-based payment transactions		-	-	436	436
As at 26 November 2017		115	12,579	133,214	145,908

Consolidated statement of cash flows

for the 52 week period from 27 November 2017 to 25 November 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the period		6,851	14,192
<i>Adjustments to cash flows from non-cash items</i>			
Depreciation and amortisation	6	17,054	15,636
Profit on disposal of property plant and equipment	6	(14,994)	(489)
Finance income	8	-	(93)
Finance costs	8	8,017	6,721
Share-based payment transactions	29	-	436
Income tax expense	9	1,016	4,214
Impairment losses		3,297	746
		21,241	41,363
Increase in inventories	16	(737)	(20,924)
Increase in trade and other receivables		(1,593)	(3,970)
Increase in trade and other payables		48,082	40,562
Decrease in retirement benefit obligation net of actuarial changes	28	(906)	(1,633)
Increase in provisions	23	568	3,089
Cash generated from operations		66,655	58,487
Income taxes paid		(4,811)	(4,267)
Net cash flow from operating activities		61,844	54,220
Cash flows from investing activities			
Interest received	8	-	93
Acquisitions of property, plant and equipment		(21,295)	(25,655)
Proceeds from sale of property, plant and equipment		27,410	7,622
Acquisition of businesses, net of cash acquired		(4,513)	(122,409)
Net cash flows from investing activities		1,602	(140,349)
Cash flows from financing activities			
Interest paid		(7,928)	(6,327)
Proceeds from issue of ordinary shares, net of issue costs		1	-
Repayment of bank borrowing	21	(29,000)	(37,000)
New bank borrowing	21	-	154,500
Payment of finance lease creditors		(235)	(2,506)
Interest payment to finance lease creditor	8	(148)	(274)
Dividends paid	10	(11,862)	(11,748)
Net cash flows from financing activities		(49,172)	96,645
Net increase in cash and cash equivalents		14,274	10,516
Cash and cash equivalents at beginning of period		14,273	3,757
Cash and cash equivalents at end of period		28,547	14,273

Notes to the financial statements

for the 52 week period from 27 November 2017 to 25 November 2018

1 General information

The Group is a public company limited by share capital, incorporated in England and Wales and domiciled in United Kingdom.

McColl's Retail Group plc
McColl's House
Ashwells Road
Brentwood
Essex
CM15 9ST
United Kingdom

Principal activity

The Group engages in one principal area of activity, as an operator of convenience and newsagent stores.

2 Accounting policies

Basis of preparation

The Group financial statements for 2018 consolidate the financial statements of McColl's Retail Group plc (the 'Company') and all its subsidiary undertakings (together, "the Group") drawn up to 25 November 2018. Acquisitions are accounted for under the acquisition method of accounting.

The Group financial statements have been prepared on the going concern basis and in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reported under IFRS. The Group's going concern position is set out in the Directors' report section on page 77.

The consolidated financial information is presented in sterling, the Group's functional currency, and has been rounded to the nearest thousand (£'000). The prior period was also a 52 week period.

The preparation of financial information in compliance with adopted IFRS requires the use of certain critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. It also requires Group management to exercise judgement in applying the Group's accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information, are disclosed in note 3.

Basis of measurement

The consolidated financial information has been prepared on a historical cost basis, except for net defined benefit pension asset or liability, (refer to individual accounting policy for details).

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 25 November 2018.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate.

Business combinations

On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired, including separately identifiable assets, is recognised as goodwill. Any discount on acquisition, i.e. where the cost of acquisition is below the fair values of the identifiable net assets acquired, is credited to the income statement in the period of acquisition.

Changes in accounting policy

New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company financial statements in future:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Recognition and Measurement'. The standard was published in July 2014 and is effective for the Group from the period commencing 26 November 2018.

The standard is applicable to financial assets and financial liabilities, the main changes it introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model based on expected credit losses for recognising provisions; and
- provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

Management have assessed the impact of the above changes and believes that the adoption of IFRS 9 will not have a material impact on its accounting policies or classification and measurement of financial instruments.

The Group will apply the modified retrospective approach to transition and will not restate any comparative amounts. Any transition differences will be recognised as an adjustment to the opening balance sheet.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The standard was published in May 2014 and is effective for the Group from the period commencing 26 November 2018. It applies to all contracts with customers, except those in the scope of other standards.

The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred.

Management have performed an assessment of the impact of IFRS 15 and believes the adoption will not have a material impact on its consolidated financial statements.

The Group will apply the modified retrospective approach to transition and will not restate any comparative amounts. Any transition differences will be recognised as an adjustment to the opening balance sheet.

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases'. The standard was published in January 2016 and is effective for the Group from the period commencing 25 November 2019.

The standard represents a significant change in the accounting and reporting of leases for lessees. The standard provides a single lessee accounting model, and as such, requires lessees to recognise a right-of-use assets and lease liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less.

The Group has a portfolio of over 1,600 property leases and the accounting treatment for each lease will change significantly.

Accounting requirements for lessors are substantially unchanged from IAS 17 and therefore there is no material impact to the Group consolidated financial statements.

The standard offers two different transition methods and both result in significant changes to income statement, balance sheet and disclosure. Management are assessing the transition methods in conjunction with reviewing our current data and new systems processes.

Management continues to assess the impact of IFRS 16 and has therefore not concluded on which transition method to follow as yet. As such it is not practicable to quantify the impact of IFRS 16. From work performed to date, it is expected that implementation of the new standard will have a substantial impact on the income statement, balance sheet and the alternative performance measures used by the Group.

In addition to the above new standards or amendments, there are additional new standards and amendments which have not been listed. None of the other standards, interpretations and amendments which are effective for periods beginning on or after 26 November 2018 and which have not been adopted early, are expected to have a material effect on the consolidated financial statements.

Alternative Performance Measures

In reporting financial information, the Directors have presented various Alternative Performance Measures (APMs) of financial performance, position or cash flows, which are not defined or specified under the requirements of International Financial Reporting Standards IFRS. On the basis that these measures are not defined by IFRS, they may not be directly comparable with other companies' APMs, including those in the Group's industry.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional useful information on the performance of the business. These APMs are consistent with how the business performance is planned, reported and analysed between reporting periods within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets (and covenant calculations).

The key APMs that the Group uses include: adjusted EBITDA, adjusted profit before tax, like-for-like sales (LFL), net debt and adjusted earnings per share. Each of the APMs, and others used by the Group, are set out in the Glossary including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant. These measures have remained consistent with the prior year.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in nature and/or quantum. Treatment as an adjusting items provides stakeholders with additional useful information to assess the annual trading performance of the Group.

Revenue recognition

Revenue represents the amounts receivable for goods and services sold through retail outlets in the period which fall within the Group's principal activities, stated net of value added tax. Revenue is shown net of returns. Revenue is recognised when the significant risks and rewards of goods and services have been passed to the buyer and can be measured reliably.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

2 Accounting policies continued

Commission from the sale of lottery tickets, travel tickets, electronic phone top-ups and products sold through the Post Office in store is recognised net within turnover, when transactions deriving commissions are completed, as the Group acts as an agent.

In the opinion of the Directors, the Group engages in one principal area of activity, that of operators of convenience and newsagent stores. Turnover is derived entirely from the United Kingdom.

Cost of sales

Cost of sales consists of all direct costs to the point of sale including warehouse and transportation costs. Supplier incentives, rebates and discounts are recognised as a credit to cost of sales in the period in which the stock to which the discounts apply is sold. The accrued value at the reporting date is included in prepayments and accrued income.

Adjusting items

Adjusting items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but are excluded from the Group's adjusted profit before tax measure, individually or, if of a similar type in aggregate, due to their size and nature in order to better reflect management's view of the performance of the Group. The adjusted profit before tax measure (profit before adjusting items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of adjusting items are set out in note 5.

Other operating income

Rental income and ATM commissions are recognised in the consolidated income statement when the services to which they relate are earned.

Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all temporary differences, except to the extent where a deferred tax liability arises from the initial recognition of goodwill or from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that the Directors consider that, on the basis of all available evidence, it is probable that there will be suitable future taxable profits from which the future reversal of the underlying differences can be deducted.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

Property, plant and equipment

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs incurred attributable to bringing the asset to its working condition for intended use.

Depreciation

Depreciation is provided so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned. Principal rates used for this purpose are as follows:

Asset class	Depreciation method and rate
Land and buildings:	
Freehold (including land where it is not separately identifiable)	Straight-line basis: 50 years
Long leaseholds improvements	Straight-line basis: 50 years
Land (if separately identifiable)	Nil
Short leaseholds improvements – Shops & Other	Straight-line basis: 10 years
Leasehold premiums	Straight-line basis: the unexpired portion of the lease
Furniture, fittings & equipment:	
Motor vehicles	Straight-line basis: 4 years
Computer equipment	Straight-line basis: 5 years
Furniture and fittings	Straight-line basis: 10 years

Gains and losses on disposal of any fixed assets are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

Fixed asset impairments

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. For property, plant and equipment and intangible assets excluding goodwill, the CGU is deemed to be each trading store. Any resulting impairment is charged to administrative expenses.

Intangible assets impairment

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Non-current assets held for sale

Non-current assets are classified as assets held for sale only if available for immediate sale in their present condition, a sale is highly probable and expected to be completed within one period from the date of classification. Such assets are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated or amortised.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases/hire purchase contracts

Assets funded through finance leases or hire purchase contracts are capitalised as property, plant and equipment and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement so as to produce a constant periodic rate of interest.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement on a straight-line basis over the lease term.

Sale and leaseback

A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value. For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the income statement.

Following initial recognition, the lease treatment is consistent with those principles described above.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Where lease incentives relate to the whole term of the contract lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases

Where a lease has predetermined fixed rental increases, these rental increases are accounted for on a straight-line basis over the term of the lease.

Operating lease income

Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned.

Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an asset on the Group's balance sheet in the year in which it arises. Goodwill is not amortised but is tested for impairment at least annually and is stated at cost less any provision for impairment. Any impairment is recognised in the income statement and is not reversed in a subsequent period.

See note 13 for further details of CGUs and impairment testing.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

2 Accounting policies continued

Other intangible assets

Other intangible assets includes computer software. Computer software is stated at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences and costs relating to development of computer software for internal use (to the extent that they meet the recognition criteria of IAS 38 Intangible Assets) are capitalised and amortised on a straight-line basis over their useful economic lives of five years and are included within other intangible assets. Costs relating to development of computer software for internal use that do not meet the IAS 38 recognition criteria are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in transit, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

When drawn, bank overdrafts are shown within loans and borrowings in current liabilities in the Group balance sheet.

Trade receivables

Trade receivables are amounts due from customers for goods and services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of any loss is recognised in the income statement.

Inventories

Inventories consist of goods for resale and are stated at the lower of cost and net realisable value. Cost is calculated using the retail method for each category of stock by reducing the net selling price by the attributable average gross margin. Net realisable value is the price at which the stocks can be realised in the normal course of business net of selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

The Group recognises provisions for liabilities of uncertain timing or amounts, including those for onerous leases, leasehold dilapidations and legal disputes. Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the best estimate of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Onerous contracts/leases

The Group compares the unavoidable costs of all leases with the expected economic benefits on a store by store basis. Once a lease is considered onerous, a provision is calculated based on the present value of the unavoidable costs net of expected benefits.

Dilapidations

Provisions for dilapidations and similar contractual property costs are recognised on a lease-by-lease basis when the need for expenditure has been identified, being the point at which the likely expenditure can be reliably estimated.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to note 26 for the disclosures.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

Defined contribution pension obligation

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

Defined benefit pension obligation

The Group operates two defined benefit pension schemes in addition to several defined contribution schemes, which require contributions to be made to separately administered funds.

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- scheme liabilities calculated using the projected unit credit method discounted to its present value using yields available on high-quality corporate bonds that have maturity dates approximating to the terms of the liabilities; less
- the effect of minimum funding requirements agreed with scheme trustees.

A surplus is recognised where the Group has an unconditional right to the economic benefits in the form of future contribution reductions or refunds.

Any difference between the interest income on scheme assets and that actually achieved on assets, and any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognised in other comprehensive income in the period in which they arise.

Costs are recognised separately as operating and finance costs in the income statement. Operating costs comprise the current service cost, any income or expense on settlements or curtailments and past service costs.

Finance items comprise the interest on the net defined benefit asset or liability.

Further information on pensions is disclosed in note 28.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where applicable at the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the income statement.

For further detail please refer to note 29.

Financial instruments

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally from the Group's trading operations (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counter party or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Group balance sheet.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

2 Accounting policies continued

Financial liabilities

The Group classifies its financial liabilities into the below category:

1) Other financial liabilities

- Interest-bearing bank loans and overdrafts – these are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Where existing debt is refinanced with the same lender it is treated as an extinguishment of the original debt and a new financial liability if the modified terms are substantially different from the previous terms.
- Trade payables and other short-term monetary liabilities which are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 27.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical accounting judgements

Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Adjusting items

During the year certain items are identified and separately disclosed as adjusting items. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 5 provides information on all of the items disclosed as adjusting in the current year financial statements.

Sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Sources of estimation and uncertainty are discussed below:

Impairment

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to perpetuity with nil growth rate. Key estimates and sensitivities for impairment of assets are disclosed in notes 12 and 13.

Supplier income

Supplier income is recognised as a credit within cost of sales. For some sources of supplier income, management is required to make estimates in determining the amount and timing of recognition of income. These estimates are based on documented evidence of agreements with suppliers.

In determining the amount of volume-related allowances recognised in any period, management estimate whether the Group will meet contractual target volumes, based on historical and forecast performance.

For promotional funding relating to investment in the customer offer by a supplier, there is limited estimation required as funding is pre-agreed and collected throughout the year shortly after promotions have ended.

Outcomes within the next financial year that are different from management's assumptions could require a material adjustment to the carrying amount of the affected asset.

Pensions

The liabilities of the defined benefit pension schemes operated by the Group are determined using methods relying on the actuarial estimates and assumptions, including rates of increase in pensionable salaries and pensions, net defined benefit asset or liability, life expectancies and discount rates. Details of the key assumption are set out in note 28. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions and the recognition of any surplus. Changes in the assumptions used may have a significant effect on the Group statement of comprehensive income and the Group statement of financial position.

4 Revenue and other income

In accordance with IFRS 8 'Operating segments' an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker and for which discrete information is available. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The principal activities of the Group are currently managed as one segment. Consequently all activities relate to this segment, being the operation of convenience and newsagent stores in the UK.

The analysis of the Group's revenue for the period from continuing operations is as follows:

	2018 £'000	2017 £'000 restated
Revenue		
Sale of goods	1,241,539	1,148,747
Other operating income¹		
Property rental income	3,249	3,224
Other rental income ¹	3,562	4,563
	6,811	7,787
Finance income		
Finance income	-	93
	1,248,350	1,156,627

1 During the year management performed a review of all revenue streams. As a result of the review all income from Post Office will now be classified as revenue. The reclassification of £16.7m from other income to revenue is the net income received as an agent in the transaction with the Post Office. This has increased gross profit by 1% from 25% to 26%. The prior year's revenue has also been restated on the same basis and the value of this restatement is £16.9m.

5 Adjusting items

Due to their significance or one-off nature, certain items have been classified as adjusting as follows:

	2018 £'000	2017 £'000
Cost of sales		
Supplier administration ^a	807	-
Supply chain transition ^b	621	-
Gross loss	1,428	-
Administrative expenses		
Fines (Health and Safety and Minimum Wage Compliance) ^c	1,236	-
Supplier administration ^a	935	-
Supply chain transition ^b	4,306	-
Defined benefit pension scheme – past service cost ^d	641	-
Unprofitable store closure programme ^f	-	283
Co-op acquisition and integration costs ^h	-	3,447
	7,118	3,730
(Profits)/losses arising on property-related items		
Sale and leaseback ^e	(11,941)	-
Unprofitable store closure programme ^f	2,535	2,621
Impairment ^g	3,297	-
	(6,109)	2,621
Finance costs		
Co-op acquisition and integration costs ^h	-	1,521
Unprofitable store closure programme ^f	158	-
	158	1,521
Tax effect on adjusting items	(1,762)	(1,014)
	833	6,858

a. Supplier administration

The administration of P&H, our primary supplier to c.700 newsagents and small convenience stores, on 28 November 2017 created stock availability issues in store. To address this stock availability and to minimise disruption we entered into a short-term contract with Nisa, a short-term contract with Fresh to Store, brought forward the commencement of the Morrisons contract, and introduced a new supply chain solution for tobacco, via Clipper Logistics. As such, the Group incurred additional one-off costs, which are not reflective of ongoing costs and therefore management have classified these as adjusting items. Resulting in a net cash outflow of £1.7m.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

5 Adjusting items continued

b. Supply chain transition

As a result of the integration of a new supply partner, Morrisons, material one-off costs of transitioning were incurred. These costs included \$1.3m of additional payroll cost, \$1.8m of marketing, \$1.5m of store preparation, including costs associated with stock replacement and \$0.3m of other costs. In line with the accounting policy for adjusting items, the additional costs incurred as a result of the transition are classified as adjusting items. Resulting in a net cash outflow of \$4.9m.

c. Fines (Health and Safety and Minimum Wage Compliance)

On 22 December 2017 the Group was found guilty of a health and safety breach relating to contractor works at a store and subsequently a fine of \$612k was issued to the Group. This was disclosed as a contingent liability in the Annual Report 2017. Following the completion of a HMRC National Minimum Wage investigation the Group was fined \$227k and paid arrears due to colleagues of \$397k. Each of these fines are fully paid. Management classify these fines as adjusting items due to the non-recurring nature. Resulting in a net cash outflow of \$612k.

d. Past service cost

Management have classified the amount for Guaranteed Minimum Pension (GMP) equalisation as an adjusting item due to its non-recurring nature. In October 2018, the High Court ruled that Lloyds Banking Group will need to equalise pension benefits for the effect of unequal GMP between men and women, which dates back to 1990. The impact of the GMP calculation on our pensions was prepared following the C2 model. There was no cash impact from this adjustment.

e. Sale and leaseback

During the year the Group undertook a number of sale and leaseback transactions on its freehold property. In line with the accounting policy for adjusting items management concluded that the profits for sale and leasebacks of property were significantly higher than prior years (2017: \$3m) and therefore not in line with ordinary business and should therefore be treated as adjusting. Resulting in a net cash inflow of \$26.7m.

f. Unprofitable store closure programme

Management have undertaken an ongoing review of poor performing stores and have made the decision to close a material number of stores which are not economically viable to continue trading. The majority of these stores are either near lease expiry or lease break date. The closure programme consists of stores which have either closed in 2018 or will close in 2019. Management have adjusted onerous lease provisions, impairment, and other costs in relation to the closures. Provisions are discounted to their present value at the reporting date, giving rise to a finance cost as the discount is unwound. Any other closures costs which cannot be reliably estimated at present, may also be adjusting in 2019. Management have classified these as adjusting due to the scale of the closure programme. Resulting in a net cash outflow of \$861k.

g. Impairment

Management have assessed the value in use cash flow of each branch against the carrying value of its assets, as a result of the impairment review an impairment charge was recognised in the year. Further information can be found in note 12. There was no cash impact from this adjustment.

h. Co-op acquisition and integration costs

On 13 July 2016 management entered into an agreement to purchase 298 convenience stores from the Co-op, for an aggregate consideration of \$117m. The acquisition was approved by the Competition and Markets Authority on 20 December 2016. The acquisition was integrated during 2017 by Martin McColl Limited, a wholly-owned subsidiary of the Group. The adjusting costs relate to legal fees, sponsor fees, implementation costs and finance costs. All 298 stores were successfully transitioned by 13 July 2017. There was no cash impact from this adjustment in the current year.

6 Operating profit

Arrived at after charging/(crediting)

	Note	2018 \$'000	2017 \$'000
Depreciation and amortisation expense		17,054	15,636
Write-down of inventory recognised as an expense		16,471	13,766
Operating lease expense – property		35,868	33,810
Profit on disposal of property, plant and equipment		(12,150)	(489)
Impairment	12	3,297	746
Cost of inventories recognised as an expense		951,073	876,599

The analysis of the Auditors' remuneration is as follows:

	2018 \$'000	2017 \$'000
Audit fees		
Audit of Group	283	242
Other services		
Audit related assurance services (including interim review)	43	41
Other non-audit services not covered above	-	14
	43	55
	326	297

Included within the audit fee total for the year is an amount of \$51,000 that is deemed to be non-recurring in nature.

Adjusted EBITDA and operating profit excluding property-related items

In order to provide shareholders with a measure of the underlying performance of the business which is more aligned with the way that management monitor and manage the business, the Group makes adjustments to profit before tax. Adjusting items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The adjusted profit before tax measure (profit before adjusting items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of adjusting items are set out in note 5.

	2018 £'000	2017 £'000
Adjusted EBITDA excluding property-related items		
Operating profit before adjusting items	18,321	31,385
Depreciation and amortisation	17,054	15,289
Profits arising on property-related items	(416)	(3,110)
Share-based payments	-	436
	34,959	44,000
Adjusted operating profit excluding property-related items		
Operating profit before adjusting items	18,321	31,385
Less: Profits arising on property-related items	(416)	(3,110)
	17,905	28,275

7 Employee costs

The aggregate payroll costs were as follows:

	2018 £'000	2017 £'000
Wages and salaries	171,993	157,111
Social security costs	17,142	15,268
Pension costs, defined benefit scheme	1,589	1,549
	190,724	173,928

The average number of persons employed by the Group (including Directors) during the period, analysed by category was as follows:

	2018 No.	2017 No.
Retailing	20,507	20,749
Central administration	507	512
	21,014	21,261

8 Finance income and costs

	2018 £'000	2017 £'000
Finance income		
Interest income on bank deposits	-	93
Finance costs		
Interest on bank overdrafts and borrowings	(7,289)	(4,522)
Interest on obligations under finance leases and hire purchase contracts	(148)	(274)
Amortisation of issue costs	(415)	(381)
Other finance costs	(165)	(23)
Finance costs in relation to Co-op stores acquisition and integration (included in adjusting items)	-	(1,521)
Total finance costs	(8,017)	(6,721)
Net finance costs	(8,017)	(6,628)

9 Income tax

	2018 £'000	2017 £'000
Income statement		
<i>Current tax:</i>		
Current tax on profit for the period	2,858	4,780
Adjustments in respect of prior periods	(7)	(173)
	2,851	4,607
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(2,123)	(81)
Arising from change in tax rate	234	(14)
Adjustments in respect of prior periods	54	(298)
	(1,835)	(393)
Income tax expense for the period	1,016	4,214
<i>Equity items</i>		
Share-based payment	92	-
Fixed assets	35	-
	127	
<i>Other comprehensive income</i>		
Deferred tax in respect of actuarial valuation of retirement benefits	150	517

Financial statements continued

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

9 Income tax continued

The differences are reconciled below:

	2018 £'000	2017 £'000
Profit before tax	7,867	18,406
Tax on profit calculated at standard rate for 2018 of 19.00% (2017: 19.33%)	1,495	3,558
Income not taxable	-	(8)
Expenses not deductible	817	650
Deferred tax on share options	55	(18)
Adjustments in respect of prior years	47	(471)
Arising from change in rate of tax	234	(14)
Exempt amounts ¹	605	517
Disposal of business combination assets	(2,237)	-
Total tax charge	1,016	4,214

¹ Include finance leases, land and buildings in use and disposal rebates against assets.

Changes to the UK corporation tax rates were enacted as part of Finance Bill 2016 on 6 September 2016. This included reductions to the main rate to reduce the rate to 17% from 1 April 2020.

The tax charge for the 52 week period was £1,016,000 (2017: £4,214,000) representing a rate of 12.9% (2017: 22.9%). The comparable effective rate of tax in 2018 excluding the impact of non-deductible adjusting items was 26.6% (2017: 19.9%). The difference between the current and statutory rate of 19.0% in the period is due principally to the sale and leaseback and closure cost transactions, all of which are classified as adjusting items, see note 5 for further information.

Amounts recognised in other comprehensive income

	2018			2017		
	Before tax £'000	Tax (expense) /benefit £'000	Net of tax £'000	Before tax £'000	Tax (expense) /benefit £'000	Net of tax £'000
Remeasurements of post employment benefit obligations	859	(150)	709	3,039	(517)	2,522

10 Dividends

	2018 £'000	2017 £'000
Interim 2018 dividend of 3.40p (2017: 3.40p) per ordinary share	3,916	3,916
Final 2017 dividend of 6.90p (2016: 6.80p) per ordinary share	7,947	7,832
	11,863	11,748

The Directors are proposing a final 2018 dividend of 0.6 pence (2017: 6.90 pence) per share totalling £691,000 (2017: £7,947,000).

The proposed final dividend is subject to approval by shareholders passing a written resolution and accordingly has not been included as a liability in these financial statements.

11 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the period attributable to shareholders by the weighted average number of shares.

	2018 £'000	2017 £'000
Basic weighted average number of shares	115,173,145	115,172,774
Diluted weighted average number of shares	115,331,969	115,724,645
Profit attributable to ordinary shareholders (£'000)	6,851	14,192
Basic earnings per share	5.95p	12.32p
Diluted earnings per share	5.94p	12.26p
Adjusted earnings per share:		
Profit attributable to ordinary shareholders (£'000)	6,851	14,192
Adjusting items (note 5)	2,595	7,872
Tax effect of adjustments	(1,762)	(1,014)
Profit after tax and before adjusting items	7,684	21,050
Basic adjusted earnings per share	6.67p	18.28p
Diluted adjusted earnings per share	6.66p	18.19p

The difference between the basic and diluted average number of shares represents the dilutive effect of share options in existence.

The diluted weighted average number of ordinary shares is calculated using the following:

	2018 £'000	2017 £'000
Ordinary shares in issue at the start of the period	115,172,774	108,505,494
Effect of shares issued for the Co-op acquisition (full year)	-	6,667,280
Effects of shares issued during the period	741	-
Total shares in issue at the end of the year	115,173,515	115,172,774
Effect of shares to be issued for the long-term incentive plan (LTIP)	158,825	551,871
Weighted average number of ordinary shares at the end of the period	115,332,340	115,724,645

12 Property, plant and equipment

	Land and buildings £'000	Furniture, fittings and equipment £'000	Total £'000
Cost or valuation			
At 28 November 2016	34,679	90,406	125,085
Additions	8,727	15,981	24,708
Acquired through business combinations	29,839	4,410	34,249
Classified as held for sale	-	3,044	3,044
Disposals	(5,242)	(3,690)	(8,932)
At 26 November 2017	68,003	110,151	178,154
At 27 November 2017	68,003	110,151	178,154
Additions	5,849	13,968	19,817
Acquired through business combinations	726	1,314	2,040
Disposals	(15,473)	1,429	(14,044)
Transfers to software	(1,133)	-	(1,133)
At 25 November 2018	57,972	126,862	184,834
Depreciation			
At 28 November 2016	13,116	45,186	58,302
Charge for period	4,235	10,761	14,996
Disposals	(274)	(1,525)	(1,799)
Impairment	-	746	746
Classified as held for sale	-	2,344	2,344
At 26 November 2017	17,077	57,512	74,589
At 27 November 2017	17,077	57,512	74,589
Charge for the period	4,678	11,678	16,356
Disposals	(349)	(1,279)	(1,628)
Impairment	-	3,297	3,297
Transfers to software	(94)	-	(94)
At 25 November 2018	21,312	71,208	92,520
Carrying amount			
At 25 November 2018	36,660	55,654	92,314
At 26 November 2017	50,926	52,639	103,565

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

12 Property, plant and equipment continued

During the year the Group disposed of property in sale and leaseback transactions, the net book value of these properties at disposal was £13,855,000.

Included within fixture and fittings is £2,755,000 of finance lease assets.

For impairment testing the Group classes each branch as a CGU (cash generating unit). Each CGU was tested for impairment at the period end date. Management recognise an impairment where the recoverable amount of the CGU does not exceed its carrying value at the balance sheet date. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a three-year period, which has been approved by management. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a weighted average cost of capital (WACC) of 11.75% (2017: 8.9%). The change in WACC is driven by a decrease in share price and reduction in borrowings.

The discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis. In assessing the EBITDA sensitivities, we have also considered the potential downside from Brexit and related mitigation, the impact of which would not affect the carrying values. Further detail of our considerations and sensitivities are included within going concern assessment in our accounting policies.

The annual impairment testing resulted in an impairment charge of £3,297,000 against branch assets.

13 Intangible assets

	Goodwill £'000	Other intangible assets £'000	Total £'000
Cost or valuation			
At 28 November 2016	157,292	5,872	163,164
Additions	91,442	929	92,371
Fair value adjustment for goodwill	(560)	–	(560)
Deferred tax on fair value adjustment of land and buildings	3,377	–	3,377
At 26 November 2017	251,551	6,801	258,352
At 27 November 2017	251,551	6,801	258,352
Additions	2,029	1,478	3,507
Transfers from PPE	–	1,133	1,133
At 25 November 2018	253,580	9,412	262,992
Amortisation			
At 28 November 2016	4,234	4,579	8,813
Amortisation charge	–	640	640
At 26 November 2017	4,234	5,219	9,453
At 27 November 2017	4,234	5,219	9,453
Amortisation charge	–	698	698
Transfers from PPE	–	94	94
At 25 November 2018	4,234	6,011	10,245
Carrying amount			
At 25 November 2018	249,346	3,401	252,747
At 26 November 2017	247,317	1,582	248,899

Software includes £1,391,000 of internally generated development costs.

Transfers in the year relate to the reallocation of IT development costs, previously classified within tangible assets.

Amortisation expenses of £698,000 (2017: £640,000) are included in administrative expenses.

Goodwill acquired in a business combination is not amortised, but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired.

Management recognise an impairment where the recoverable amount of the CGU does not exceed the carrying value of goodwill. For the purpose of goodwill, in line with the accounting policy, the business manages and makes decisions as one group of CGUs and therefore impairment is assessed on that single group. The recoverable amount of the CGU is determined from value in use calculations with a discounted cash flow model used to calculate this amount. Management has determined the values assigned to each of the key assumptions.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a three-year period, which has been approved by management. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a weighted average cost of capital (WACC) of 11.75% (2017: 8.9%). The change in WACC is driven by a decrease in share price and reduction in borrowings.

The discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis. In assessing the EBITDA sensitivities, we have also considered the potential downside from Brexit and related mitigation, the impact of which would not affect the carrying value. Further detail of our considerations and sensitivities are included within going concern assessment in our accounting policies.

Upon review of impairment, management have calculated the recoverable amount and it exceeds the carrying amount and therefore have not included an impairment charge.

Significant estimates

Change in discount rate

The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions including a 2 percentage point change in WACC, management have concluded that the carrying amount of goodwill would be likely to exceed the value in use.

Growth rate

Management have assumed a long term growth rate to perpetuity after three years of nil, which is considered a prudent basis. The growth rate in the next three years is based on managements expectation of sales growth.

Budgeted cash flows

Management have conducted sensitivity analysis on the CGUs VIU by reducing the anticipated future cash flows. A reduction of 2.2% in forecast cash flows would reduce the headroom to nil.

14 Investments

	2018 £'000	2017 £'000
Investments at cost	36	36

The investments relate to shares held in an entity outside the Group.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

14 Investments continued

Group subsidiaries

Details of the Group subsidiaries as at 25 November 2018 are as follows:

All are held by the Company unless stated. All subsidiaries are registered at the same address as McColl's Retail Group plc, except for those registered in Scotland, whose registered address is Unit 11, The Avenue, Newton Mearns, Glasgow, G77 6AA.

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2018	Proportion of ownership interest and voting rights held 2017
A Harris Limited*	Dormant	Scotland	100%	100%
Birrell Limited*	Dormant	Scotland	100%	100%
Bracklands Limited*	Property Company	Scotland	100%	100%
Charnwait Management Limited*	Retailing	England and Wales	100%	100%
Clark Retail Limited*	Retailing	Scotland	100%	100%
Dillons Stores Limited*	Retailing	England and Wales	100%	100%
Forbouys Limited*	Dormant	England and Wales	100%	100%
Key Food Stores Limited*	Intermediate Holding Co	England and Wales	100%	100%
Lavells Limited*	Dormant	England and Wales	100%	100%
Lewis Meeson Limited*	Dormant	England and Wales	100%	100%
Marshall Group Limited*	Corporate activities	England and Wales	100%	100%
Martin McColl Limited*	Retailing	England and Wales	100%	100%
Martin McColl Retail Limited*	Intermediate Holding Co	England and Wales	100%	100%
Martin Retail Group Limited*	Retailing	Scotland	100%	100%
Martin the Newsagent Limited*	Dormant	England and Wales	100%	100%
NSS Newsagents Limited*	Dormant	England and Wales	100%	100%
NSS Newsagents Retail Limited*	Dormant	England and Wales	100%	100%
Price Smashers Limited*	Intermediate Holding Co	England and Wales	100%	100%
RS McColl (UK) Limited*	Dormant	England and Wales	100%	100%
Smile Holdings Limited*	Intermediate Holding Co	England and Wales	100%	100%
Smile Property Limited*	Dormant	England and Wales	100%	100%
Smile Stores Limited*	Retailing	England and Wales	100%	100%
Thistledove Limited*	Intermediate Holding Co	England and Wales	100%	100%
TM Group Limited*	Dormant	England and Wales	100%	100%
TM Group Holdings Limited*	Predecessor Holding Co	England and Wales	100%	100%
TM Pension Trustees Limited*	Dormant	England and Wales	100%	100%
TM Vending Limited*	Corporate Activities	England and Wales	100%	100%
Tog Limited*	Intermediate Holding Co	England and Wales	100%	100%
Trents Leisure Limited*	Dormant	England and Wales	100%	100%

* Indicates direct investment of the company.

From the above table the following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 25 November 2018: Bracklands Limited, Charnwait Management Limited, Clark Retail Limited, Dillons Stores Limited, Martin McColl Limited, Martin McColl Retail Group Limited, Martin Retail Group Limited, Smile Stores Limited, Thistledove Limited, TM Group Holdings Limited, TM Vending Limited. All the subsidiaries are included in the Group consolidated financial statements for the period.

The parent company will guarantee the debts and liabilities of these UK subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

15 Business combinations

During the period, the Group made 11 trade and asset acquisitions, none of which were individually considered material to the Group. An immaterial contingent liability is recognised in respect of off profile stock and store dilapidations. The trade goodwill acquired represents the established reputation of the business and is not expected to be deductible for tax purposes. The cash consideration for these acquisitions and the assets acquired are summarised as follows:

	2018 £'000
Tangible fixed assets	2,040
Inventory	444
Goodwill	2,029
Cash consideration	4,513

16 Inventories

	2018 £'000	2017 £'000
Finished goods and goods for resale	77,146	76,265
Classified as held for sale	-	(300)
	77,146	75,965

17 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	3,269	1,945
Supplier rebates	25,002	24,746
Prepayments	8,384	6,972
Other receivables	5,329	6,238
Transferred to assets held for sale	-	(91)
Total current trade and other receivables	41,984	39,810

Ageing of past due trade receivables

	2018 £'000	2017 £'000
31 to 60 days	262	318
61 to 90 days	103	509
Greater than 90 days	360	376
	725	1,203

Ageing of past due supplier rebates receivables

	2018 £'000	2017 £'000
31 to 60 days	482	1,299
61 to 90 days	97	818
Greater than 90 days	535	621
	1,114	2,738

18 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	28,547	14,273

19 Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade payables	164,110	119,400
Accrued expenses	30,814	27,432
Holiday pay accrual	1,272	1,281
Social security and other taxes	9,868	9,321
Other payables	2,107	1,925
Accrued interest	335	394
Deferred income	4,831	4,385
Classified as assets held for sale	-	(468)
	213,337	163,670
Non-current		
Deferred income	9,552	10,367
	9,552	10,367

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers no interest is charged on the trade payables, but for certain suppliers we have agreement to extend payment terms for which interest is charged. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

20 Loans and borrowings

	2018 £'000	2017 £'000
<i>Current</i>		
Finance lease liabilities	2,148	1,799
	2,148	1,799
<i>Non-current</i>		
Bank borrowings	125,500	154,500
Unamortised issue costs	(1,458)	(1,532)
Finance lease liabilities	947	1,754
	124,989	154,722

The long-term loans are secured by a fixed charge over the Group's head office property together with a floating charge over the Group's assets.

In November 2018, the Group amended some of the terms of the existing facility. The Group has an amortising £87,500,000 term loan and a £100,000,000 revolving facility with a £50,000,000 accordion. The current facility drawn as at 25 November 2018 is £125,500,000 (2017: £154,500,000).

Details of loans and hire purchase obligations repayable within two to five years are as follows:

	2018 £'000	2017 £'000
Term loan and revolving facility available until July 2021	125,500	154,500
Finance lease liabilities	947	1,754
	126,447	156,254

21 Net debt

	Note	2018 £'000	2017 £'000
Cash at bank and in hand	18	28,547	14,273
		28,547	14,273
Term loan and revolving facility available until July 2021		(125,500)	(154,500)
Less: unamortised issue costs		1,458	1,532
		(124,042)	(152,968)
Amounts due under finance lease obligations		(3,095)	(3,552)
Net debt		(98,590)	(142,247)

Analysis of net debt

	2017 £'000	Cash flow £'000	Other non-cash movements £'000	2018 £'000
Cash and short-term deposits	14,273	14,274	-	28,547
	14,273	14,274	-	28,547
Bank borrowings	(152,968)	29,000	(74)	(124,042)
Finance lease liabilities	(3,552)	457	-	(3,095)
	(156,520)	29,457	(74)	(127,137)
	(142,247)	43,731	(74)	(98,590)

22 Leases and commitments

Group operating leases

The Group leases various properties under non-cancellable operating leases. The terms of the property leases vary, with rent reviews every three to five years and many have break clauses.

The total future value of minimum lease payments is as follows:

	2018 £'000	2017 £'000
Land and buildings		
Within one year	32,096	32,185
In two to five years	99,971	100,441
In over five years	119,655	117,885
	251,722	250,511

As set out in note 4 property rental income earned during the year was £3,249,000 (2017: £3,224,000). All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2018 £'000	2017 £'000
Within one year	283	273
Within one to five years	549	427
After five years	382	261
	1,214	961

Finance leases

The Group acquires the majority of its motor vehicles and LED lighting under contract purchase agreements and such assets are generally classified as finance leases.

Future lease payments are due as follows:

	2018 £'000	2017 £'000
Amounts due within one year	2,349	1,882
Amounts due within one to five years	1,073	1,840
	3,422	3,722
Less future interest	(327)	(170)
	3,095	3,552

Other financial commitments

In order to manage its exposure to fluctuating energy prices, during the year the Group entered into contracts to purchase 64.4 MW of electricity at a fixed price from SSE. The contracts allow for a 10% over or underutilisation of the power contracted at the rates secured. While management acknowledge that the forward contracts in place are derivatives, they cannot be traded and are therefore treated as contracts that secure a pre-agreed price for electricity requirements to operate the store portfolio. These are not on the balance sheet and are used to give certainty over a key cost line to the business.

23 Provisions

	Dilapidations £'000	Onerous contracts £'000	Total £'000
At 27 November 2017 (including held for sale)	3,870	1,231	5,101
Additional provisions	871	1,138	2,009
Utilised during the period	(681)	(931)	(1,612)
Unwinding of the discount included in provisions	14	157	171
At 25 November 2018	4,074	1,595	5,669
Non-current liabilities	–	1,042	1,042
Current liabilities	4,074	553	4,627

Dilapidations

The provision includes estimates for certain properties for which the extent of the dilapidation has not been established. It is expected that most of these costs will be incurred in the next five years.

Onerous contracts

A provision is recognised for the present value of the unavoidable costs of the lease net of expected benefits for all leases that have been identified as onerous. The onerous lease provisions are recognised for a period of up to two years.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

24 Deferred tax

Deferred tax assets and liabilities

	Asset £'000	Liability £'000	Net deferred tax £'000
2018			
Pension benefit obligations	–	(2,018)	(2,018)
Revaluation of property, plant and equipment	–	(957)	(957)
Revaluation of intangible assets	–	(3,920)	(3,920)
Other items including share options and temporary differences	97	–	97
	97	(6,895)	(6,798)
2017	Asset £'000	Liability £'000	Net deferred tax £'000
Pension benefit obligations	–	(1,744)	(1,744)
Revaluation of property, plant and equipment	–	(3,174)	(3,174)
Revaluation of intangible assets	–	(3,610)	(3,610)
Other items	172	–	172
	172	(8,528)	(8,356)

Deferred tax movement during the period

	At 27 November 2017 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	At 25 November 2018 £'000
Pension benefit obligations	(1,744)	(124)	(150)	–	(2,018)
Revaluation of property, plant and equipment	(3,174)	2,182	–	35	(957)
Revaluation of intangible assets	(3,610)	(310)	–	–	(3,920)
Other items including share options and temporary differences	172	(76)	–	–	96
Net tax assets/(liabilities)	(8,356)	1,672	(150)	35	(6,799)

Deferred tax movement during the prior period:

	At 28 November 2016 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	At 26 November 2017 £'000
Pension benefit obligations	(1,020)	(207)	(517)	–	(1,744)
Revaluation of property, plant and equipment	(422)	733	–	(3,485)	(3,174)
Revaluation of intangible assets	(3,414)	(196)	–	–	(3,610)
Other items		101	–	71	172
Net tax assets/(liabilities)	(4,856)	431	(517)	(3,414)	(8,356)

Deferred tax has arisen owing to accelerated capital allowances, business combinations, pension deficit/surplus and other temporary differences and also in respect of the taxable gains arising on the disposal of intangible fixed assets where the gains have been rolled into replacement assets.

Deferred tax at 25 November 2018 has been measured at 17% (2017: 17%) being the tax rate enacted at the balance sheet date expected to be effective for future periods.

25 Authorised, issued and fully paid share capital

	Number of ordinary shares 0.1 pence each	Share capital £'000	Share premium £'000
At 28 November 2017	115,172,774	115	12,579
Shares issued during the period	741	–	1
At 25 November 2018	115,173,515	115	12,580

The Board has authorised the allotment of shares equal to the nominal value of £77,000.

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 52 weeks ending 25 November 2018 or 52 weeks ending 26 November 2017.

The shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held. Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.

26 Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

At 25 November 2018, the Group has no material contingent liabilities. (2017: £600k).

27 Financial instruments and risk management

Interest rate risk

The Group is exposed to interest rate risk from its use of interest-bearing financial instruments. This is a market risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. There are no financial instruments held at level 1, 2 or 3 fair value.

Floating rate financial liabilities on which interest is paid bear interest at rates based on 1 month LIBOR. It is the Group's policy to consider the need for interest rate hedging on an ongoing basis. No interest rate hedging is currently in place although this is kept under review by management.

Interest rate risk profile of financial liabilities and assets

The interest rate profile of the financial liabilities of the Group is as follows:

	2018 £'000	2017 £'000
Fixed rate financial liabilities	3,095	1,836
Floating rate financial liabilities	125,500	156,216
Financial liabilities on which no interest is paid	218,055	165,185
Financial liabilities	346,650	323,237

The floating rate financial liabilities comprise a sterling designated working capital facility and hire purchase borrowings. The interest rate profile of the financial assets of the Group is as follows:

	2018 £'000	2017 £'000
Financial assets on which no interest is paid	70,531	54,692

If interest rates had been 0.5% higher during the period ended 25 November 2018, with all other variables held constant, the post-tax profit for the period would have been approximately £475,000 lower (2017: £339,000 lower) as a result of higher interest expense.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges on its debt instruments and repayments of principal. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Management carries out daily cash forecasts covering the next three to four periods. In addition management consider liquidity as part of the annual budgeting and long-term planning process.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and credit facilities to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date, was as follows:

	2018 £'000	2017 £'000
Up to 3 months or on demand	211,584	155,268
In 3–12 months	8,940	1,349
In more than one year but not more than two years	20,611	3,561
In more than two years but not more than five years	105,515	162,778
In more than five years	-	282
	346,650	323,238

The disclosures above are the contractual undiscounted cash flows and exclude unamortised finance costs.

Borrowing facilities

The Group had certain borrowing facilities available to it for general working capital requirements, of which £38,000,000 has been drawn at 25 November 2018 (2017: £57,000,000).

Credit risk

Given the nature of the Group's operations, credit risk is not considered significant and arises mainly from cash deposits held with banks and financial institutions which have a good credit rating. Credit risk also arises from trade and other receivables which comprise amounts due from credit card institutions and rebates due from suppliers.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

27 Financial instruments and risk management continued

Set out below is a comparison by category of carrying values and fair values of all the Group's financial assets and financial liabilities:

	26 November 2018		27 November 2017	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial liabilities				
Trade and other short-term payables	(208,503)	(208,503)	(154,818)	(154,818)
Hire purchase borrowings	(3,095)	(3,095)	(3,552)	(3,552)
Long-term borrowings	(125,500)	(125,500)	(154,500)	(154,500)
Long-term payables	(9,552)	(9,552)	(10,368)	(10,368)
	(346,650)	(346,650)	(323,238)	(323,238)
Financial assets				
Other investments carried at cost	36	36	36	36
Classified as loans and receivables				
Short-term receivables	41,948	41,948	40,393	40,393
Cash and short-term deposits	28,547	28,547	14,273	14,273
	70,531	70,531	54,702	54,702

The long-term rating for all financial institution counter parties ranges from AAA to Baa1 per Moody's rating scale.

Capital disclosures

The Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern and to provide an adequate return to shareholders. Capital comprises the Group's equity i.e. share capital including share premium and retained earnings, excluding pension asset and liability.

The Group's net debt to capital ratio is as follows:

	2018 £'000	2017 £'000
Net debt	98,590	142,247
Total equity (as defined above)	129,608	135,651
Debt to capital ratio	0.76	1.05

28 Retirement benefit schemes

The Group accounts for pensions in accordance with IAS 19.

The Group operates two final salary defined benefit pension schemes in the UK, the TM Group Pension Scheme and the TM Pension Plan, in addition to several defined contribution schemes which require contributions to be made to separately administered funds. Pension costs for defined contribution schemes were £1,649,000 (2017: £1,559,000).

The two defined benefit pension schemes are subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The schemes are operated under trust and, as such, the trustees of the schemes are responsible for operating the schemes and they have a statutory responsibility to act in accordance with the Trust Deed and Rules, in the best interest of the beneficiaries of the schemes, and UK legislation (including Trust Law).

The nature of the schemes exposes the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

- members living for longer than expected;
- higher than expected actual inflation;
- lower than expected investment returns; and
- the risk that movements in the value of the schemes' liabilities are not met by corresponding movements in the value of the schemes' assets.

The sensitivity analysis disclosed is intended to provide an indication on the impact on the value of the schemes' liabilities of the risks highlighted.

The ongoing funding position of the schemes are formally assessed on a triennial basis by an independent qualified actuary. The results of the valuation are used by the Group and the trustees of the schemes to agree a contribution schedule as required. Further details are set out in the valuation documentation.

The last completed triennial full actuarial valuation of the schemes was carried out at 31 March 2016. Deficit repair contributions were agreed at £944,000 per annum from 1 April 2017, £1,150,000 per annum from 1 April 2018, and £1,400,000 per annum from 1 April 2019 to November 2025, index-linked, and subject to review at future valuations. Additional contributions were agreed towards the costs of running the schemes.

The figures for this financial information have been based, in accordance with IAS 19, on valuations using the projected unit method.

The disclosures are based upon the valuation of the schemes which were carried out as at 31 March 2016, updated to 25 November 2018 by qualified independent actuaries. The main assumptions when valuing the assets and liabilities of the schemes under IAS 19 (revised) are as follows:

	Group pension schemes	
	2018 %pa	2017 %pa
RPI inflation	3.20	3.15
CPI inflation	2.20	2.15
Rate of increase in pensionable salaries	n/a	n/a
Rate of increase to pensions in payment:		
5% LPI	3.10	3.05
2.5% LPI	2.20	2.15
Discount rate	2.90	2.60

None of the Group's own financial instruments or properties, either held or occupied by the Group, are held as assets within either schemes.

	TM Group Pension Scheme		TM Pension Plan	
	2018 years	2017 years	2018 years	2017 years
Demographic assumptions				
Life expectancy of a pensioner aged 65 – male	86.9	87.0	87.0	87.2
Life expectancy of a pensioner aged 65 – female	88.9	88.9	88.9	88.9
Life expectancy at age 65 for someone aged 45 – male	88.3	88.5	88.3	88.4
Life expectancy at age 65 for someone aged 45 – female	90.5	90.6	90.4	90.5

	TM Group Pension Scheme		TM Pension Plan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Notes to the balance sheet				
Fair value of scheme assets	83,313	89,097	46,988	48,104
Present value of funded scheme obligations	(69,191)	(75,488)	(49,297)	(51,456)
Net pension asset/(liability)	14,122	13,609	(2,309)	(3,352)

On its balance sheet, the Group recognises £14,122,000 surplus in respect of the TM Group Pension Scheme. Under IAS 19, the Group as employer is allowed to do this as it has unconditional right to any surplus once the last Group benefits have been paid.

	TM Group Pension Scheme		TM Pension Plan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Notes to the income statement				
Total service cost	451	290	749	284
Net interest	(353)	(319)	69	128
Total included in 'staff costs'	98	(29)	818	412

	TM Group Pension Scheme		TM Pension Plan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Notes to the statement of comprehensive income (SCI)				
Return on assets excluding amounts included in net interest	(1,985)	3,910	(207)	3,070
Losses due to changes in demographic assumptions	422	1,095	306	268
Gains due to changes in financial assumptions	2,461	(2,415)	1,763	(1,641)
Gains due to plan experience	(580)	(339)	(1,299)	(909)
Total recognised in SCI	318	2,251	563	788

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

28 Retirement benefit schemes continued

	TM Group Pension Scheme		TM Pension Plan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Recognition of defined benefit obligation				
Opening defined benefit obligation	75,489	78,303	51,456	51,635
Service costs (admin costs)	273	290	225	284
Past service costs (incl. curtailment)	178	-	524	-
Interest cost on defined benefit obligation	1,862	2,182	1,324	1,438
Gains due to changes in demographic assumptions	(422)	(1,095)	(306)	(268)
(Gains)/losses due to changes in financial assumptions	(2,461)	2,415	(1,765)	1,641
Losses due to plan experience	580	339	1,299	909
Benefits paid including expenses	(6,308)	(6,946)	(3,460)	(4,183)
Closing defined benefit obligation	69,191	75,488	49,297	51,456

	TM Group Pension Scheme		TM Pension Plan	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Recognition of defined benefit obligation				
Opening fair value of scheme assets	89,098	89,249	48,104	46,791
Interest income on scheme assets	2,215	2,501	1,255	1,310
Employer contributions	293	383	1,296	1,116
Return on assets excluding amounts included in net interest	(1,985)	3,910	(207)	3,070
Benefits paid including expenses	(6,308)	(6,946)	(3,460)	(4,183)
Closing fair value of scheme assets	83,313	89,097	46,988	48,104

The Group expects to contribute £319,000 to the TM Group Pension Scheme and £1,615,000 to the TM Pension Plan in the period ended 24 November 2019.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	TM Group Pension Scheme			
	2018 £'000	2018 %	2017 £'000	2017 %
Derivatives (unquoted)	(893)	(1)	625	1
Overseas bonds (quoted)	34,583	42	38,302	42
Government bonds (quoted)	25,715	31	25,655	29
Real estate (quoted)	4,392	5	4,207	5
Cash and cash equivalents (quoted)	1,671	2	1,600	2
Overseas bonds (unquoted)	17,845	21	18,710	21
	83,313	100	89,099	100

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	TM Group Pension Plan			
	2018 £'000	2018 %	2017 £'000	2017 %
Derivatives (unquoted)	(102)	-	608	1
Overseas bonds (unquoted)	5,948	13	6,237	13
Government bonds (quoted)	10,766	23	10,510	22
Property (quoted)	4,392	9	4,207	9
Cash and cash equivalents (quoted)	843	2	1,279	3
Infrastructure (unquoted)	7,941	17	7,698	16
Overseas bonds (quoted)	17,200	36	17,565	36
	46,988	100	48,104	100

The investment strategy of the schemes is driven by their liability profiles. In particular:

- The weighted average duration of the schemes' liabilities is 13 years for the TM Group Pension Scheme and 15 years for the TM Pension Plan.
- Approximately 30% of the liabilities of the TM Group Pension Scheme and 40% of the liabilities of the TM Pension Plan are in respect of deferred members, with the remaining liabilities in respect of pensioner members.
- Annual benefit payments are expected to peak in 2025 for the TM Group Pension Scheme, and in 2030 for the TM Pension Plan.

The assets of the schemes are managed by an independent pension and investment consultant. The schemes invest in different types of bonds (including corporate and government bonds) in order to align movements in the value of their assets with movements in their liabilities arising from changes in market conditions.

Policy for recognising actuarial gains and losses

The Group recognises actuarial gains and losses immediately in the statement of comprehensive income.

Sensitivity analysis	TM Group Pension Scheme		TM Pension Plan	
	Change in actuarial value of liabilities on 2018 £'000	Change in actuarial value of liabilities on 2017 £'000	Change in actuarial value of liabilities on 2018 £'000	Change in actuarial value of liabilities on 2017 £'000
Change in assumptions compared with 25 November 2018 and 26 November 2017 actuarial assumptions				
0.5% decrease in discount rate	4,637	5,355	3,728	4,071
1 year increase in member life expectation	2,768	3,020	1,972	2,058
0.5% decrease in inflation (including impact of pension increases)	2,020	2,351	2,542	2,746

The sensitivities disclosed are calculated using approximate methods taking into account the weighted average duration of the schemes' liabilities (13 years for the TM Group Pension Scheme and 15 years for the TM Pension Plan). This is the same approach as in previous years.

29 Share-based payments

The Group makes equity-settled share awards to Executive Directors and employees under two different share option plans, a Long Term Incentive Plan (LTIP) and a Company Share Options Scheme (CSOP). Further details of the plans and amounts recognised in respect of these are provided below.

1) Long term incentive plan (LTIP)

Scheme details and movements

The plan provides for annual awards of performance shares to eligible participants. Vesting is based on three-year performance. Executive Directors' vested shares will be subject to an additional two-year holding period before being released to participants. Options are exercisable at a price of £0.001. The Remuneration Committee has discretion to reduce any unvested long term incentive awards (including those in a holding period), or to vary the opportunities for future awards, in case of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back vested long term incentive awards. Participants are eligible to receive cash or shares equal to the value of dividends that would have been paid over the vesting period on shares that vest.

Awards will vest on achievement of financial performance measures, measured over a three-year performance period, to include both earnings per share (EPS) and total shareholder return (TSR). EPS will receive a weighting in the LTIP of at least 50%. For all grants to date the weightings on EPS and TSR were 70% and 30% respectively. TSR will be measured on a relative basis against a relevant peer Group. Other measures may be considered in future years to help capture the strategic goals of the business and may be used in conjunction with these metrics. Nothing will vest below threshold. 25% of each element will vest for achievement of threshold performance under each metric, then increase on a straight-line basis to full vesting for achieving stretch performance. The Committee has discretion to adjust the formulaic LTIP award downwards (or upwards with shareholder consultation), within the limits of the plan, to ensure alignment of pay with the underlying performance of the business.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

29 Share-based payments continued

The movements in the number of share options during the period were as follows:

	2018 Number	2017 Number
Outstanding, start of period	1,988,210	1,410,740
Granted during the period	952,929	778,221
Forfeited during the period	(631,495)	(200,751)
Outstanding, end of period	2,309,644	1,988,210

The movements in the weighted average exercise price of share options during the period were as follows:

	2018 £'000	2017 £'000
Outstanding, start of period	1.70	1.58
Granted during the period	2.02	1.86
Forfeited during the period	1.87	1.48
Outstanding, end of period	1.79	1.70

No share options were exercised during the period.

Outstanding share options

Details of share options outstanding at the end of the period are as follows:

	2018	2017
Weighted average exercise price (£)	1.79	1.70
Number of share options outstanding	2,309,644	1,988,210
Expected weighted average remaining life (years)	1.26	1.63

The contractual weighted average remaining life is 1.26 years.

The exercise price range is £1.70 to £2.02.

Fair value of options granted

The weighted average fair value per TSR unit (excluding dividends) of options granted during the period at measurement date was £1.10.

The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below. The dates of grant of the options were 1 March 2018 and 15 August 2018 (2017: 15 March 2017).

	15 August 2018	1 March 2018	2017	2016
Share price at date of grant (£)	1.34	2.30	1.86	1.68
Expected volatility (%)	39.00	35.00	35.00	33.46
Vesting period in years	3.00	3.00	3.00	3.00
Expected dividends, expressed as a dividend yield (%)	7.86	4.43	5.48	6.08
Risk-free interest rate (%)	0.68	0.93	0.06	0.33
Number of employees subject to option grant	2	10	9	6
Number of shares covered by option	277,776	675,153	778,221	803,309

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Risk-free rate is the yield to maturity on the date of grant on zero-coupon UK government bond with a term commensurate with the remaining performance period at date of grant.

McColl's embedded performance is based on TSR performance banked over the period from the start of the averaging period to the date of grant.

Comparators embedded performance is based on the TSR performance banked by each LTIP comparator over the period from the start of the averaging period to the date of grant.

Correlation is based on an historical analysis of the average TSR correlation observed across the LTIP comparator group as measured fortnightly over a historic period commensurate with the remaining performance period at date of grant.

The fair value of services received during the period were the tenure of employment.

IFRS 2 requires that TSR-vesting shares under McColl's LTIP awards be expensed based on fair value, taking into account the probability of achieving the market-based vesting condition (relative TSR). The probability of achieving the vesting condition is influenced by the performance already delivered between the start of the share price averaging period and the date of grant. McColl's has used a Monte-Carlo simulation model to determine the grant-date fair value of performance shares for the TSR element of the scheme. Each Monte-Carlo iteration calculates the future value of a performance share by projecting forward a future TSR scenario for each of its TSR comparators. Valuations are based on the average of 10,000 iterations of the Monte-Carlo model.

Charge/credit arising from share-based payments

The total charge for the year for equity-settled share-based payments was £29,000 (2017: £393,000), of which £182,000 related to the reversal of prior year charge.

The carrying value of the liability arising from share-based payments was £422,000 (2017: £393,000).

2) Company share option scheme (CSOP)

Scheme details and movements

The scheme began operation in August 2015. The scheme meets the criteria of an equity-settled share-based payment as the entity receives goods or services as consideration for its own equity instruments (including shares or share options). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For CSOPs granted during the year, performance conditions are 100% TSR based, which are consistent with the LTIP performance conditions. For CSOPs granted prior to 2018, performance conditions are 100% dependent on reaching EPS growth targets which are consistent with LTIP performance conditions. These are detailed in the Remuneration report on page 69. EPS is a non-market based vesting condition and therefore fair value is determined based upon the probability of achieving the target.

The movements in the number of CSOP share options during the period were as follows:

	2018 Number	2017 Number
Outstanding, start of period	439,335	287,958
Granted during the period	157,568	176,064
Forfeited during the period	(65,325)	(24,687)
Outstanding, end of period	531,578	439,335

The movements in the weighted average exercise price of CSOP share options during the period were as follows:

	2018 £'000	2017 £'000
Outstanding, start of period	1.68	1.57
Granted during the period	2.30	1.86
Forfeited during the period	1.68	1.62
Outstanding, end of period	1.86	1.68

No options were exercised during the period.

Outstanding share options

Details of share options outstanding at the end of the period are as follows:

	2018	2017
Weighted average exercise price (£)	1.86	1.68
Number of share options outstanding	531,598	439,355
Expected weighted average remaining life (years)	4.43	1.54

The contractual weighted average remaining life is 4.43 years.

The exercise price range is £1.68 to £2.30.

Notes to the financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

29 Share-based payments continued

Fair value of options granted

The weighted average fair value per TSR unit of options granted during the period at measurement date was 37.2 pence.

The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below. The dates of grant of the options were 21 March 2018. CSOP shares issued in previous periods did not have a TSR performance measure.

	21 March 2018
Share price at date of grant (£)	2.30
Expected volatility (%)	35.00
Vesting period in years	3.00
Expected life of option in practice in years	3.00
Expected dividends, expressed as a dividend yield (%)	4.43
Risk-free interest rate (%)	0.93
Number of employees subject to option grant	47
Number of shares covered by option	157,568

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Charge/credit arising from share-based payments

The total charge for the year for CSOP equity-settled share-based payments was £29,000 (2017: £43,000), of which £43,000 related to the reversal of prior year charge.

The carrying value of the liability arising from share-based payments was £14,000 (2017: £43,000).

30 Related party transactions

Only the Directors are deemed to be key management personnel. All transactions between Directors and the Group are on an arm's length basis and no period end balances have arisen as a result of these transactions.

	2018 £'000	2017 £'000
Salaries and other short-term employee benefits	1,917	1,793
Share-based payments	29	228
	1,946	2,021

There were no material transactions or balances between the Group and its key management personnel or members of their close family.

31 Subsequent events

Management have evaluated subsequent events through 19 February 2018, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the Group financial statements.

Company balance sheet

for the 52 week period from 26 November 2017 to 25 November 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Investments	C4	77	77
Total non-current assets		77	77
Current assets			
Trade and other receivables	C5	49,088	59,367
Total current assets and net assets		49,088	59,367
Total assets		49,165	59,444
Shareholders' equity			
Equity share capital	C6	115	115
Share premium account	C6	12,580	12,579
Retained earnings ¹		36,470	46,750
		49,165	59,444

1 Included within retained earnings is profit of \$1,583,000 (2017: \$3,022,000).

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the Board of Directors on 17 February 2019.

Signed on behalf of the Board of Directors



Robbie Bell
Director

Company statement of changes in equity

for the 52 week period from 26 November 2017 to 25 November 2018

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 27 November 2017	115	12,579	46,750	59,444
Shares issued	–	1	–	1
Profit for the period	–	–	1,583	1,583
Dividends paid	–	–	(11,863)	(11,863)
As at 25 November 2018	115	12,580	36,470	49,165
	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 28 November 2016	115	12,579	55,476	68,170
Profit for the period	–	–	3,022	3,022
Dividends paid	–	–	(11,748)	(11,748)
As at 26 November 2017	115	12,579	46,750	59,444

Notes to the Company financial statements

for the 52 week period ended 25 November 2018

C1. Basis of preparation

The Company's financial period is the period from 27 November 2017 to 25 November 2018.

The parent company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of share capital, tangible fixed assets and intangible assets, presentation of a cash flow statement and related notes, standards not yet effective, impairment of assets, disclosures in respect of the compensation of key management personnel and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of McColl's plc.

The parent company financial statements are prepared on a going concern basis as set out in note 2 of the consolidated financial statements of the Group. The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the company alone.

A summary of the Company's significant accounting policies is set out below.

C2. Significant accounting policies

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

Deferred taxation

Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all temporary differences, except to the extent where a deferred tax liability arises from the initial recognition of goodwill or from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that the Directors consider that, on the basis of all available evidence, it is probable that there will be suitable future taxable profits from which the future reversal of the underlying differences can be deducted.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

C3. Staff costs including Directors' remuneration

The average number of employees (all Executive Directors of the Company) during the financial year was three (2017: three).

The Schedule 5 requirements of SI 2008/410 for Executive Directors' remuneration are included within the Remuneration Report on pages 57 to 73.

C4. Investments

Shares in subsidiaries

	25 November 2018 £'000	26 November 2017 £'000
Cost		
Investments	77	77

The carrying value of the investment in subsidiary undertakings has been reviewed at 25 November 2018 and no impairment charge is required.

The following information relates to all UK subsidiary undertakings of the Group during the period:

All subsidiaries are held by the Company unless stated. All subsidiaries are registered at the same address as McColl's Retail Group plc, except for those registered in Scotland, whose registered address is Unit 11, The Avenue, Newton Mearns, Glasgow G77 6AA.

The following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 25 November 2018. All the following subsidiaries are included on the Group's consolidated financial statements for the period.

The Group will guarantee the debts and liabilities of the below subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

All held by the Company unless stated

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of business
Bracklands Limited*	England and Wales	Ordinary shares	100%	Property Co
Charnwait Management Limited*	England and Wales	Ordinary shares	100%	Retail
Clark Retail Limited*	Scotland	Ordinary shares	100%	Retailing
Dillons Stores Limited*	England and Wales	Ordinary shares	100%	Retailing
Forbouys Limited*	England and Wales	Ordinary shares	100%	Dormant
Key Food Stores Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Lavells Limited*	England and Wales	Ordinary shares	100%	Dormant
Lewis Meeson Limited*	England and Wales	Ordinary shares	100%	Dormant
Marshall Group Limited*	England and Wales	Ordinary shares	100%	Corporate activities
Martin McColl Limited*	England and Wales	Ordinary shares	100%	Retailing
Martin McColl Retail Group Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Martin Retail Group Limited*	Scotland	Ordinary shares	100%	Retailing
Martin the Newsagent Limited*	England and Wales	Ordinary shares	100%	Dormant
NSS Newsagents Retail Limited*	England and Wales	Ordinary shares	100%	Dormant
Price Smashers Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
RS McColl (UK) Limited*	England and Wales	Ordinary shares	100%	Dormant
Smile Holdings Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Smile Property Limited	England and Wales	Ordinary shares	100%	Dormant
Smile Stores Limited*	England and Wales	Ordinary shares	100%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
TM Group Holdings Limited	England and Wales	Ordinary shares	100%	Predecessor Holding Co
TM Pension Trustees Limited*	England and Wales	Ordinary shares	100%	Dormant
TM Vending Limited*	England and Wales	Ordinary shares	100%	Corporate Activities
Tog Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co

* 100% held by a subsidiary undertaking.

Notes to the Company financial statements continued

for the 52 week period from 27 November 2017 to 25 November 2018

C5. Trade and other receivables

	25 November 2018 £'000	26 November 2017 £'000
Amounts owed by Group undertakings	49,088	59,367

C6. Authorised, issued and fully paid share capital

	Number of shares	Share capital £'000	Share premium £'000
As at 27 November 2017	115,172,774	115	12,579
Issued during the period	741	-	1
As at 25 November 2018	115,173,515	115	12,580

The Board has authorised the allotment of shares equal to the nominal value of £77,000.

All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 52 weeks ending 25 November 2018 or 52 weeks ending 26 November 2017.

The shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder have one vote per ordinary share held. Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.

C7. Dividends paid and proposed

The Board has recommended a final dividend of 0.6 pence per share (2017: 6.9pence), totalling £691,000, subject to shareholder approval at the Annual General Meeting to be held on 3 April 2019. The final dividend will be paid on 6 June 2019 to those shareholders on the register at the close of business on 26 April 2019. The payment of this dividend will not have any tax consequences for the Group. The interim dividend, declared and paid, was 3.4 pence per share (2017: 3.4p), totalling £3,916,000.

	25 November 2018 £'000	26 November 2017 £'000
<i>Declared and paid during the year:</i>		
Equity dividends on ordinary shares:		
Final dividend of 6.9p (2017: 6.8p)	7,947	7,832
Interim for 2018: 3.4p (2017: 3.4p)	3,916	3,916
Dividends paid	11,863	11,748
Proposed for approval by shareholders at the AGM:		
Final dividend for 2018: 0.6p (2017: 6.9p)	691	7,947

The proposed final dividend is subject to approval by shareholders passing a written resolution and accordingly has not been included as a liability in these financial statements.

Glossary of terms

Introduction

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs) of financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to IFRS measures and are not intended to be a substitute for IFRS measurements.

Purpose

The Directors believe that these APMs provide additional useful information on the underlying performance and position of McColl's.

APMs are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding McColl's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this period are as follows:

Like-for-like sales (LFL): This is a widely used indicator of a retailer's current trading performance and is a measure of growth in sales from stores that have been open for at least a year.

Sales from stores that have traded throughout the whole of the current and prior periods, and including VAT but excluding sales of fuel, lottery, mobile top-up, gift cards and travel tickets.

Adjusted EBITDA excluding property-related items: This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses and other adjusting items.

Property gains and losses: Are incomes and costs that arise from events and transactions in relation to the Group's property and not from the principal activity of the Group, i.e. that of an operator of convenience and newsagent stores.

Adjusting items: Relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's adjusted profit measures due to their size and nature in order to reflect management's view of the performance of the Group.

Adjusted operating profit: Operating profit before the impact of adjusting items as explained above.

Adjusted earnings per share: Earnings per share before the impact of adjusting items.

Glossary of terms continued

APM	Closest equivalent IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement			
<i>Revenue measures</i>			
Sales mix	No direct equivalent	Not applicable	The relative proportion or ratio of products sold compared to the same period in the prior year.
Like-for-like (LFL)	IFRS Revenue	Revenue YE17 £1,149m Add VAT £140m Excl. non store rev. £(160)m Excl. acq/closures £(45)m LFL Sales 2017 £1,084m Revenue 2018 £1,242m Add VAT £153m Excl. non store rev. £(170)m Excl. acq/closures £(156)m LFL Sales 2018 £1,069m LFL% (1.4)%	Like-for-like is a measure of growth in Group sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year). It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures. It's reported on an 'including VAT' basis, which aligns with the sales measurement by the field and stores teams, whose focus is on the retail performance.
Profit measures			
Adjusted EBITDA	Operating Profit	Note 6	This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses and other adjusting items, in order to provide shareholders with a measure of true underlying performance of the business.
Basic adjusted earnings per share (EPS)	Basic earnings per share	Note 9	This relates to profit after tax before adjusting items divided by the basic weighted average number of shares, in order to provide shareholders with a measure of true underlying performance of the business.
Diluted adjusted earnings per share	Diluted earnings per share	Note 9	The difference between basic and diluted metric is the impact of the dilutive effect of share options and warrants in existence.
Balance sheet measures			
Net debt	Borrowings less cash and related hedges	Note 11	Net debt comprises bank and other borrowings, finance lease payables, and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.

Other

Capital expenditure (Capex): The additions to property, plant and equipment and intangible assets.

Grocery lines: This includes ambient, fresh, frozen and household groceries, and food-to-go, but excludes impulse categories (including confectionery, crisps and snacks, soft drinks and ice cream), general merchandise, news and magazines, and services.

Quarter: The 'first quarter' refers to the 13-week period from 27 November 2017 to 25 February 2018, 'second quarter' refers to the 13-week period from 26 February 2018 to 27 May 2018, 'third quarter' refers to the 13-week period from 28 May 2018 to 26 August 2018 and 'fourth quarter' refers to the 13-week period from 27 August to 25 November 2018.

Profits/(losses) arising on property-related items: This relates to the Group's property activities including: gains and losses on disposal of property assets, sale and lease back of freehold interests; costs resulting from changes in the Group's store portfolio, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail operations of the business. They can be one-time in nature and can have a disproportionate impact on profit between reporting periods.

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