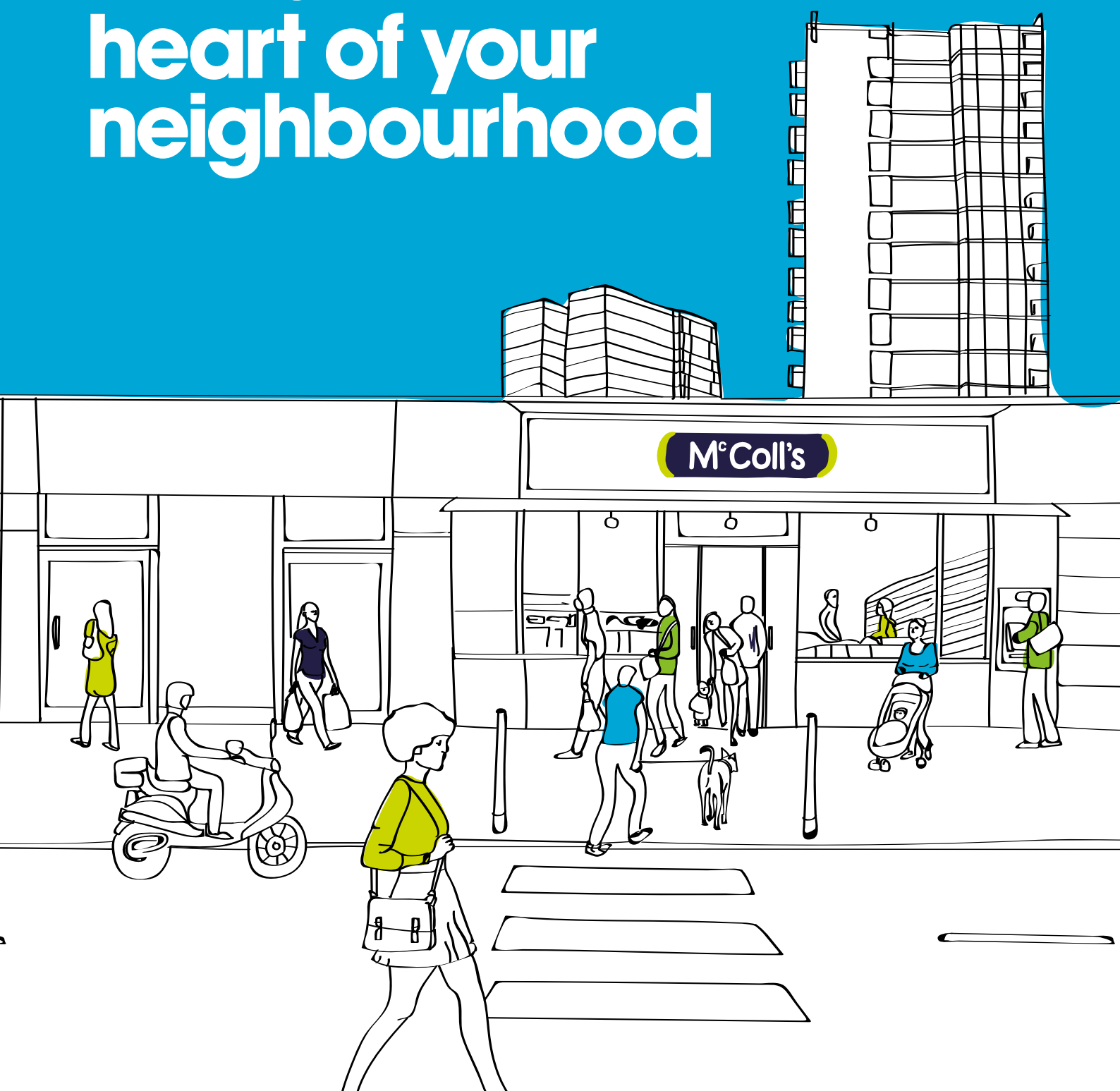


# At the heart of your neighbourhood



We are proud to be the UK's leading neighbourhood retailer, with a growing network of **1,315** convenience stores and newsagents.

We operate **799** McColl's convenience stores and **516** newsagents branded Martin's and, in Scotland, RS McColl.

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# Accelerating our growth

- In 2014, we again delivered a strong financial performance - increasing sales and profits, controlling costs and reducing debt.
- Our main market listing on the London Stock Exchange in February 2014 has provided the capital resources to accelerate our growth and success.
- We acquired a further 60 convenience stores and converted a further 45 of our newsagents to food and wine stores - bringing the period end number of convenience stores to 799. We are the second largest multiple convenience store business in the UK and the leading neighbourhood retailer.
- We converted a further 102 convenience stores to our premium format, offering a broader range of products. We now have 489 such stores.
- We modernised 277 of the 451 post offices in our stores, enabling these post offices to stay open for much longer, mirroring the hours that our stores are open. This is just one great example of how we are extending and improving the way we serve our customers in local neighbourhoods across the UK.

## Revenue

(£million)

2014	922.4
2013	869.4
2012	844.7

**£922.4m**

+6.1%<sub>2013</sub>

## Adjusted EBITDA<sup>1</sup>

(£million)

2014	37.3
2013	34.2
2012	33.3

**£37.3m**

+9.0%<sub>2013</sub>

## Operating profit before exceptional items

(£million)

2014	25.5
2013	22.5
2012	21.3

**£25.5m**

+13.2%<sub>2013</sub>

## Profit before tax after exceptional items

(£million)

2014	12.6
2013	4.4
2012	13.3

**£12.6m**

+187.7%<sub>2013</sub>

## Net debt

(£million)

2014	37.4
2013	86.2
2012	86.2

**£37.4m**

-56.6%<sub>2013</sub>

1. See note 7 on page 75

# Proud to be the UK's neighbourhood store



**John Coleman**  
Chairman and  
non-executive director

A handwritten signature in black ink that reads "John Coleman". The signature is fluid and cursive, with a long horizontal stroke at the end.

I am delighted in my first annual statement as chairman to report on a successful period with strong growth, good progress against our strategic objectives and a successful IPO.

#### **Continuing to grow and succeed**

Continued growth and strong financial performance were key parts of the story in 2014. So too was our ongoing commitment to extend the range of products and services we offer our customers in order to meet our aim to cater for their everyday needs with a fantastic friendly store on their doorstep.

#### **Listing on the main market**

On 28 February 2014 we successfully listed on the London Stock Exchange's main market. We were the first retail float of the year. Executing the full listing so quickly and effectively involved a great deal of intense work, particularly from our chief financial officer Jonathan Miller and his team.

The IPO was a key step forward for us as we continue to focus on growing our business of neighbourhood convenience stores across the UK. It enabled us to pay off relatively expensive debt, freeing up funds to fuel and accelerate our continued growth. It also enabled us to raise our profile and build our brand.

#### **Making board changes**

We made some significant changes to the board in 2014. I was appointed as an independent non-executive director in February and took on the non-executive chairmanship in July, enabling James Lancaster to focus on running the business as chief executive. Having established and led the business for over 40 years, it was



## Our brands

McColl's Retail Group is the holding company for a portfolio of convenience store and newsagent brands.



the right time following the successful IPO for James to make this change and we look forward to his continued exceptional leadership.

In July, Martyn Aguss resigned as chief operating officer and was replaced by Dave Thomas, a seamless promotion from within as Dave stepped up from his role as operations director. We look forward to Dave continuing to drive and improve our operations.

We also appointed two new independent non-executive directors in February, Sharon Brown and Georgina Harvey.

### Corporate governance

We are committed to operating to high standards of corporate governance, as we believe that doing so will contribute to the delivery of long term shareholder value. In readiness for listing, we established audit, remuneration and nomination committees.

### Outstanding contributions

As we have grown we have continued to recruit and develop increasing numbers of people, many of them from the local neighbourhoods we serve. We now have over 18,000 colleagues across the group and their tremendous commitment makes all the difference to our success. I'd like to thank all of them for their outstanding contributions.

### Dividend

The business continues to generate strong cash returns with which we intend to fund capital investment and dividend payments to shareholders. The board recommends a final dividend of 6.8 pence per share, making a total dividend of 8.5 pence for the 9 month period post IPO.

### Living up to our responsibilities

We know that our leading role in the UK's neighbourhoods comes with a great deal of responsibility and we focus on playing our part in ways that generate long term positive impact. As highlighted on pages 20-21 of this report, our responsible approach ranges from recruiting and developing thousands of local people to increasing our energy efficiency, and raising considerable funds for local good causes and charities.

### Prospects

Although economic activity across the UK is showing some signs of improvement, we are planning for continued pressure on consumer spending and an increasingly competitive convenience sector. Following the IPO, we have been able to accelerate our strategy. As we continue to grow and consolidate our role as the UK's neighbourhood store, I look forward to more years of great progress.

### John Coleman

Chairman and non-executive director

# A strong and growing business

Through our network of 1,315 neighbourhood stores, our 18,685 dedicated colleagues serve some 4.75m customers every week. We aim to continue to strengthen and grow our business by building on the key part our neighbourhood stores play in many people's daily lives.



## Convenience

**Our 799 convenience stores provide a great range of essential everyday products and services to local people living in neighbourhoods across the UK.**

From a pint of milk in the morning to an evening meal, from an open-all-hours post office to a great selection of fresh fruit and vegetables and food-to-go, from the newspapers delivered to your door to internet collection and returns around the corner – our convenience stores are at the heart of the UK's neighbourhoods.

## Newsagents

**With 516 newsagents across the country, we are the UK's No1 specialist confectioner, tobacconist and newsagent.**

Our newsagents are not only a strong and established part of the business but also provide a valuable foundation for our continued growth in convenience through our ongoing programme of conversions to convenience stores.

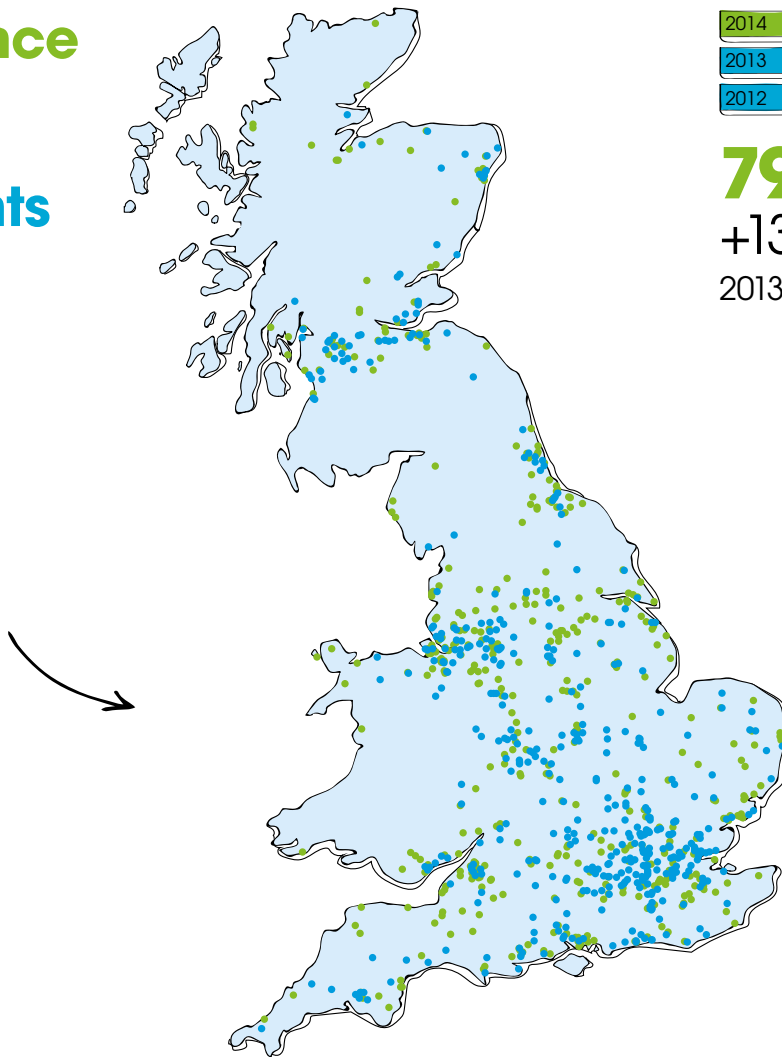
## Store numbers (breakdown 2014)

Convenience  
**799**

Newsagents  
**516**

Total  
**1,315**

- Convenience stores
- Newsagent stores



## Growing convenience store numbers



**799**  
+13.0%  
2013 **707**



### Our 800th convenience store opened in December 2014

Shortly after the end of the 2014 financial period we acquired an independent convenience store with post office in Shiney Row, Tyne and Wear, achieving the milestone of our 800th convenience store.



### We continue to offer our customers more

We are always looking to offer our customers an ever greater range of the products they want and this year was no exception – we again extended our range, notably of fruit and vegetables, sandwiches and chilled food.



### Growing off licence business

769 of our convenience stores offer beers, wines and spirits to complement our range of meal solutions.

# Delivering on our promises



**James Lancaster**  
Chief executive

For us, 2014 was a year of strong results, accelerated growth and above all, delivering on our promises as we continue to focus on excelling as the UK's leading neighbourhood retailer.

#### **Executing our strategy**

We delivered everything we set out to do in 2014. We continued to grow our network of neighbourhood convenience stores, from 707 to 799 at the period end. We converted a further 45 of our newsagents to food and wine convenience stores. We acquired 60 new stores. We converted a further 102 of our convenience stores to our premium format, offering a broader range of products and services. This brings the total number to 489, well over half of our convenience stores.

#### **Hitting our financial targets**

Our results were broadly in line with our targets and expectations, and represented a significant improvement on 2013. We had good growth in sales – total revenue increased by 6.1% and like-for-like sales increased by 0.7%<sup>1</sup>. We increased profits, too. Operating profit before exceptional items increased by 13.2% to £25.5m (2013: £22.5m). Adjusted earnings before interest, tax, depreciation and amortisation increased to £37.3m (2013: £34.2m). We also controlled our costs – our administrative expenses as a percentage of revenue came down to 24.2% (2013: 24.5%).

Furthermore we reduced net debt by £48.8m while at the same time increasing net capital expenditure to £19.3m compared to £10.6m in 2013.

The results are covered in more detail in the financial review on pages 17 to 19.

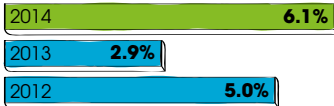
#### **Accelerating our growth in convenience post-IPO**

Our full listing on the London Stock Exchange in February 2014 helped to free us from the constraints of high leverage and focus more resource on accelerating our growth. We can now reinvest more in the business, notably to acquire new convenience stores and convert existing newsagents into convenience stores, increasing revenue and profit and driving shareholder returns. Following our IPO we doubled our level of acquisitions while maintaining the same level of quality. This was a key aspect of our commitment to higher, faster growth.

1. See definition on page 16



## Total revenue growth



**6.1%**  
2.9%<sub>2013</sub>

## Number of convenience stores

**799**  
+13.0%  
2013 **707**



### Giving our customers greater choice

We continue to extend the range of products we offer to our customers. In 2014 for example, we introduced our premium convenience range of products into a further 102 of our convenience stores, enabling us to give customers a wider choice of chilled foods, groceries and fresh fruit and vegetables, as well as a stronger value proposition. Many of the new products are permanently priced and promoted, so our customers know where they stand. Extending the range and adapting it to local neighbourhoods, in turn, helps us drive increased sales. In 2014, our average basket spend increased from £4.73 to £4.97.

### Consolidating our leadership in post offices

Our 451 post offices make us the biggest operator across the UK. Through the year we played a key role in the Post Office's modernisation programme. We signed a deal to convert 191 of our smaller post offices to their local format and actually succeeded in converting 192 by the end of the period. We also converted 85 of our larger post offices to their main format, and acquired 26 new local post offices. As a result of this huge programme, many of our customers now have a modernised neighbourhood post office that stays open longer for them – in fact for all of the hours that their local store is open. In some instances this has doubled the post office opening hours. What's more, we are able to reap the benefits of integrating post offices more closely into our stores.

### Launching our loyalty scheme

We also successfully launched a dedicated *Plus* card loyalty scheme for our customers – a great way to thank them for shopping with us and strengthen our bond with them. We are encouraged by the number of customers who have already registered with the scheme and who now regularly use their card in store to access the great offers available to them.





### From evening meals to morning coffees

**We continue to look for more ways to give our customers the products and services they want from their favourite neighbourhood store. One great example is our ongoing development of our fresh and food-to-go offers - from a great evening meal to pick up on your way home to a coffee and croissant to set you up for the morning.**



### In the neighbourhood for over 20 years

**We've been focusing on providing the UK's neighbourhoods with a great local store for over twenty years. In that time, we have gained a wealth of experience, growing not only the number of stores in our network but also the range and quality of what we offer through these stores. Along the way we have built up a loyal customer base and strong roots in local communities up and down the country.**

### Offering a great range of neighbourhood services

We are committed to offering our customers an ever-greater range of neighbourhood services. We deliver newspapers to around 130,000 homes, for example. We believe no other business makes as many paper deliveries, or creates as many opportunities for young people to earn some well-deserved pocket money. Moreover, with our commitment to offering local people great career opportunities, that first job delivering papers can turn into a part-time or permanent position in store and onwards and upwards to management.

Alongside paper deliveries, we provide many other neighbourhood services such as lottery tickets, bill payment, cash machines and internet collection and return points - all just a short walk from where our customers live.

### Leveraging our strong newsagent base

Our market leading network of Martin's and RS McColl's newsagents continues to perform well. They're not only an established profitable and cash generative part of our business, they also provide an excellent springboard for our growth in neighbourhood convenience through our programme of converting existing newsagents into convenience stores. If you want to create a great neighbourhood convenience store, there are few better starts than already owning a great newsagent.

### Maximising the potential of our network of stores

We focus on motivating colleagues and maximising the potential of our fully managed network of stores. One of the ways we do this is through close control and regular communication. A great example is the weekly Dave's Diaries sent by our chief operating officer Dave Thomas to all the store managers, giving updates on progress and targets, highlighting key achievements, name checking outstanding contributors - helping to keep all our managers informed and encouraged. We also enhance control and efficiency through our investment in information technology.

Strong central control is balanced by an equally strong sense of local ownership among our store colleagues. They're committed to their store, to their local customers and to their neighbourhood. It's a commitment that comes from being genuinely focused on neighbourhood convenience and dedicated to giving customers a great friendly service. Moreover, area managers have a say in taking local decisions on price and range, further reinforcing our ability not only to react and adapt quickly to local demand but also to take the lead in local markets.



## Average basket spend

# £4.97

2013 **£4.73**



## Colleague numbers

# 18,685

2013 **18,764**

## Our key strengths

- **Focus on neighbourhood stores**
- **Highly experienced management team**
- **18,685 colleagues dedicated to high levels of friendly customer service**
- **National scale and brand awareness across the UK**
- **Wide range of products and services for local customers**
- **Direct management and development of fully managed stores**
- **Investment in information systems and ongoing improvements**

“ We aim to excel in our world of neighbourhood convenience ”

### Making a positive difference to our neighbourhoods

I wanted to highlight in particular the great work across the group that we do for the charity Cardiac Risk in the Young (CRY). This is a cause close to my heart as I lost my 21-year old son Robert to sudden cardiac death in 2007, and I am extremely pleased and proud of the outstanding contributions of our colleagues and customers.

For the second year running, colleagues and customers across the group took part in fundraising events and made in-store donations over Halloween – raising over £170,000 for the TreatCRY initiative this year, and over £340,000 since we launched the campaign in 2013.

### Looking ahead

The market continues to be challenging and competitive, but full of opportunities too. We will continue to grow our convenience store business as we head towards achieving our target of 1,000 stores by the end of 2016. At the same time we will continue to look for ways to expand and extend the range of products and services we provide to our customers in neighbourhoods up and down the country.

We've come a long way from our newsagent roots. We're a world away from just being the place to go in the neighbourhood for your papers and milk. Increasingly we believe we are becoming the neighbourhood's favourite store for just about every daily essential – from an evening meal to a morning coffee, from picking up your online purchases to posting a letter or paying a bill.

I am extremely proud of the business I have led for over 40 years. We are a strong player in the world of convenience and I am determined to ensure that we continue to fulfil our strategy to grow and our desire to excel at the heart of the UK's neighbourhoods.

### James Lancaster

Chief executive

# A year of great progress

For us, 2014 was a key year characterised by major developments such as our IPO and a step up in growth and performance as we continued to pursue our ambition to run great local stores at the heart of the UK's neighbourhoods.



## June

### Continuing to grow and develop our network of convenience stores

We opened our 750th convenience store in June and our 800th shortly after the period end. We also extended ranges into a further 102 of our largest convenience stores by April. Through the period, we more than doubled our rate of acquisitions while maintaining the same high level of quality.



## February

### Listing on the main market

We quickly and successfully executed a full listing on the London Stock Exchange's main market. This enabled us to pay off relatively expensive debt and free up more capital to invest in accelerating our growth and success.



## July

### Launching our Plus card loyalty scheme

We launched a dedicated Plus card loyalty scheme for our customers. It has proved to be a highly successful way to say thank you to our customers for shopping with us – offering them a range of savings, opportunities to win competitions and to gain various rewards.

## October

### Raising funds for CRY at Halloween

Colleagues and customers across the country raised over £170,000 for the Cardiac Risk in the Young (CRY) charity.

*"TreatCRY was a really exciting venture for us when we first launched it with McColl's last year and we were delighted when the retail group decided to repeat the campaign for a second year running. Yet again, thanks to the commitment of their staff, managers and extremely loyal, local customer base they were able to generate huge awareness for CRY in neighbourhoods and high streets across the UK – as well as a staggering fundraising total,"* said CRY chief executive and founder, Alison Cox MBE.

Total raised so far this year

# £170,000

## Loyalty cardholders

(as of 30 November 2014)

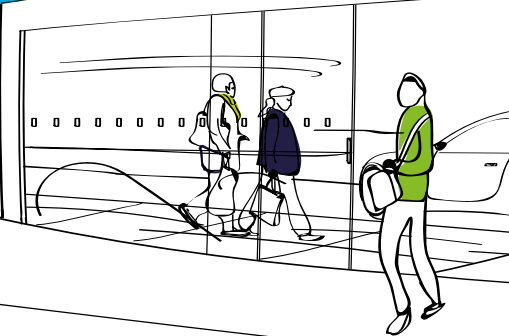
# 325,000



## November

### Modernising our post offices

We completed a major programme to modernise 277 of the 451 post offices in our stores. As a result we can provide our customers with post offices that stay open as long as our stores do, and reap the benefits of integrating post offices more fully into our stores.



# Capturing growth in convenience

We continue to focus on the UK's growing convenience sector while capitalising on our established position as the country's leading newsagent.

## The newsagent sector

The newsagent sector is highly fragmented, with a few large players such as ourselves and many smaller, independent operators. In 2014, there were 3,104 newsagents in the UK<sup>1</sup>. We are the largest specialist confectioner, tobacconist and newsagent, with 516 Martin's and RS McColl newsagents, a 16.6% market share. The next biggest player has 105 newsagents.

## A valuable foundation

We capitalise on our strength in newsagents to generate revenue for the group, meet the needs of neighbourhoods across the UK and provide a great foundation for our focus on growth in convenience. Since 2011, we have been converting a number of our newsagents to food and wine convenience stores, enabling us to offer a wider range of products and services to neighbourhoods and, in turn, boost our revenue and profit. In 2014, we converted a further 45 newsagents in this way, bringing the total number of conversions to 135. In addition we can also convert a newsagent to a full convenience store, usually by acquiring a neighbouring store on the same shopping parade.



“ With our network of neighbourhood stores, we are well placed to make the most of the growth opportunities in UK convenience ”

1. Source: IGD grocery retail structure 2014

### The convenience sector

The convenience sector accounts for an increasingly significant proportion of the UK grocery market, with sales of £37.4bn in 2014, compared to £29.1bn in 2009<sup>2</sup>. This represents an annualised growth rate of 5.1%, compared to a 3.6% increase for the grocery market as a whole. In 2014 the convenience channel was almost 5 times the size of on-line in the grocery market.

The Institute of Grocery Distribution (IGD) forecasts that the UK convenience sector will grow at 5.5% per annum over the next five years, generating sales of £49.0bn and accounting for 24.1% of the grocery market by 2019.

We believe this ongoing and increasing growth is driven by a number of factors, including:

- people opting for less frequent big shops
- households as a whole wanting to shop for value and waste less food
- the increasing number of single households in the UK
- the ageing population
- the growth in the female working population
- increasing working hours resulting in less time to shop
- an improvement in convenience stores in terms of quality and new products and services

At the same time, the market remains challenging, with continued pressure on consumers' disposable income and price-driven competition.

### Focusing on convenience

There are a number of different players in the convenience sector: multiples (owned and managed networks of convenience stores such as ours and those of the supermarket groups), symbols (networks of self-employed operators that share the same name above the door, such as Nisa or Spar), independents, forecourts and co-operatives.

We are the second largest multiple convenience store operator in the UK, owning and managing a network of 799 stores.

### Greater competition and consolidation

As the popularity of convenience stores increases so does the competition. As a result, the market is consolidating, with the number of symbols, multiples and co-operative stores increasing by 18% since 2009. In 2014 these groups accounted for 72% of convenience sector sales.

Multiples account for 19.4% of sector sales. According to IGD, the number of multiples increased from 2,812 to 3,771 between 2009 and 2014, the largest percentage increase of all the players over this period.

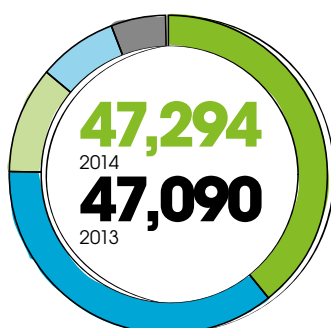
### Well placed to grow further

With our long-held focus on convenience and our experience in running and developing a strong network of neighbourhood stores, we are well placed to make the most of the growth opportunities in UK convenience.

We have a distinctive view of our own particular network of convenience stores – they're neighbourhood stores at the heart of where people live, rather than on the high streets near where people work or with high passing trade. Our stores offer local people excellent everyday products and services at great value provided by friendly staff who are always happy to help.

Building on this distinctive offer, we aim to continue increasing our convenience stores from 799 at the financial year end to 1,000 by the end of 2016 through acquisitions of new stores, mainly independents and symbols, and ongoing conversions of our newsagents. At the same time we will progressively expand the range and quality of products and services we offer neighbourhoods across the UK through our network of stores on their doorstep.

## Number of UK convenience stores<sup>2</sup>



Independents = 18,630 (39.3%)	Multiples = 3,771 (8.0%)
Symbols = 17,080 (36.1%)	Co-ops = 2,680 (5.7%)
Forecourts = 5,133 (10.9%)	

## Value of UK convenience

**£37.4bn**

**+5.1%**

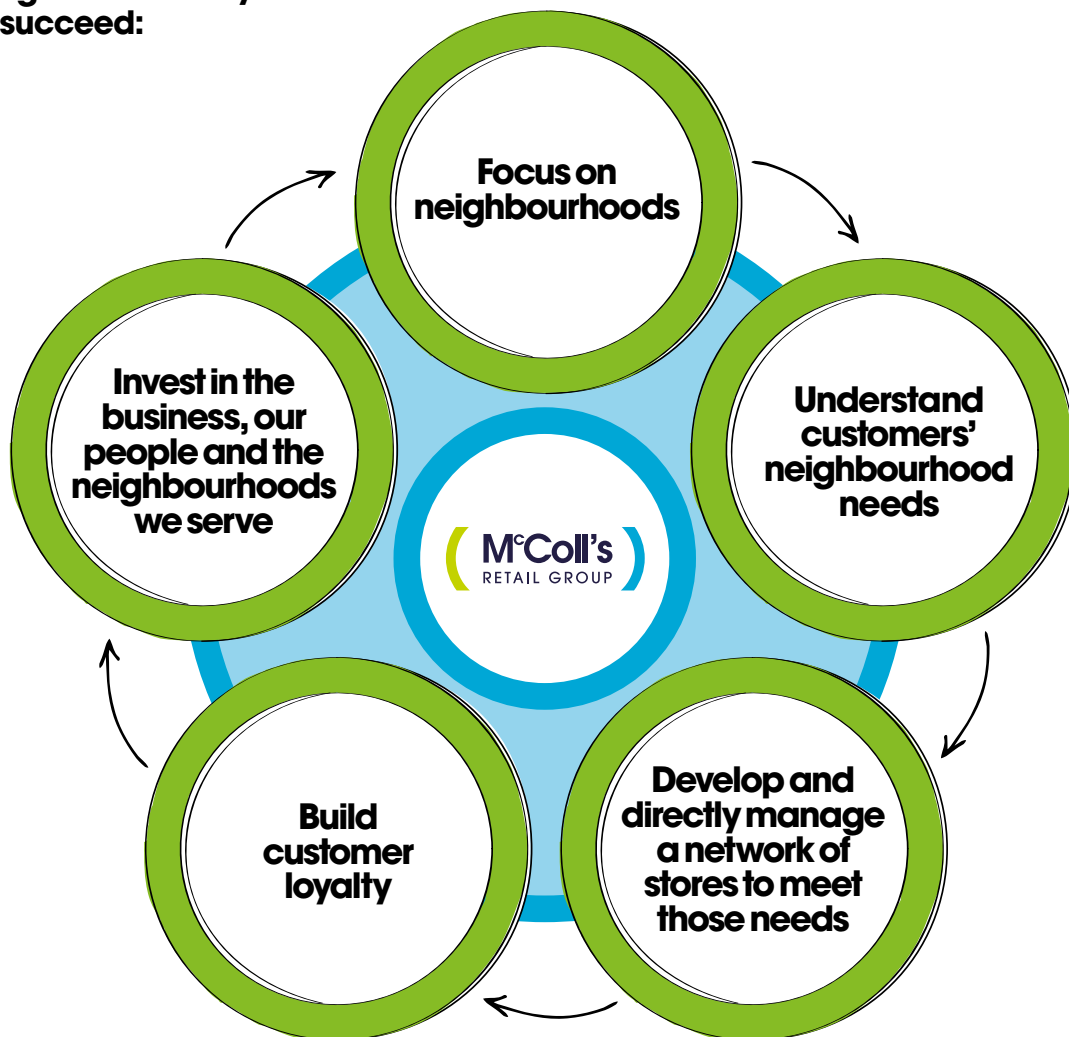
2013 **£35.6bn**

2. Source: IGD convenience retailing 2014

# Our strategy and business model

Our strategy is to focus on growing our convenience store business to strengthen and extend our position as the UK's leading neighbourhood retailer.

**To implement our strategy we have a simple business model that puts the neighbourhood at the heart of everything we do. This model guides the way we grow and succeed:**





# Our progress against our strategy

We have five key strategic priorities:

Priority	Description	Progress in 2014
<b>1</b> <b>Extend our network of convenience stores</b>	We acquire new stores and convert our newsagents to convenience stores by adding a range of groceries and alcohol and extending opening hours.	<ul style="list-style-type: none"> <li>• We acquired 60 stores in 2014.</li> <li>• We converted 45 newsagents into food and wine stores.</li> <li>• 6 of the acquisitions were in existing trading locations enabling the conversion of a newsagent to a full convenience store.</li> </ul>
<b>2</b> <b>Focus on our customers and brand</b>	We get close to our customers and do everything we can to understand and meet their everyday needs. We give our customers great, friendly service. We seek to build loyalty and the strength of our brands and reputation in the neighbourhoods we serve.	<ul style="list-style-type: none"> <li>• In July we launched a dedicated <i>Plus</i> card loyalty scheme for our customers.</li> <li>• We upgraded 40 convenience stores to our bright, modern format as well as applying it to all acquisitions and food and wine conversions.</li> </ul>
<b>3</b> <b>Expand our range of products and services</b>	We offer an ever greater range of products and services to meet the everyday needs of neighbourhoods across the UK. Our products and services range from the morning's milk to the evening's meal, from post office services to internet collections.	<ul style="list-style-type: none"> <li>• We converted a further 102 of our convenience stores to our premium format offering wider ranges of fresh and chilled products.</li> <li>• We completed 192 post office local conversions and 85 main conversions.</li> </ul>
<b>4</b> <b>Ensure operational efficiency</b>	We focus on maximising operational efficiency across our network of directly owned and managed stores. We achieve this in a number of ways, including highly effective EPoS systems, close communication between head office, the stores and area and regional managers, strong relationships with suppliers and the dedication of our outstanding colleagues across the group.	<ul style="list-style-type: none"> <li>• We completed the supply chain changes initiated in 2013 to optimise distribution arrangements.</li> <li>• We introduced a number of operational efficiencies through information technology developments.</li> </ul>
<b>5</b> <b>Make the most of being at the heart of the neighbourhood</b>	We seek to play an ever bigger and more positive role in the neighbourhoods we serve. From raising funds to support local good causes to employing local people and giving them rewarding career paths – we make the most of every opportunity to play a great long term role in the UK's neighbourhoods.	<ul style="list-style-type: none"> <li>• We ran the TreatCRY at Halloween charity fundraising initiative for a second successful year.</li> <li>• We continued to expand the range of services we offer through the addition of extra internet collection points and modernising our post office network.</li> </ul>

# Our key performance indicators

We use six key performance indicators (KPIs) to monitor the performance of the group. We will keep KPIs under review to ensure they remain appropriate and are linked to remuneration policy. We show how we performed against our current KPIs below:

## Revenue<sup>1</sup>



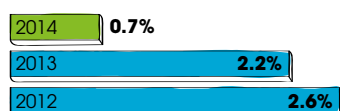
Adjusting for the impact of the 53rd week in 2014, total sales grew by 4.1%, primarily reflecting additional sales from new stores.

## Convenience stores<sup>4</sup>



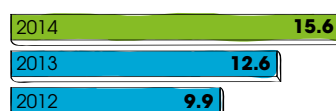
The number of our convenience stores increased by 92 in 2014 (2013: 52) through a combination of acquiring new stores, converting newsagents and closing poor performing stores.

## Like-for-like sales<sup>2</sup>



We had strong like-for-like sales of 2.1% in the first half of 2014. The second half of the year includes comparisons against a strong summer in 2013 and a slight weakening of trading conditions.

## Earnings per share<sup>5</sup>



Earnings per share before exceptional items increased by 3 pence in 2014 reflecting the improvement in operating profit and the reduction in net finance costs.

## Adjusted EBITDA<sup>3</sup>



Adjusted EBITDA increased by 9.0% in 2014 and 2.7% in 2013. This significant improvement reflects the growth the group has achieved in its convenience store estate.

## Operating profit before exceptional items



Operating profit for the year increased by 13.2%, reflecting additional profits from new stores combined with strong cost controls.

1. Total sales for all stores – see note 2 on page 66 for the definition of revenue.

2. Like-for-like sales from stores that have traded throughout the current and prior periods, and include VAT but exclude sales of fuel, lottery, mobile phone top-up and gift cards.

3. Details of the adjusted EBITDA can be found on page 75.

4. The number of convenience stores owned at the end of each financial period.

5. Details of the calculation of earnings per share can be found in note 12 on page 78.

# A record financial performance



**Jonathan Miller FCA**  
Chief financial officer

A handwritten signature in black ink, appearing to read 'Jonathan Miller'. The signature is fluid and cursive, with a large, sweeping initial 'J'.

“ I am pleased to report another period of sales growth ”

We delivered our best ever set of results in 2014.

Revenue exceeded £900m for the first time and operating profit before exceptional items increased by 13.2%. We listed on the London Stock Exchange, which enabled us to substantially improve our capital structure.

#### Revenue

I am pleased to report another period of sales growth. Revenue increased to £922.4m (2013: £869.4m), an increase of 4.1% adjusting for the impact of the 53rd week in the current period, and like-for-like sales were ahead 0.7%. Total sales were boosted by the acceleration of our store development activity, with 45 newsagents converted to the food and wine model, and 60 new store acquisitions completed, more than double the 23 acquired last year.

#### Gross profit

Gross profit margins were close to those achieved last year at 24.2% (2013: 24.3%), with the fall reflecting a slight change in mix. Total gross profit increased to £222.8m (2013: £211.0m), an increase of 3.6% adjusting for the impact of the 53rd week.

#### Operating profit

Operating profit, before exceptional items, increased by 13.2% to £25.5m (2013: £22.5m), reflecting the increase in revenue and our continued control of costs, pro rata for 52 weeks £25.0m, an increase of 11.1%. After exceptional items, operating profit decreased to £22.0m (2013: £22.5m).

Administrative expenses, before exceptional costs, improved to 24.2% of revenue (2013: 24.5%) as we continued to control store operational costs and leverage our central support structure.

Other operating income before exceptional income, as shown in note 7 on page 74, increased to £25.7m (2013: £24.5m), reflecting a strong post office performance.

We have adopted the amendments to IAS19 'Employee Benefits' during the period and have restated 2013 figures accordingly, resulting in an additional £0.8m charge for that period.

We have identified a number of exceptional items in the current financial period. These items are explained more fully in note 6 to the financial statements on page 73.



### Striking the right balance

**As a neighbourhood business, we know how important it is to make the most of local knowledge and commitment, and we encourage this across our stores and regions – giving our people freedom to anticipate and respond to their neighbourhood needs. At the same time we make sure we maintain strong central control and management, for example through our modern EPOS systems.**



#### **Net finance costs**

We were able to substantially reduce our finance costs following the IPO. Net finance costs before exceptional items reduced to £6.2m (2013: £12.5m).

Both the current and the prior period included exceptional restructuring costs associated with refinancing of the group's debt facilities. These items are explained more fully in note 6 on page 73.

#### **Profit before tax**

Profit on ordinary activities before taxation increased to £12.6m (2013: £4.4m) reflecting stronger operating profit and a reduction in finance costs.

#### **Taxation**

The tax charge for the period increased to £2.7m (2013: tax credit of £0.8m), representing an effective tax rate of 21.6% compared to the statutory rate for the period of 21.7%.

#### **Earnings per share**

Basic earnings per share increased to 10.2 pence (2013: 6.9 pence). Adjusted earnings per share, stated before exceptional items, increased to 15.6 pence (2013: 12.6 pence).

#### **Dividends**

The board has recommended a final dividend of 6.8 pence per share (2013: nil), which will be paid on 29 May 2015 to shareholders on the register at the close of business on 1 May 2015, subject to approval by shareholders at the annual general meeting. The total dividend for the 9 month period post IPO will therefore be 8.5 pence per share.

#### **Balance sheet**

Shareholders' funds at the end of the period were £117.2m (2013: £55.9m), an increase of £61.3m. This is principally due to the restructuring of the balance sheet at IPO, and the profitable growth of the business for the period.

The book value of goodwill and other intangibles, property, plant and equipment increased by £8.3m to £202.2m (2013: £193.9m), following an increase in capital expenditure.



## Operating profit before exceptional items

(£million)

2014	25.5
2013	22.5
2012	21.3

**£25.5m**

**+13.2%**

2013 **£22.5m**

## Net debt

(£million)

2014	37.4
2013	86.2
2012	86.2

**£37.4m**

**-56.6%**

2013 **£86.2m**



Current assets at the end of the period decreased to £87.3m (2013: £100.5m), due to a reduction in cash balances. As a result of the more flexible banking facilities introduced at IPO we have been able to minimise drawings under our working capital facility at the period end.

Our current liabilities decreased to £116.9m (2013: £128.7m), reflecting lower trade and other payables as a result of the impact of the 53rd week and a reduction in short term borrowings following the IPO.

Non current liabilities reduced to £61.9m (2013: £114.4m), principally reflecting a reduction in borrowings post IPO.

### Pensions

We operate two defined benefit pension schemes, both of which are closed to future accrual. The combined surplus in the two schemes improved by £1.6m to £1.3m (2013: £0.3m combined deficit).

### Cash flow and net debt

We continued to generate strong operational cash flow. Net cash provided by operating activities for the period was £34.6m (2013: £28.4m).

Adjusted EBITDA increased by £3.1m to £37.3m (2013: £34.2m).

Working capital outflow of £2.3m (2013: £2.2m outflow) was impacted by the 53rd week, which meant that the period included additional cash outflows. The impact on working capital was an outflow of £11.7m, and the underlying position was therefore an inflow of £9.4m.

Net capital expenditure increased by £8.7m to £19.3m (2013: £10.6m). This primarily reflected an increase in expenditure on acquisitions and store developments.

Finance expense of £4.2m was £6.7m lower than the prior year due to the lower cost capital structure post IPO.

The interim dividend paid in the period was £1.8m.

Net debt at the end of the period improved to £37.4m (2013: £86.2m). Adjusting for the impact of the 53rd week in the current period, underlying net debt was £25.7m, representing 0.7 times Adjusted EBITDA.

### Initial Public Offering (IPO)

On 28 February 2014 the company's shares opened for trading on the main market of the London Stock Exchange. The company received £49.8m proceeds from the issue of new shares and incurred issue costs of £2.7m. At the same time the group entered into a new £85.0m working capital facility of which £60.9m was initially drawn, incurring refinancing costs of £1.4m. The net proceeds of the share issue and drawings under the new facility were used to repay existing loans of £109.4m. At the end of the current period drawings against the working capital facility had reduced to £46.0m.

This represents a significant improvement in our capital structure and as a result we have been able to successfully accelerate our growth strategy and are well placed to continue to do so.

### Jonathan Miller FCA

Chief financial officer

# Making a positive difference

We want to be at the heart of the UK's neighbourhoods – over 80% of our stores are in such locations, serving the everyday needs of people living close by. Being responsible is part and parcel of this neighbourhood commitment.

## Communities

One of the key ways we live up to our community commitment is through our group-wide support of the charity Cardiac Risk in the Young (CRY).

Every week in the UK, 12 apparently fit and healthy young people die suddenly from undiagnosed heart conditions. In 80% of cases, there are no signs or symptoms. CRY is dedicated to helping reduce these deaths through greater awareness, research and its pioneering screening programme – which now tests around 15,000 young people every year.

For the second year running, colleagues and customers across the group took part in fundraising events and made in-store donations over Halloween – raising over £170,000 for the TreatCRY initiative.

## Environment

### Recycling packaging

Through our arrangements with our two key distributors we recycle plastic and cardboard used in our business. The same lorries that arrive with products leave with plastic and cardboard – it's a neat, energy-efficient way to recycle packaging. So far, we have recycled well over 1,500 tonnes of waste.

### Improving energy efficiency

Since 2012, with the introduction of our energy management initiative, we have made great progress in improving our energy efficiency. This has included removing surplus or particularly inefficient kit from our stores; undertaking measures such as last man out switches; photocells that switch lighting on and off when areas aren't used; and doors and timers on chillers. As a result, in 2013 we reduced our like-for-like energy consumption by 5.6% and in 2014 by a further 1.6%.

## CO<sub>2</sub> emissions

Tonnes

56,131

## Colleagues

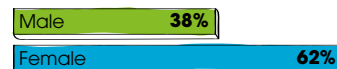
Full-time

6,690

Total number 18,685

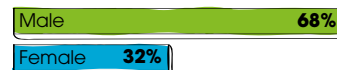
## Store colleagues

Gender



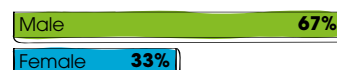
## Senior managers

Gender



## Directors

Gender



## Our responsible approach has five pillars:

1

### We are a UK business

From our roots in the business established by our chief executive James Lancaster in 1973, we have grown to become the UK's largest neighbourhood retailer across the country.

2

### We support good causes

We support a variety of local, regional and national good causes and charities – from raising money across the group for Cardiac Risk in the Young (CRY) to donating to local football teams.

3

### We are a sustainable retailer

We are committed to achieving good environmental practice and strive to make a positive impact.

4

### We offer local services

We offer a variety of essential everyday services to local communities – from post offices to internet collections and returns, from delivering newspapers to food-to-go.

5

### We employ local people

We employ and seek to develop the skills and potential of local people.



#### Colleagues

Our colleagues make our brands. Their commitment, friendliness and professionalism make all the difference to our business. To reinforce this contribution, we invest in recruiting, retaining and developing great people, many of them from the local communities we serve.

#### Developing people

We are committed to equal opportunities for colleagues at all levels.

In 2014, we relaunched our induction programme for our store-based colleagues, including additional modules on, for example, security and fresh foods in response to the ongoing growth and developments in our convenience business.

We also relaunched our area managers' academy and strengthened our apprenticeship programme, offering a broader range of NVQ qualifications. Currently we have 251 apprentices across the group and offer a range of retail-based qualifications to other colleagues.

We run a very successful onwards and upwards development programme for our colleagues, focusing on some of the key roles within the business. Many of today's 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.

#### Rewarding people

We offer a range of benefits for colleagues as well as flexible working opportunities. We are keen to make sure everyone understands what's available to them as well as what is expected of them and to this end we launched a new colleague handbook in 2014 for everyone in the group.

#### Human rights

Whilst the group does not have a specific human rights policy at present, people are treated in line with internationally proclaimed human rights principles. There are a range of policies in place demonstrating effective management of human rights issues in the business.





#### Health and safety

We are committed to a strong health and safety culture. In 2014, we established two health and safety forums – a management-level forum which looks at the strategic direction for health and safety and risk as a business, and a broader forum which enables our store-based colleagues to provide their input.

We developed a three-year health and safety strategy designed to enable us to take a consistent and collaborative approach to creating a safe place for our employees and customers.

# How we identify, assess and manage risk

We are committed to good corporate governance. To this end, we follow a sound risk management process closely aligned to our strategy.

Principal risks	Risk	Mitigation
 <p><b>Business strategy</b></p>	<p>If the board either adopts the wrong strategy or fails to communicate or implement its strategies effectively, our aims may not be met and the business may suffer.</p>	<ul style="list-style-type: none"> <li>• Strategic development is led by the chief executive and senior management and considered by the board.</li> <li>• Strategy is communicated via numerous channels.</li> <li>• Implementation plans are aligned to our strategic targets and monitored closely by the board.</li> </ul>
 <p><b>Competition</b></p>	<p>We operate in a competitive market and compete with a wide variety of retailers locally and nationally. Failure to maintain market share could affect our performance and profitability.</p>	<ul style="list-style-type: none"> <li>• Competition is monitored and our flexible model enables the business to be adapted accordingly.</li> <li>• Customer trends are continually reviewed (see customer proposition).</li> </ul>
 <p><b>Customer proposition</b></p>	<p>Our customers' shopping habits are influenced by broader economic factors and if we fail to keep our proposition aligned with their expectations they may choose to shop elsewhere and our revenues could suffer.</p>	<ul style="list-style-type: none"> <li>• Regular product reviews ensure customer needs and wants are met.</li> <li>• We regularly review our positioning against competitors.</li> <li>• We introduced a customer focused loyalty scheme during 2014.</li> </ul>
 <p><b>Economy</b></p>	<p>All our revenue is derived from the UK. The continued challenging economic environment could reduce our customers' income and therefore affect our revenues.</p>	<ul style="list-style-type: none"> <li>• We offer both value products and premium brands, which lowers our exposure to a reduction in discretionary spend.</li> <li>• Our wide range of locations means we do not rely on any one site or geographical area.</li> </ul>

## Risk change in year





## Principal risks

### Risk

### Mitigation

#### Financial and treasury

The main financial risks are the availability of short and long term funding to meet business needs and fluctuations in interest rates.

- We have a committed £85m working capital facility available until 31 August 2018.
- Our treasury department forecasts and manages funding requirements.
- The board approves budgets and business plans.
- Our risks associated with financial instruments are disclosed in note 26 on pages 86 to 89.



#### Information technology

We depend on the reliability and capability of key information systems and technology. A major incident or prolonged performance issues with store or head office systems could adversely affect our business.

- All business critical systems are well established and are supported by an appropriate disaster recovery strategy designed to ensure the continuity of the business.



#### Operational cost base

We have a relatively high cost base, consisting primarily of employee, property rental and energy costs. Increases in these costs without a corresponding increase in revenues could adversely impact our profitability.

- We operate a flexible staff model aligned to revenue levels.
- Property management is a key function with regular review processes in place.
- We minimise energy costs by combining energy efficiency initiatives and forward purchasing.



#### Regulation

We operate in an environment governed by strict regulations to ensure the safety and protection of customers, colleagues, shareholders and other stakeholders. These regulations include alcohol licensing, employment, health and safety, data protection and the rules of the Stock Exchange.

- We have clear accountability for compliance with all areas of regulation.
- Our policies and procedures are designed to meet all relevant laws and regulations.
- We have a health and safety compliance steering group.



#### 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.

- Our distribution partners are carefully selected and maintain their own contingency planning.
- We monitor supplier performance including service level agreements.



The strategic report set out on pages 1-23 has been approved by the board and signed on its behalf by

**Jonathan Miller**  
2 March 2015

# A strong, very experienced and well-connected team



**John Coleman**  
Chairman,  
non-executive director\*•†

John joined the board on 7 February 2014 and is chairman of the board and the nomination committee. He was considered independent until his appointment as chairman on 22 July 2014. He is a non-executive director of Bonmarché Holdings plc, non-executive chairman of Aga Rangemaster Group plc and formerly senior independent director of Travis Perkins plc. Between 1996 and 2006 John was chief executive of House of Fraser plc and prior to this he was chief executive of Texas Homecare and an executive director of Ladbrokes plc between 1993 and 1995. Prior to that, he was managing director of Dorothy Perkins between 1991 and 1993 and managing director of Topshop and Topman between 1986 and 1991, all of which were divisions of The Burton Group plc.



**James Lancaster**  
Chief executive†

James established the group in 1973, becoming group managing director in 1984, chief executive in 1990 and then chairman and chief executive in 1995. Under his direction McColl's has grown to be a leading neighbourhood retailer in the UK. James led a management buyout of the business in 1995 and a secondary buyout in 2005. James was appointed chairman and chief executive of the listed holding company, on 3 February 2014, shortly after its incorporation on 20 November 2013. Post IPO, James stepped down as chairman on 22 July 2014 to focus on his role as chief executive and in compliance with provision A.2.1 of the UK Corporate Governance Code.

*James was appointed a member of the nomination committee on 7 February 2014.*



**Jonathan Miller**  
Chief financial officer

Jonathan joined the group in 1991 working initially as financial director of tobacco vending operations and subsequently in group finance. He was appointed finance director of the group's retail businesses in 1998 and chief financial officer in 2004. Jonathan has extensive experience of financial operations in a retail environment, as well as a broad knowledge across the business having managed the store development, human resources and information technology teams for a number of years. He has significant corporate finance experience and has successfully led the group through a number of successful transactions including the IPO in 2014. Jonathan was appointed chief financial officer of the listed holding company on 3 February 2014.



**David Thomas**  
Chief operating officer

David joined the group in 1998, initially as a regional manager for convenience stores. He was appointed operations general manager in 2000 and operations director in 2005. David was appointed operations director of the listed holding company on 3 February 2014. On 22 July 2014 David became chief operating officer. David has extensive retail experience and has spent most of his career in operational roles within the supermarket and convenience sectors. His retail career began at Iceland Foods where he was instrumental in the company's new store opening programme and the conversion of Bejam stores to the Iceland trading format. He then progressed to Southern Co-operative as operations manager and was responsible for developing their supermarkets into a modern convenience format.



**Sharon Brown**  
Independent  
non-executive director\*•†

Sharon joined the board on 7 February 2014 and is chairman of the audit committee. She is a non-executive director and audit committee chairman of Fidelity Special Values plc and F&C Capital and Income Investment Trust plc. Between 1998 and 2013 Sharon was finance director and company secretary of Dobbies Garden Centres Limited which became a division of Tesco plc in 2007. Between 1991 and 1998, she held a senior financial position within the retail division of John Menzies plc and she was also a Queen Margaret University Court member and audit committee chairman between 2006 and 2011.



**Georgina Harvey**  
Independent  
non-executive director\*•†

Georgina joined the board on 7 February 2014 and is chairman of the remuneration committee. She is a non-executive director of William Hill PLC and Big Yellow Group PLC. 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.

\* Remuneration committee member

• Audit committee member

† Nomination committee member

# Directors' report

## Introduction

The directors present their annual report and audited consolidated financial statements for the period ended 30 November 2014.

In accordance with the Companies Act 2006 as amended, and the Listing Rules and the Disclosure and Transparency Rules, McColl's Retail Group plc (the "company") present their directors' report and the directors' remuneration report. These documents should be read in conjunction with one another, and the strategic report.

## Directors

The current directors and their appointment dates are shown in the biographies on pages 24 and 25. In addition Martyn Aguss served as a director until 30 July 2014. Richard Spedding and Travers Smith Limited served as directors of the company from incorporation to 3 February 2014.

## The company

Although the company was incorporated on 20 November 2013 to act as a holding company for the group, the group itself has existed over 40 years. The company registration number is 08783477. As part of the IPO group restructuring, the company replaced Martin McColl Retail Limited (formerly McColl's Retail Group Limited) as the group's ultimate parent company by way of a share exchange agreement. On 28 February 2014 McColl's Retail Group plc was listed on the London Stock Exchange ("Admission").

## Principal activities

The principal activities of the group are described in the strategic report on pages 1 to 23.

## Share capital

Details of the share capital from incorporation to 30 November 2014 are shown in note 27 of the financial statements.

The nominal value of the total issued ordinary share capital of the company immediately following admission to the London Stock Exchange was £104,712.04 being divided into 104,712,042 fully paid ordinary shares of £0.001 each.

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

- The ordinary 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 company.
- Each ordinary share ranks equally in the right to receive a relative proportion of shares on the event of a capitalisation of reserves.
- The ordinary shares are freely transferable with the following 2 exceptions:
  1. Cavendish Square Partners (General Partner) Limited in accordance with the IPO Underwriting Agreement is prohibited from selling their shares for 180 days after the date of admission and for the following 12 month period after the expiry of the prohibited period, only to dispose of their shares through the company's broker Numis so as to maintain an orderly market.
  2. The directors and employee shareholders in accordance with the Underwriting Agreement are prohibited from selling their shares for 365 days after the date of admission and for the following 12 month period after the expiry of the prohibited period, only to dispose of their shares through the company's broker Numis so as to maintain an orderly market.
- 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.

## Substantial shareholdings

The company has been notified of the notifiable interests in the ordinary share capital of the company set out in the table below.

Shareholder	As at 30 November 2014 <sup>4</sup>
James Lancaster	10.9% <sup>3</sup>
Jonathan Miller	10.9% <sup>3</sup>
Fidelity Investments Limited	10.0% <sup>2</sup>
Premier Fund Managers, Limited	6.0% <sup>1</sup>
Cavendish Square Partners	5.6% <sup>1</sup>
Aberforth Partners LLP	5.1% <sup>2</sup>
Miton Asset Management Limited	4.7% <sup>1</sup>
Laxey Partners Limited	3.7% <sup>1</sup>
Henderson Global Investors Limited	3.2% <sup>1</sup>

1. Held direct.

2. Held indirect.

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

4. There have been no changes between the end of the period and the date of the annual report.

## Board balance and composition

The parent company listed on the London Stock Exchange on 28 February 2014. On listing the board comprised 7 directors, 3 of whom were independent non-executives of which 2 were female board members. As at 30 November 2014 the board comprised 6 directors, (2 of whom are considered as independent non-executive directors and 2 of whom were female board members). Since the company was listed the following changes were made to the board:

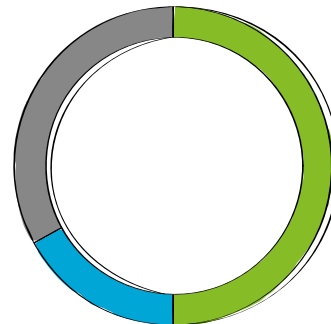
- On 9 July 2014 Jonathan Miller was replaced as secretary to the company by Capita Company Secretarial Services Limited. He continues to serve on the board as a director and the chief financial officer.
- On 22 July 2014 John Coleman succeeded James Lancaster as chairman. James Lancaster remains a director and chief executive.
- On 30 July 2014 Martyn Aguss resigned as a director of the board and chief operating officer and David Thomas, a serving director, succeeded him as chief operating officer.
- On 24 November 2014 John Coleman resigned and Georgina Harvey replaced him as chairman of the remuneration committee.

The board has experience and the balance of skills is regularly reviewed. The executive board has combined experience of 80 years' within the group and the non-executive directors bring considerable further experience from retail and other relevant industries. Further details of the directors' backgrounds can be found on pages 24 and 25.

## Directors' interests

All of the directors hold shares in the company and details of their shareholdings can be found in the directors' remuneration report on page 53.

## Board composition



Executive directors	50%
Chairman	17%
Independent non-executive directors	33%

## Directors' indemnities and insurance

As is customary for listed companies, the company has had in place directors' and officers' indemnity insurance in respect of each of the directors since listing on the London Stock Exchange on 28 February 2014.

## Appointment of directors

At the first annual general meeting since the company was incorporated, and in accordance with the company's articles of association, all the directors are required to stand for election by the shareholders. Going forward and in accordance with the UK Corporate Governance Code 2012 ("Code") all directors will be considered for re-election annually. Details of the non-executive directors' letters of appointment are given in on page 33 under Role of the non-executive directors. The executive directors have service contracts under which 12 months' notice is required.

## Employee engagement

The group employs 18,685 employees and had 6,690 full time equivalents at the period end.

The group actively involves employees in the business and ensures that they are engaged in matters impacting them. This includes consulting with employees or their representatives on a regular basis so that the views of employees are understood by management and can be taken into account in making decisions which are likely to affect their interests. This is primarily achieved via senior management meetings and briefings.

Employees are also made aware of the financial and economic factors affecting the performance of the group via newsletters and briefings by management. The group encourages the involvement of employees in the group's performance through operation of a bonus scheme which applies to approximately 85 employees and provides an incentive to the employees.

The group provides its employees with a variety of opportunities to learn new skills that will help them to develop and be successful in their careers. This includes using a combination of video learning, on the job coaching and some classroom based workshops where applicable. In addition, all employees receive induction training when they commence employment with the group. The group is intending to grant awards under its CSOP in 2015 to further encourage the involvement of its senior managers in the group's performance.

For those employees wishing to progress, the group operates a development programme focusing on some of the key roles within the business. Each individual is provided with a tailored training plan based on their current job knowledge and skill sets to help them achieve their career goals.

The group also works in partnership with Skillnet, a national provider of vocational qualifications, offering opportunities to all eligible colleagues to gain retail based qualifications whilst working in their current role.

The directors recognise the importance of ensuring the highest standards of health and safety are maintained for employees, customers and others who may be affected by the activities of the business.

The group is committed to being an equal opportunities employer:

- It provides full and fair consideration to all applications for employment with the group including disabled persons, having regard to their particular aptitudes and abilities;
- It also endeavours to continue the employment of, and for arranging appropriate training for, employees of the group who become disabled whilst employed by the group; and
- It provides disabled employees with the training, career development and promotion whilst employed by the group.

#### **Annual general meeting**

The board welcome the opportunity to meet with shareholders at the annual general meeting which will be held on 17 April 2015 at 2 pm at the registered office McColl's House, Ashwells Road, Brentwood, Essex CM15 9ST.

#### **Dividend**

The directors have proposed a final dividend of 6.8 pence per share, amounting to £7.1m, which is subject to shareholder approval at the annual general meeting. Provided shareholder approval is received the final dividend will be paid on 29 May 2015 to those shareholders on the register at the close of business on 1 May 2015.

#### **External auditors**

Deloitte LLP have given their independent report on the financial statements to the shareholders of the company on pages 56 to 61.

#### **Directors' statement of disclosure of information to auditors**

Having made the requisite enquiries, the directors in office at the date of this annual report and financial statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each of the directors has taken all the steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

#### **Auditor reappointment**

The auditor Deloitte LLP has indicated its willingness to continue as the company's auditor, and accordingly a resolution to appoint Deloitte LLP as auditors of the company and the group will be proposed at the 2015 annual general meeting.

#### **Financial risk management**

Financial risk management objectives and policies, including information on financial risks that materially impact the group can be found in note 26 of the financial statements on pages 86 to 89.

#### **Going concern**

In making their going concern assessment the directors have considered the group's business activities, its financial position, the market in which it operates and the factors likely to affect its future development.

The directors have reviewed the group's forecasts, taking into account a range of sensitivities, and how they impact headroom against its bank facilities, and its ability to meet its capital investment and operational needs.

The group has net current liabilities of £29.6m at the period end. The directors have additionally considered this position to determine if it presents any going concern issues. The group is profitable and cash generative and has in place a committed £85.0m working capital facility available to be drawn until 31 August 2018. As at 30 November 2014 £46.0m was drawn against the facility, and therefore there is sufficient headroom to meet the group's debts as they fall due.

The directors believe there is reasonable basis on which they can satisfy themselves that the business is a going concern and that it is appropriate for the financial statements to be prepared on a going concern basis.

#### **Post period end events**

Between 30 November 2014 and the date of this report there have been no material events that require disclosure.

#### **Political donations**

The group did not make any political donations during the period (2013: £nil).

#### **Listing rules**

The following table provides cross-references to where the relevant required information by Listing rule 9.8.4R for the period is disclosed.

Section	Listing rule requirement	Location
1	Interest capitalised	Not applicable
2	Publication of unaudited financial information	Not applicable
4	Details of long-term incentive schemes	Directors' remuneration report on page 44
5	Waiver of emoluments by a director	Not applicable
6	Waiver of future emoluments by a director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Item (7) in relation to major subsidiary undertakings	Not applicable
9	Parent participant in placing by a listed subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	Not applicable
13	Shareholder waivers of future dividends	Not applicable
14	Agreements with controlling shareholder	Not applicable

### Greenhouse gas emissions

The group is required to measure and report direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. As this is the first GHG emissions report in line with UK mandatory reporting requirements set out by the Department for Environment, Food and Rural Affairs (DEFRA), there is no comparative year. The mandatory requirement is for the disclosure of the scope 1 and 2 emissions only. These are direct emissions such as heating, vehicle fuel and indirect emissions such as purchased electricity.

The group's total GHG footprint in line with section 7 at the companies act (strategic report and directors) regulations 2013 is shown in the table below.

### Emissions data for period 25 November 2013 to 30 November 2014

#### Scope 1

Fuel combustion (natural gas, vehicle fuels and other fuels)	1,888
Refrigerants	2,122
	<u>4,010</u>

#### Scope 2

Purchased electricity	52,121
<b>Total</b>	<u>56,131</u>

Greenhouse gas emissions intensity ratio:	2014
CO <sub>2</sub> e tonnes per £100,000 of revenue	<u>6.1</u>

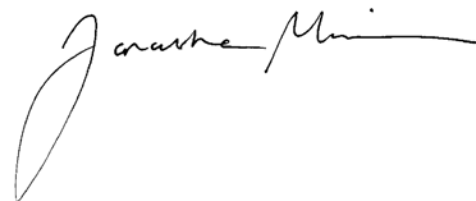
Note that:

- The group has reported on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Director's Reports) Regulations 2013;
- The group has used the guidance as set out in DEFRA's Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance, dated June 2013;
- The group has engaged a consultancy firm, BDO LLP, to oversee the collection of data and provide guidance on complying with appropriate regulations. The figures disclosed above for 2014 and the methodology used to collate the information has been reviewed and approved by BDO LLP;
- For electricity, gas and other fuels, consumption data has been extracted from billing information from 25 November 2013 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 53 week consumption figure;
- Petrol and fuel data has been collated from information received from the group's fleet management consultant;
- 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;
- Data collected is in respect of the 53 weeks ended 30 November 2014. The carbon conversion factors used are those published by Defra for 2014; and
- This is the group's first year of MER reporting since the group achieved listing, therefore 2014 represents the base reporting year.

The strategic report, the directors' report and the directors' remuneration report were approved by the board.

Approved by the board and signed on its behalf:

Yours sincerely



**Jonathan Miller**  
Director and chief financial officer

2 March 2015

# Corporate governance report

## Chairman's letter

### Dear shareholder

Since the company's admission to the London Stock Exchange, the board has adopted compliance with the UK Corporate Governance Code (the 'code') published by the Financial Reporting Council in September 2012\*.

It is the opinion of the board that the company has been compliant with the provisions of the code since the company listed on the 28 February 2014 with the following exceptions:

- The code recommends that the roles of chairman and chief executive should not be exercised by the same individual (code A.2.1). Prior to 22 July 2014 the role of the chief executive and chairman was combined but as at that date, I succeeded James Lancaster as the company's non-executive chairman. The board, however, does not consider such non-compliance to be detrimental to the interests of the group or the shareholders as a whole on the basis of the current directors' experience, judgement and character. Details are given in the nomination committee report.
- The code recommends that the board should appoint one of the independent non-executive directors to be the senior independent director (the SID) (code A.4.1). Until 22 July 2014 I acted as the company's SID. However, when I was appointed as chairman the position of SID became vacant and after further consideration it was decided that the appointment of a SID to the company was unnecessary at the current time. The board will keep the need for a SID under review.

- The code recommends that the chairman should hold meetings with the non-executive directors without the executives present and the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance (A.4.2.). The chairman has met with non-executive directors without the executive directors present and the non-executive will meet without the chairman when assessing the chairman's performance.
- The code recommends that there should be a nomination committee which should lead the process for board appointments and make recommendations to the board. (B.2.1.). The membership of the company's nomination committee is the chairman, 2 non-executive directors and the chief executive, therefore only half of the committee is independent. However, the board believe it is appropriate to include both the chairman and chief executive to ensure the business needs are met and potential directors are of suitable calibre for the group.
- The code recommends the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors (code B.6). As this report relates to the company's first year as a listed company and the chairman and non-executive directors are new to the company, the board has not, as yet, carried out a board, committee or directors performance evaluation as their focus has been on developing the company's business model and creating processes and procedures within which the company should operate. The board felt it more appropriate to wait until such time as the board and its committees were fully established before carrying out a full evaluation. The board have scheduled a board evaluation by way of an internal assessment to be undertaken during 2015. Furthermore, a full assessment of each director's suitability was undertaken prior to the company's listing and it was felt that this was sufficient to discharge its duties under the code.

\* <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx>



- The code recommends that the board should establish a remuneration committee of at least 3, or in the case of smaller companies 2, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman (code D.2.1). On 22 July 2014, I was appointed as chairman to the board although I continued to act as chairman of the remuneration committee, in contravention of this provision of the code. The board recognised my experience enabled me to make a valuable contribution during the consultation process with the remuneration consultants whilst being both the board and remuneration committee chairman. Subsequently on the 24 November 2014, I stepped down as remuneration committee chairman and Georgina Harvey was appointed and thus the company is now in compliance with this provision of the code.
- The code also recommends that at least half the board, excluding the chairman, should comprise independent non-executive directors and that a smaller company should have at least two independent non-executive directors (code B1.2). The board recognises that the company's current composition meets the smaller company regulation, however, the board does not consider this to be detrimental to the interests of the group or the shareholders as a whole on the basis of the current directors' experience, judgement and character.

In readiness for the company being listed on the London Stock Exchange, new non-executive directors were appointed in February 2014 and I believe that we have a board that will support and challenge the executive management when appropriate or necessary to drive forward its objectives.

As chairman, I would like to state my full commitment to preserving high corporate governance principals.

Yours sincerely



**John Coleman**  
Chairman

### Role of the board

The board provides leadership and direction to the group and is ultimately responsible to the company's shareholders for the success of the group. The board recognises the significant importance of its role as the company's guardian. To this end it has established a robust corporate governance framework. The board, together with the help and guidance of the company secretary, have implemented detailed procedures and processes which the board believe will help to facilitate the success of the company.

### Matters reserved for the board

The board has approved matters reserved for its own consideration which details the board's role and purpose to ensure that it fully discharges its responsibilities. At least annually, the board undertakes a review of its matters reserved for the board to ensure it is in line with best practice, the code and other regulatory requirements.

The board is responsible for the following items:

- Strategy and overall management and leadership of the group and for setting the company's values and standards and reviewing the company's performance;
- Financial items – including the group's annual budget, published accounts, accounting, taxation and treasury policies, dividends and monetary limits;
- Internal control and risk management;
- Contracts with a third party not in the ordinary course of business;
- Legal, administration and pension – including the group's corporate governance statement, directors and officers insurance, litigation and changes to the pension fund;
- Communication with shareholders – including approval of any shareholder meeting, announcements or press releases, the issue of circulars; and
- Board and senior management appointments and removals arrangements.

The board delegates certain of its responsibilities to its committees. The board has delegated to the chief executive the responsibility for implementing the group's business model and for the day-to-day operational management of the group. The chief executive is supported in carrying out his responsibilities by the chief financial officer, chief operating officer and a number of senior executives. The composition and purpose of each committee is given within each committee report.

The board meets at regular intervals and has met 5 times during the period since listing on the London Stock Exchange. The directors are encouraged to challenge and constructively comment on matters presented to the board. In addition the directors have ongoing dialogue on a variety of issues between board meetings.

### Area of focus

The board has several recurring agenda items included at each board meeting. These include the chief executive's report, chief financial officer's report, chief operating officer's report, updates from the board committees, company secretarial report and investor relations report. In addition there are more in depth presentations and reports in specific operational areas of the business.

The board is supported in their work by the following board committees:

- Audit committee;
- Remuneration committee; and
- Nomination committee.

A copy of the committees' terms of reference are can be found at <http://www.mccolls.co.uk/investor/committees.aspx>. Capita Company Secretarial Services Limited serves as secretary to these committees.

The directors attendance at board and committee meetings since the company was admitted to the London Stock Exchange are given below. The board chairman and committee chairman are supported by the company secretary in organising and circulating the board papers for these meetings.

	Main board	Audit committee	Remuneration committee	Nomination committee
Number of meetings held	5	3	3	2
James Lancaster	5	3**	3**	2
Jonathan Miller	5	3**	3**	n/a
David Thomas	5	n/a	n/a	n/a
John Coleman	5	3	3	2
Sharon Brown	5	3	3	2
Georgina Harvey	5	3	3	2
Martyn Aguss*	3	n/a	n/a	n/a

\* Martyn Aguss resigned on 30 July 2014 and therefore was only entitled to attend 3 board meetings.

\*\* attended as invitee.

## Division of responsibilities

### Role of the chairman

The chairman is responsible for leading and managing the business of the board and ensuring its effectiveness. He sets the agenda for board discussions and ensures that the directors receive accurate, timely and clear information from the company's senior managers. There is a clear division of responsibilities between the chairman and chief executive, which is set out in writing and agreed by the board.

### Role of chief executive

The role of the chief executive is to provide a link between the board and the management of the group and to ensure that the company's strategic decisions are effectively implemented.

### Role of the non-executive directors

The non-executive directors provide valuable experience, judgement and independent support to the board. They assist in the development of strategy and exercise constructive challenge and support to management. The non-executive directors' letters of appointment set out their duties and the level of commitment expected. Non-executive directors are appointed for an initial 3 year term with typical tenure expected to be 2 x 3 year terms but may be invited by the board to serve an additional term, subject to re-election by shareholders. They are expected to commit at least 15 - 20 days per annum to their role. In the board's opinion the non-executive directors have exercised independent judgement by providing constructive challenge to the executive directors.

Key elements of the non-executive directors' roles are:

- Strategy – constructively challenge and develop proposals on strategy;
- Performance – scrutinise the performance of management in meeting agreed goals and objectives and monitor reporting performance;
- Risk – to satisfy themselves in relation to the integrity of financial information and that financial controls and systems of risk management are robust and defensible;
- People – determine appropriate levels of remuneration of executive directors and have a prime role in the appointment and where necessary the removal of executive directors and succession planning;
- Time – devote time to develop and refresh their knowledge and skill;
- Standards – uphold high standards of integrity and probity and support to the board developing the appropriate culture, values and behaviours in the board room and beyond;
- Information – insist upon receiving high quality information sufficiently in advance of board meetings to make informed decisions; and
- Shareholders – consider the views of shareholders and other stakeholders.

## Directors' training

Each new director this year has received a tailored induction and familiarisation programme implemented by the chief executive so that they learn about the business. The directors and senior managers have received training on their statutory duties, Listing Rules and the Disclosure and Transparency Rules.

## Conflicts of interest

The articles of association provide that the directors may authorise any actual or potential conflict of interest that a director may have, with or without imposing any conditions that they consider appropriate on the director. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and in such circumstances they are not counted in the quorum. A process has been developed to identify any of the directors' potential or actual conflicts of interest. This includes declaring any potential new conflicts before the start of each board and committee meeting. There were no actual or potential conflicts of interest which were required to be authorised by the board during the period under review or to the date of this report.

## Internal control and risk management

The board recognise that it is their responsibility to present a balanced and understandable assessment of the group's position and long term prospects and has responsibility for ensuring that management maintain an effective system of risk management and internal control and for reviewing its effectiveness. The purpose of risk management is to manage rather than eliminate risk entirely and to achieve the business objectives.

## Effectiveness of internal controls

The board has overall responsibility for the group's internal control system and for reviewing their effectiveness. This has been designed to assist the board in making better, more risk-informed, strategic decisions with a view to creating and protecting shareholder value. The group's internal control procedures provide an ongoing process for identifying, evaluating and managing significant risks. The board recognises that such a system has its limitations in that risk management requires independent judgement on the part of directors and executive management. Internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The control environment includes high level group-wide controls, as well as controls over business processes both centrally and at store level. Process controls include those over sales and pricing, stock, payroll, property, central expenditure, cash, payment processing, information technology and risk management.

**Risk governance**

Effective risk management is essential to the long term success of the business and it requires an appropriate risk governance structure.

Management have established a risk register for identifying, evaluating and managing risk faced by the group on an ongoing basis, both at an operational and strategic level. The risk identification and mitigation processes have been designed to be responsive to likelihood of occurrence. Appropriate action is taken to manage and mitigate risks identified.

#### Key features of the risk management and internal control systems

The key areas which the framework details, are:

- risk governance environment (as described above); and
- maintenance of a key risk register, incorporating risk management procedures to gather and document risk information relating to new risks, progress on any mitigations requiring action, changes to current risks or mitigations and changes to the overall risk profile.

A risk register is an important instrument of the group's risk framework arrangements, as it documents the identification and assessment of risks, any mitigation requiring action and accountability within the senior management team. The directors have identified the principal risks and uncertainties facing the group, many of which are considered key to the successful implementation of strategy and long term growth. The key risks, and how they are mitigated, are described on pages 22 and 23.

**Financial and business reporting**

The board seeks to present a fair, balanced and understandable assessment of the group's position and prospects in all half year, full year and any other price-sensitive reports and other information published externally.

The board receives a number of reports, including those from the audit committee, to enable it to monitor and clearly understand the group's financial position. A new disclosure policy was put in place during the period following IPO to enhance the process for ensuring that price-sensitive information is identified effectively and all communications with the market are released at the appropriate times.

**Anti-fraud, bribery and corruption**

The group aims to promote honest and ethical conduct. To support this, it has in place an anti-bribery policy, which aims to ensure compliance with the Bribery Act 2010.

**Whistleblowing**

The group has a policy and formal procedures to ensure that colleagues can confidentially raise concerns about possible improprieties. This policy takes into account the Public Interest Disclosure Act 1998, which protects employees making disclosures about certain matters of concern, where those disclosures are made in accordance with the provisions of the Act. This year one issue was reported which related to an employee grievance and was investigated accordingly. If any significant incident occurs, the directors will be informed and the incident investigated immediately.

**Relations with shareholders**

The board is committed to maintaining an open and honest relationship with its shareholders. Directors encourage all shareholders to participate at the annual general meeting.

The chief executive, the chief financial officer and the chief operating officer have had meetings with institutional investors to explain the group strategy and performance and to learn what is important to them. The non-executive directors would be willing to meet with shareholders if they requested a meeting. In addition the group's broker, Numis, informs them of analyst and investor views.

The group's website (<http://www.mccolls.co.uk/investor.aspx>) contains all the latest announcements, press releases and published financial information including the annual report. The notice of the annual general meeting will be distributed to shareholders at least 20 working days before the meeting and is also available from the website. Each resolution will be proposed separately at the meeting and those shareholders attending will be asked to cast their vote. Proxy votes already received will be countered and after the vote has been taken on a show of hands the proxy vote will be displayed.

# Nomination committee report

## Composition of the committee

The members of the committee during the period were John Coleman as chairman, James Lancaster, Sharon Brown and Georgina Harvey. Half of the members of the committee are independent non-executive directors of the board. There have been no changes in the membership of the committee since the period end.

The committee will normally meet not less than twice a year when appropriate. After each committee meeting, the chairman reports to the board on the main items discussed.

## The role and duties of the nomination committee

The nomination committee's responsibilities are to:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the board and make recommendations to the board;
- give full consideration to succession planning for directors, the chairman and committee members and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company;
- keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- be responsible for identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise;
- propose the re-election by shareholders of any director having due regard to their performance and ability to continue to contribute to the board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the board (particularly in relation to directors being re-elected for a term beyond 6 years);
- evaluate the balance of skills, knowledge, experience and diversity on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment, before any appointment is made by the board;
- prior to the appointment of a director, require the proposed appointee to disclose any other business interests that may result in a conflict of interest and to report any future business interests that could result in a conflict of interest;
- review annually the time required from non-executive directors; and
- review the results of the board for performance evaluation process that relates to the composition of the board.

**Main activities during 2014**

Prior to the company's IPO, the board appointed an executive search consultant, the Inzito Partnership, with whom the company has no other connection, to identify candidates to fill 3 non-executive board vacancies. Following a rigorous selection process, John Coleman, Sharon Brown and Georgina Harvey were appointed non-executive directors.

During 2014, the nomination committee played an important part in ensuring that the leadership of the business was suitable for a newly premium listed company. In particular it has:

- given consideration to separating the roles of chairman and chief executive held by James Lancaster and of John Coleman's appointment as chairman and accordingly this separation of roles took effect from 22 July 2014. The board recognised the rationale given in the code to splitting these roles and the benefit to the company of having different individuals;
- following Martyn Aguss tendering his resignation as chief operating officer on 22 July 2014 and as a director of the company with effect from 30 July 2014, the nomination committee recommended David Thomas as his successor;
- subsequent to John Coleman's appointment as chairman the position of SID became vacant and after further consideration it was decided that the appointment of a SID to the company was unnecessary at the current time given the size and scale of the business, but that this would be kept under review. The shareholders are free to raise any concerns they have with any board member including the independent non-executive directors;
- considered if John Coleman should remain as remuneration committee chairman in breach of code provision D 2.1. The nomination committee felt that initially it was in the best interests of the company to allow John to continue to lead the remuneration committee; however, it has subsequently recommended to the board that Georgina Harvey be appointed remuneration committee chairman (from 24 November 2014) although John Coleman has remained a member;
- discussed the succession planning at board and senior executive level; and
- reviewed the committees rolling agendas and overview of duties which enables it to fulfil its responsibilities.

In addition the committee can confirm that all directors are required to disclose all significant outside commitments prior to appointment and the board has approved a policy requiring disclosure and approval by the board of all additional appointments for executive or non-executive directors. There have been no material changes in the outside commitments of a director during the period which impacted on the time required to commit to the company.

**Board diversity**

The board supports diversity, recognising the benefits that diverse viewpoints can contribute in decision-making. It is the intention of the board always to keep the benefits that derive from a diverse board in mind when making appointments. The board does not believe that setting a quota is the most appropriate method for achieving a balanced board and all appointments are made on merit. Currently 33% of the board is comprised of female directors.

Diversity, including gender diversity, is pursued throughout the business and the board continues to follow a policy of appointing talented people at every level to deliver high performance. This will ensure development in this area is consistent with the group's own strategic objectives and is enhancing in terms of board effectiveness.

# Audit committee report



## Chairman's introduction

On behalf of the board, I am pleased to present the first formal report of the audit committee to shareholders.

The audit committee was established as part of the governance processes adopted by the company, following admission to the premium list of the London Stock Exchange on 28 February 2014, and this report relates to the period since this date. Best practice is for audit committee members to be non-executive directors, independent in character and judgement. Consequently, the committee has been comprised of the 3 non-executive directors of the board.

The primary responsibilities of the committee are to ensure the integrity of the company's financial reporting and the appropriateness of the risk management processes and internal controls. The following report details how we carry out this role.

One of the key considerations for the committee in the period was to ensure that the company had effective and resilient policies and controls in place, to the standard expected of a public listed company. This has resulted in the formalisation and strengthening of a number of the company's policies and processes. In addition, we reviewed the reporting changes required for a listed company to ensure that the 2014 annual report was prepared in line with best practice.

The committee considered and is satisfied that, taken as a whole, the 2014 annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance and strategy. If any shareholder has comments or suggestions relating to the report, please do get in touch. Finally, on behalf of the committee, I would like to acknowledge the significant amount of work that is involved with becoming a public listed company and thank my colleagues at the group who have worked tirelessly to achieve this.

Yours sincerely

A handwritten signature in black ink that reads "Sharon Brown".

**Sharon Brown**  
Chairman of the audit committee

2 March 2015

### Committee composition and meetings

The members of the committee during the period were Sharon Brown as chairman, John Coleman and Georgina Harvey. The majority of the committee are independent non-executive directors of the board. The committee considers that collectively the members have appropriate recent and relevant financial experience to fully discharge their responsibilities. There have been no changes in the membership of the committee since the period end.

Capita Company Secretarial Services Limited serves as secretary to the committee. The chief executive, chief financial officer and audit partner from the external auditor attend committee meetings by invitation.

The committee will normally meet not less than 3 times a year at the appropriate times in the financial reporting and audit cycle. During the period the committee chairman also meets privately with the external auditor to give them an opportunity to discuss any issues without management present. After each committee meeting, the chairman reports to the board on the main items discussed.

### Role and responsibilities of the audit committee

The committee's authority and duties are defined in its terms of reference. The first audit committee meeting was held on 9 July 2014, at which the committee's terms of reference, membership and annual programme of work were approved.

The principal activities carried out during subsequent meetings were:

- Financial reporting – the committee considered the company's financial reports, including the implications of new accounting standards and regulatory changes, significant accounting issues and the appropriateness of the accounting policies adopted. This included consideration of the changes in reporting required as a new listed company;

- Internal and external audits – the committee considered the scope of the external audit plan and the subsequent findings of this work. The committee also considered whether an internal audit function was necessary. The internal control framework to be followed by employees is communicated by line management, training and manuals and the routine internal control activities are performed by the finance team. The retail support centre includes a team of stock compliance auditors, who conduct visits at least twice a year to each store to analyse the stock and review the compliance with company policies and practices. The committee concluded that an internal audit function was not currently appropriate but would be kept under review;
- Risk and internal control – the committee considered the key risks facing the company and the adequacy and effectiveness of the internal controls and risk management processes. This resulted in the formalisation and strengthening of a number of policies and procedures; and
- External auditor – the committee considered the independence, effectiveness and fees of the external auditor, as detailed later in this report.

### Significant issues considered by the committee during the period

The annual report and financial statements are the responsibility of the board and the statement of directors' responsibilities is on page 54. The audit committee advises the board on the form and content of the annual report and financial statements, any issues that may arise in relation to these and any specific areas that require judgement.

Summarised below are the most significant issues considered by the committee in respect of these financial statements and how these issues were addressed.

- First time plc reporting – this is the group's first annual report since listing on 28 February 2014, resulting in an increase in reporting requirements and new reporting deadlines. The committee reviewed management's plan and monitored progress and the use of third party advisors where appropriate;
- Property provisions – the committee considered the reasonableness of the provisions for closed branches, onerous leases and future dilapidations expenses, in particular management's judgement of future costs at the group's former head office;



- Supplier income – the committee considered the policy for the recognition of income receivable from suppliers and the controls in place over contract negotiation. The committee reviewed the independent verification procedures employed by management throughout the year and at the period end;
- Goodwill impairment – the committee considered the process for testing goodwill impairment including the determination of the appropriate CGUs, the reasonableness of the underlying assumptions and the results of the review;
- Inventory valuation and provisions – the committee reviewed internal controls over physical stock records, the valuation methodology and the basis for provisioning;
- Revenue recognition – the committee reviewed the internal controls over revenue recognition;
- Exceptional items – the committee reviewed the treatment and disclosure of non-recurring items; and
- Materiality – the committee considered what would be an appropriate level of materiality and agreed the amount over which the auditors should report matters to the committee.

Management have reported to the committee that they were not aware of any material misstatements within the annual report and the external auditors reported that they found no material misstatements in the course of their work.

#### **Relationship with the independent auditor**

There are no contractual obligations which restrict the committee's choice of auditor. Deloitte LLP has been the group's auditor since 2006 and Sukie Kooner is the new audit partner for the company's 2014 audit. In line with professional guidelines, each partner can serve for up to 5 years. The continued appointment of Deloitte is considered by the audit committee each year, taking into account relevant guidance and best practice and considering the independence and effectiveness of the external audit process.

As part of the review of auditor independence and effectiveness, Deloitte has confirmed that they are independent of the company and have complied with relevant accounting standards. The audit committee has established a policy to ensure that any provision of

non-audit services by the external auditor does not impair their independence and objectivity. This policy prohibits certain services and limits the level of non-audit services payable to the auditors to an aggregate of 100% of the previous year's audit fee. Any services in excess of this would require prior approval from the audit committee. The breakdown of fees between audit and non-audit services for the period ending November 2014 is provided on page 74. The non-audit fees relate to advisory work for the IPO, debt refinancing and audit of the financial statements for the half year and initial accounts. The audit committee is satisfied that it was appropriate for the auditors to carry out this work, and that it did not impair their independence or objectivity.

With regard to Deloitte's performance and the effectiveness of the audit process, the committee considered their fulfilment of the agreed audit plan and the audit findings report subsequently issued by them. The committee also took into account the competitiveness of their fees and obtained feedback from management regarding the performance of the audit team.

The committee is satisfied with the independence and performance of the auditor and has recommended their reappointment for a further year.

#### **Whistleblowing**

The committee is responsible for ensuring that employees are able to raise any concerns, in confidence, regarding any possible improprieties in financial reporting or other matters. During the period the committee reviewed the company's formal whistleblowing process and how this operated in practice. Whistleblowing reports will be reviewed at least annually by the committee or more frequently should it be considered necessary.

# Remuneration report



*The information provided in this part of the directors' remuneration report is not subject to audit.*

## **Dear shareholder**

Following my appointment as chair of the remuneration committee in November 2014, I am pleased to present the first directors' remuneration report since the company's incorporation and listing on the London Stock Exchange, for the financial period ended 30 November 2014.

2014 has been a period of significant change for the group - we undertook our IPO and progressed with implementing our ambitious growth strategies. We have seen good growth, with total sales increasing 6.1% and like-for-like sales ahead 0.7%. Results for the 2014 financial period have been broadly in line with expectations in a challenging market. We have identified attractive growth opportunities especially in the convenience part of our business, whilst recognising the challenges we face in the market place. Despite strong results in 2014, operating profit did not exceed the stretching targets set by the committee for the annual bonus. Therefore no annual bonus awards have been made to the executive directors in respect of the period under review.

The remuneration committee has undertaken a comprehensive review of the remuneration arrangements in place for our senior executives, with support and advice provided by Kepler Associates, who are independent. This covered all aspects of remuneration and how best to use remuneration to support the future development of the group. The review highlighted that incentive opportunities for executive directors at the group were behind market levels. The full activities of the committee during the period are summarised on page 49.

In line with our commitment to maintain an open dialogue with shareholders on remuneration, and to explain the rationale for key remuneration decisions, the company chairman and I consulted with our major shareholders to discuss and help develop our key remuneration proposals for 2015. These proposals have been guided by the committee's view of what would best promote the success of the group whilst taking account of expectations among our investors on remuneration best practice and feedback received from shareholders during the consultation process.

The key aspects of our proposed policy are outlined below:

- A proposal to introduce a new annual bonus scheme, the majority of which (80% in the 2015 financial period) will be based on profit performance, with the balance (20% in the 2015 financial period) linked to strategic performance measures selected annually by the remuneration committee to reflect other key performance indicators for the period ahead. Bonuses will be paid in cash following the period end, based on performance over the previous financial period. The maximum bonus opportunity for executive directors is 100% of salary, as approved by shareholders at listing, but will be 75% of salary for the 2015 financial year.
- A proposal to introduce a new long term incentive plan, in the form of performance shares. These awards will vest based on three years' financial performance, to include earnings per share (EPS) and total shareholder return (TSR). EPS will be weighted at least 50% (70% in the 2015 financial period) and TSR will be measured on a relative basis against a relevant benchmark (the combined constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drug Retailers Index for the 2015 financial period). The committee believes that this combination of measures will create the best alignment for the delivery of the company's growth plans. Executive directors' vested shares will be subject to an additional two-year holding period before being released to participants.

Full details of the executive directors' remuneration policy can be found in the directors' remuneration policy on pages 42 to 49. The rules underlying our new incentive plans have been designed to reflect best practice, in particular, the introduction of clawback and malus provisions.

During the year, executive directors' salaries were reviewed and a salary increase for one of our three executive directors was awarded. This was to reflect the additional responsibilities assumed by our chief financial officer during the year and the impact of inflation since his last review on 1 December 2012. David Thomas was appointed as chief operating officer during the year and his salary was set at £276,000 to reflect his new role.

During the year, James Lancaster stepped away from the chairman role to focus solely on the role of chief executive. John Coleman was appointed as non-executive chairman and I took on John Coleman's former role as remuneration committee chairman. The fee for the new role of non-executive chairman was set at £115,000 from 1 December 2014, to be competitive for a group of our size.

The committee has presented the remuneration report in line with recent regulations governing the disclosure and approval of directors' remuneration. At our annual general meeting, which will be held on 17 April 2015, the first section of this report, the Policy Report, will be put to shareholders for binding vote, and the second, the annual report on remuneration, which outlines the implementation of our policy for the forthcoming financial year, will be subject to an advisory vote. Finally, I would like to thank my colleagues on the committee for their hard work during 2014 and for the support we have received from the group's executive team.

Yours sincerely



**Georgina Harvey**

Chairman of the remuneration committee

## Directors' remuneration policy

This section describes the group's proposed remuneration policy for directors which, if approved, will apply for up to 3 years from the date of the annual general meeting.

The policy for executive director remuneration will be to provide a competitive package of fixed and variable pay that will enable the group to attract, motivate and retain executives with the right skills and experience, and will link executive pay to shareholder interests and the company's long term success.

The fixed component of each executive's remuneration package will comprise salary, pension and benefits. The variable component may comprise an annual bonus and eligibility to participate in a long term incentive plan (LTIP).

The majority of the bonus will be linked to annual profit performance, although an element may be linked to strategic performance measures that will help drive the group's growth. The group adopted an LTIP when the company listed on 28 February 2014 that provides the opportunity to earn shares based on three-year performance. Each element of remuneration is designed to target a specific aim of the remuneration policy and to help further align the interests of executives with those of shareholders.

### Future policy table

The key components of executive directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Fixed pay</b></p> <p><b>Base salary</b></p> <p>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.</p>	<p>Base 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.</p> <p>Any increases are generally effective from 1 December.</p>	<p>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.</p>	<p>Individual and group performance is taken into account when determining appropriate salaries.</p>
<p><b>Fixed pay</b></p> <p><b>Pension</b></p> <p>Provide post-retirement benefits for participants in a cost-efficient manner.</p>	<p>The current chief executive and chief financial officer receive a salary supplement in lieu of pension. The chief operating officer is, and any new appointee would be, eligible to participate in the group's defined contribution scheme (or any replacement scheme) or to receive a salary supplement in lieu of pension provision.</p>	<p>Pension contributions vary based on individual circumstances. Pension benefits will be capped at 20% of salary, excluding legacy arrangements for the current chief executive and chief financial officer. Further details are set out on page 51.</p>	<p>None.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Benefits</b></p> <p>To provide competitive benefits for each role.</p>	<p>Benefits currently include the provision of car or car allowance, fuel, private medical insurance and life assurance.</p> <p>Reasonable relocation, travel and subsistence allowances and other benefits may be provided based on individual circumstances.</p>	<p>There is no overall maximum value set on benefits. They are set at a level that is comparable to market practice.</p> <p>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).</p>	None.
<p><b>Variable pay</b></p> <p><b>Annual bonus</b></p> <p>Aims to focus executives on achieving stretching profit targets and delivering the strategic business priorities for the financial period.</p>	<p>Performance measures and targets are set prior to or shortly after the start of the financial period.</p> <p>At the end of the financial period, the remuneration committee will determine the extent to which the targets have been achieved.</p> <p>Awards are delivered in cash.</p> <p>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.</p>	<p>The maximum bonus opportunity for executive directors will be up to 100% of salary.</p> <p>For the 2015 financial period the maximum bonus opportunity will be set at 75% of salary.</p> <p>Up to 40% of maximum will vest for target performance. The committee may award up to 10% of maximum for threshold performance.</p> <p>80% of the award for 2015 will be based on achievement of group operating profit of which none will vest below target.</p> <p>20% of the award for 2015 will be based on achievement of strategic performance measures of which none will vest until the operating profit target is achieved.</p>	<p>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 for the year ahead.</p> <p>Details on the measures used during the period under review are set out on page 51.</p> <p>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.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Variable pay continued</b>  <b>Long term incentive plan (LTIP)</b>  Aligns the interests of executives with shareholders in growing the value of the business over the long term.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Awards may be made up to a maximum of 150% of salary in normal circumstances and up to 250% in exceptional circumstances.</p> <p>For the 2015 financial period executive directors' awards will be up to 50% of salary. The award size is reviewed in advance of grant.</p>	<p>Awards will vest on achievement of financial performance measures, measured over a three-year performance period, to include both EPS and TSR.</p> <p>EPS will receive a weighting in the LTIP of at least 50%.</p> <p>For the 2015 financial period the weightings on EPS and TSR will be 70% and 30% respectively.</p> <p>TSR will be measured on a relative basis against a relevant peer group.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Further details of awards to be made during the upcoming financial period are set out on page 51.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Other arrangements</b>			
<b>Shareholding guidelines</b>			
To align directors' interests with the long term interests of shareholders.	Executive directors are required to retain a minimum shareholding in the company at least equal to base salary, and are required to retain at least 50% of shares vesting (after tax) under the LTIP until the shareholding guideline has been met.	n/a	n/a
<b>Non-executive directors' fees</b>			
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.	All-inclusive annual fee for chairman. Annual base fee for non-executive directors. Additional fees paid to the chairmen of board committees. Non-executive directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than nominal travel expenses).	Any increases to non-executive director fees will be considered as a result of the outcome of a review process and taking into account wider market factors, e.g. inflation. There is no prescribed individual maximum fee. Further details are set out on page 52.	None.

### Notes to the policy table

#### Performance measure selection and approach to target setting

Profit is considered to be the best measure of the group's annual performance and will continue to determine the majority of the annual bonus. This will be supplemented by an element based on strategic performance measures, selected annually to reflect the group's key strategic priorities for the financial period ahead.

EPS is considered to be the best measure of the group's bottom line financial performance over the longer term and will determine the vesting for at least 50% of the overall LTIP award. TSR will also be captured to further align the interests of LTIP participants with those of shareholders.

Annual bonus targets will be selected prior to or shortly after the start of the financial period. Profit targets will be calibrated with reference to the group's budget for the upcoming financial period and the group's profit for the prior financial period. No element of the strategic performance measures will begin to pay out until the profit element starts to vest. Strategic performance measures will be selected to reflect the most important strategic goals for the upcoming financial period. No strategic performance measures were selected for the period under review.

Threshold and stretch performance levels under the EPS element of the LTIP will be set prior to 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. Performance targets for initial awards are detailed on page 51. The element linked to TSR will vest based on three-year TSR compared to a peer group comprising the constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drug Retailers Index. Threshold vesting for the TSR element will be set at median ranking and stretch will be set at upper quartile. This range is in line with market practice for other listed companies and is expected to capture the range of good to excellent performance for the group.

Differences in remuneration policy operated for other employees

Senior management's remuneration has the same components as set out in the policy, being base salary, annual bonus, pension, life assurance and 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 and pay-out arrangements but are based on specific key performance indicators relevant to each job function. The maximum award varies according to seniority.

All employees receive a basic salary and all eligible employees are automatically enrolled into a pension scheme. Store managers participate in a bonus scheme that targets specific key performance indicators for their store.

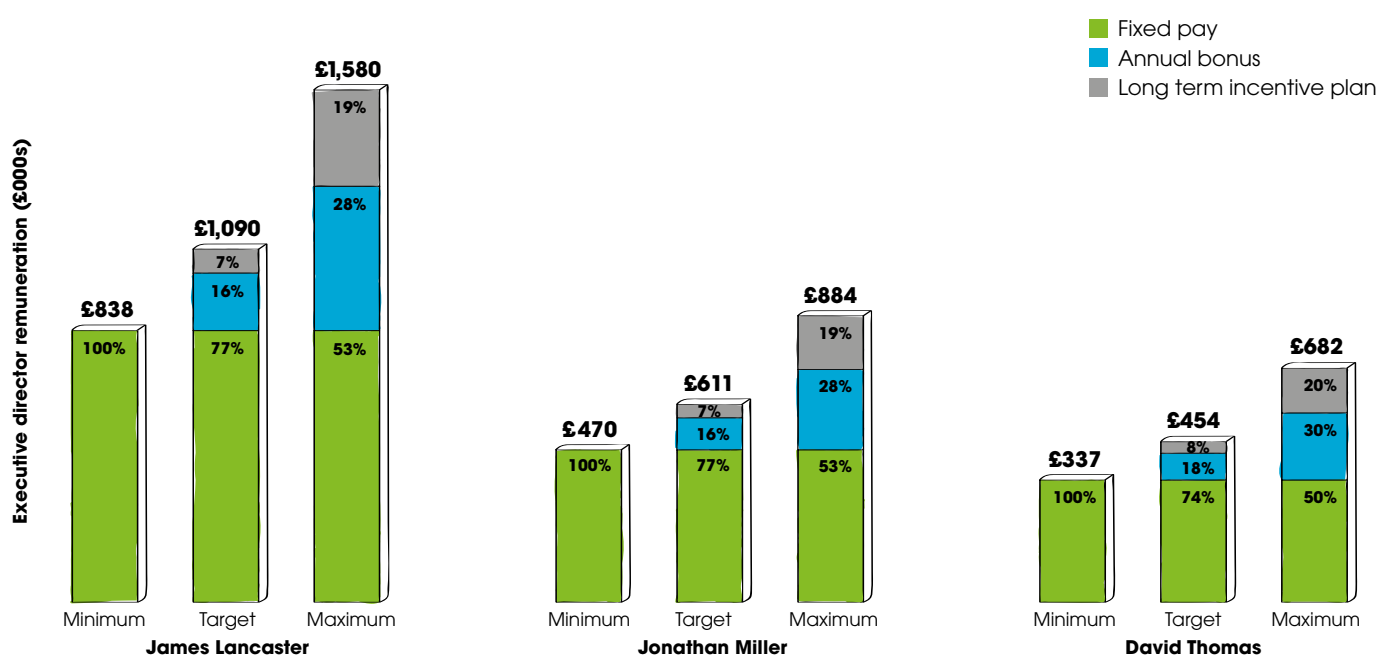
Other

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 graphs below provide 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'.

The potential reward opportunities illustrated are based on the policy which will apply from the annual general meeting on 17 April 2015, applied to the base salary in force at 1 December 2014 for James Lancaster and David Thomas and the proposed salary to be implemented in 2015 for Jonathan Miller. The projected value of LTIP amounts excludes the impact of share price movement or dividend accrual. The assumptions made in illustrating potential reward opportunities are shown in the table below:



Performance scenario	Fixed pay	Annual bonus	LTIP
Minimum	Salary as at most recent review date.	No annual bonus payable.	Threshold not achieved (0%).
Target	Salary supplements in lieu of pension contributions of 31.6% and 31% of salary for the chief executive and chief financial officer respectively, and a pension contribution of 15% of salary for the chief operating officer.	On target annual bonus payable (40% of maximum).	Performance warrants threshold vesting for 2015 (25% of maximum).
Maximum	Benefits as for the most recent financial period.	Maximum annual bonus payable for 2015 (75% of salary).	Performance warrants full vesting for 2015 (50% of salary).



### Approach to remuneration for new director appointments

In the cases of hiring 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
Base salary	The base 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 base salary.
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 base 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 base salary (250% in exceptional circumstances).

In determining appropriate remuneration for a new 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 foregone.

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 employees 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 set out in the table on page 45.

### Service contracts and exit payment policy

#### Non-executive directors

The current chairman and non-executive directors were appointed as directors on 7 February 2014. Their letters of appointment set out the terms of their 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 nominal travel expenses) on top of the fees disclosed on page 52. Non-executive directors have a notice period of one month and receive no compensation on termination.

#### Executive directors

On 24 February 2014, each of the executive directors, James Lancaster, Jonathan Miller, David Thomas and Martyn Aguss, entered into a service agreement with the company. Martyn Aguss resigned from the company on 22 July 2014 and ceased to be an executive director effective 30 July 2014. Each of the agreements are terminable by the relevant executive directors or the company on not less than 12 months' prior written notice. The 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 (although it should be noted that each of the executive directors can terminate their respective service agreements by giving 12 months' prior written notice to the company). Executive director service contracts are available for inspection at the registered office and at the annual general meeting.

James Lancaster and Jonathan Miller's pension arrangements were reviewed in 2008 upon closure of the group's defined benefit pension schemes to future accrual. They now receive a salary supplement in lieu of their previous defined benefit arrangements representing the actuarial valuation of the defined benefit foregone. This is kept under review by the committee. Pension arrangements for other executives are in line with the remuneration policy set out on page 42.

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.

The employment of each executive director is terminable with immediate effect without notice in certain circumstances, including where such executive director commits any act of serious misconduct, commits any 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 any criminal offence, commits any act which constitutes an offence under the Bribery Act 2010, is disqualified from acting as a director, acts in any way which may bring the company or any member of the group into disrepute or discredit, fails to comply with any policy of the company or any member of the group which has been communicated to him, enters into any transaction which constitutes an offence for the purposes of Part V of the Criminal Justice Act 1993 or which constitutes market abuse for the purposes of Part VIII of the Financial Services and Markets Act, or commits any material breach of his duties as a director.

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. The table below summarises how incentives are typically treated in different circumstances:

Reason for leaving	Timing of vesting	Calculation of vesting / payment
<b>Bonus</b>		
Summary dismissal, resignation <sup>1</sup>	Awards lapse.	Not applicable.
Good leaver <sup>2</sup>	Awards may vest pro-rata.	The annual bonus plan for the period under review would normally be pro-rated for the portion of the financial period for which the participant was employed by the company, with 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.
<b>LTIP</b>		
Summary dismissal, resignation	Awards lapse.	Not applicable.
Good leaver <sup>2</sup>	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.

1. Under the current chief executive and chief financial officer contracts, they are eligible to receive a pro-rata bonus payment upon termination of employment for any reason excluding summary dismissal. The current chief operating officer's contract and any future executive director contracts will be operated in line with the above policy.

2. Under the 2014 LTIP, 'good leaver' is defined as 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 committee determines in its absolute discretion (excluding summary dismissal or resignation to join a competitor).

### Consideration of employment conditions elsewhere in group

The committee takes into account the general basic salary increase being offered to employees elsewhere in the group when annually reviewing the salary increases and remuneration for the executive directors. Employees have not been consulted in respect of the design of the group's senior executive remuneration policy.

### Consideration of shareholder views

The company listed on the London Stock Exchange on 28 February 2014. The policy report herein contained will be the first for which a shareholder vote will be sought. After the listing, but prior to publication of this first directors' remuneration report, the committee consulted with shareholders regarding the proposed remuneration policy for executive directors, with the majority of shareholders consulted broadly supportive of the proposals.

## Annual report on remuneration

### Remuneration committee membership and advisers

The remuneration committee was established as part of the governance processes adopted by the company, following admission to the London Stock Exchange on 28 February 2014. The remuneration committee consists of two independent non-executive directors, Georgina Harvey (committee chair from 24 November 2014) and Sharon Brown, and the company chairman John Coleman (committee chair until 24 November 2014). During the period since its formation, the remuneration committee has held 3 scheduled meetings. The remuneration committee meets not less than twice a year and at such other times as required. The chief executive and chief financial officer, and the committee's independent advisers, Kepler Associates, attend committee meetings by invitation. After committee meetings, the chairman reports to the board.

The remuneration committee has responsibility for the determination of the terms and conditions of employment, remuneration and benefits of the chairman and members of the board, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior managers and the implementation of share option or other performance-related schemes.

The committee's principal external advisers are Kepler Associates, who were appointed by the committee and attend committee meetings from time to time, and who also provide remuneration advice to the group. Kepler

Associates provided initial support to management concerning remuneration arrangements at IPO. They were then appointed independent advisers to the remuneration committee through a competitive tender process and fees for advice provided to the remuneration committee were £49,550 for the financial period under review. Fees covered support in conducting a comprehensive review of senior executive remuneration at the group, including relevant developments in corporate governance and market trends, benchmarking of senior executives, a review of non-executive chairman fees and ongoing support and advice for the committee. Kepler Associates do not provide any other services to the group and the committee is satisfied that they provide independent and objective remuneration advice to the company. Kepler 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](http://www.remunerationconsultantsgroup.com).

### Committee activities

During 2014, the committee met to consider the following remuneration matters:

- Comprehensive review of remuneration arrangements, including:
  - salary levels to be awarded to the executive directors and senior executives for the 2015 financial period;
  - performance measures and opportunities for the annual bonus; and
  - performance measures, time horizons and opportunities for the LTIP and CSOP;
- CSOP and LTIP rules for board approval;
- Chairman's fee following the appointment of John Coleman as non-executive chairman on 22 July 2014;
- Review and approval of executive director service contracts;
- Procedure for the approval of directors' expenses;
- Latest developments in corporate governance of relevance to the committee; and
- Remuneration policy to be put to vote at the annual general meeting.

# Governance

## Remuneration report continued

The information provided in this part of the directors' remuneration report is subject to audit.

### Single figure for total remuneration of executive directors

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 30 November 2014 and the prior period:

£000	Salary		Pension benefit		Taxable benefits <sup>1</sup>		Single-year variable <sup>2</sup>		Multiple-year variable <sup>3</sup>		Compensation for loss of office		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
James Lancaster	594	594	188	188	56	52	-	-	2,361	-	-	-	3,199	834
Jonathan Miller	315	315	98	98	36	34	-	-	2,173	-	-	-	2,622	447
David Thomas <sup>4</sup>	168	168	25	25	19	16	-	20	225	-	-	-	437	230
Martyn Aguss <sup>5</sup>	185	277	58	86	19	26	-	-	541	-	129	-	932	389

1. Taxable benefits include car or car allowance, of £34k, £22k, \$9k and \$9k to James Lancaster, Jonathan Miller, David Thomas and Martyn Aguss respectively for 2014 (£34k, £22k, \$9k and \$13k for 2013), fuel allowance of \$7k, \$7k, \$5k and \$4k for 2014 (\$7k, \$7k, \$5k and \$6k for 2013), healthcare of £12k, \$7k, \$5k and \$6k for 2014 (\$9k, \$5k, \$2k and \$7k for 2013), and other benefits of \$2k for James Lancaster in 2014 and 2013.
2. Annual bonus paid for performance over the relevant financial period, based on operating profit only. Annual bonus payable in cash.
3. No long term incentives were in operation during the reported periods. A share-based payment arose in 2014 relating to shares allocated prior to the IPO for nil consideration, in which unallocated employee shares held in an employee benefit trust were allocated to employee shareholders pro rata to their existing holdings. Awards of 1,132,299, 1,132,299, 117,584 and 283,123 shares were made to James Lancaster, Jonathan Miller, David Thomas and Martyn Aguss respectively at the share price of £1.91 upon IPO. A further 104,050 and 5,339 shares were allocated to James Lancaster and Jonathan Miller prior to the IPO at nil cost in connection with the conversion of preference shares held by them into ordinary shares. The company met employer's national insurance contributions on the value of such shares at the IPO offer price.
4. David Thomas changed role on 22 July 2014.
5. Martyn Aguss resigned from the company on 22 July 2014 and ceased to be an executive director on 30 July 2014. Martyn Aguss received compensation for loss of office of £129k, comprising salary of \$92k, pension of \$28k and taxable benefits of \$9k, due in respect of the period of his garden leave from 30 July 2014, in accordance with his contractual entitlement and in line with the provisions for leavers set out in the policy above.
6. Richard Spedding and Travers Smith Limited were directors of the company prior to IPO, and resigned on 3 February 2014. They received no remuneration from the company.

### Single figure for total remuneration for non-executive directors

The table below sets out a single figure for the total remuneration received by each non-executive director for the period ended 30 November 2014. All three current non-executive directors were appointed by the company on 7 February 2014; they therefore did not receive any remuneration during the period ended 24 November 2013.

£000	Total	
	2014	2013
John Coleman	50	-
Sharon Brown	42	-
Georgina Harvey	38	-

#### Basic annual salary

Base salaries are reviewed annually, with any changes normally effective from 1 December, with reference to individual performance, experience, market competitiveness and salary increases across the group.

Salaries paid to the executive directors and senior executives were reviewed by the committee, taking into account the competitiveness of total remuneration in comparison to comparable roles at listed retail companies of a broadly similar size and other listed organisations of a similar size.

Following the review, the committee determined that the chief executive's salary would be unchanged at £594,224. The chief financial officer's salary will be increased by 5% to £331,207 being broadly in line with inflation over the two years since his previous increase, and to reflect increased responsibility following the reduction in the executive board from 4 members to 3 members. The increase will become effective during 2015 at the same time as the general pay review at the group's head office is implemented. The chief operating officer's salary was set at £276,000 to reflect his appointment as chief operating officer. The average salary increase awarded across the wider employee population was c.2% for the 2015 financial period.

Purpose and link to strategy	1 December 2014	1 December 2013	% change
James Lancaster	£594,224	£594,224	0%
Jonathan Miller	£315,381 <sup>1</sup>	£315,382	0%
David Thomas <sup>2</sup>	£276,000	£168,000	64%
Martyn Aguss <sup>3</sup>	n/a	£276,900	n/a

1. Jonathan Miller's salary will be increased to £331,207 during 2015 at the same time as the general pay review at the group's head office.
2. David Thomas changed role on 22 July 2014.
3. Martyn Aguss resigned from the company on 22 July 2014 and ceased to be an executive director effective 30 July 2014.

### Annual bonus

The group operates an annual performance related bonus scheme for a number of senior executives including executive directors.

For the 2014 financial period, annual bonuses for the executive directors were capped at 62.5% of salary and based 100% on exceeding an operating profit target of £25.5m. No bonus would vest for operating profit at or below target. Actual operating profit before exceptional items for the year ending 30 November 2014 was £25.5m, therefore none of the awards vested and no bonuses were paid to the executive directors.

For the 2015 financial period, annual bonuses for the executive directors will be based 80% on operating profit and 20% on three key strategic performance measures being: like-for-like sales, the number of convenience stores, and expanding the range of products and services. The target for convenience store numbers will be to have 900 in operation by 31 December 2015 (799 as at 30 November 2014). The targets for the other performance metrics are not being disclosed at present for reasons of commercial sensitivity, but will be disclosed retrospectively in the next annual report on remuneration, subject to the information no longer being commercially sensitive.

For the operating profit element of the 2015 annual bonus no vesting will occur below target. At target 40% of the profit element of the bonus will be awarded. Annual bonus payments will then increase on a straight-line basis between 40% of maximum and full vesting for achievement of 110% of target. For the strategic performance element of the bonus, no awards will vest prior to the attainment of target operating profit.

The committee has discretion to adjust the formulaic bonus outcome downwards, or upwards with shareholder consultation, within the plan limits, to ensure alignment of pay with the underlying performance of the business. The committee may also reduce future annual bonus opportunities in light of material misstatement or gross misconduct. In extreme cases of gross misconduct, the committee may claw back annual bonus payments previously made.

### Long term incentive plan (LTIP)

Prior to approval of the LTIP outlined in the director's remuneration policy above, no long term incentive plan had been in operation. In 2015, it is expected that executive directors will be granted shares equivalent to 50% of salary under the LTIP. These shares will vest on EPS and TSR performance over a three-year period, as follows:

70% based on cumulative earnings per share, measured over 3 financial years:

Cumulative EPS for financial periods 2015/2016/2017	% of the EPS element of the award which can be exercised
61.5p or above	100%
Between 55.9p and 61.5p	Straight-line vesting between 25% and 100%
Below 55.9p	0%

30% based on relative total shareholder return relative to the constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drugs Retailers Index, measured over 3 financial years.

Relative TSR ranking	% of the TSR element of the award which can be exercised
Upper quartile or above	100%
Between median and upper quartile	Straight-line vesting between 25% and 100%
Below median	0%

In addition, for 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 two years will apply to vested shares from the end of the performance period.

The committee has discretion to claw back any unvested long term incentive awards, 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.

Awards made under the LTIP and any other share-based schemes (the CSOP) will not exceed the Investment Association's guideline on dilution of 10% in aggregate over a 10-year rolling period.

### Executive directors' pension arrangements

The current chief executive, the chief financial officer and the former chief operating officer receive a salary supplement in lieu of pension. For the period ending 30 November 2014, pension contributions were equal to 31.6% of salary for James Lancaster, 31% for Jonathan Miller and 31% for Martyn Aguss. The current chief operating officer participates in the group's defined contribution scheme for which the company contributes 15% of salary. For the period ending 29 November 2015, executive directors' pensions will be unchanged.

**Non-executive director fees**

For the 2015 financial period, the base fee for non-executive directors will remain at £45,000 p.a., with an additional fee of £5,000 p.a. paid to the chairmen of the remuneration and audit committees. Following the appointment of John Coleman as non-executive chairman on 22 July 2014, the committee set his fee at £115,000 p.a. from 1 December 2014.

**Payments for loss of office**

Martyn Aguss resigned from the company on 22 July 2014 and ceased to be an executive director effective 30 July 2014. In light of this, he is contractually entitled to receive salary and benefits for the period of 12 months' notice, for which he has been on garden leave.

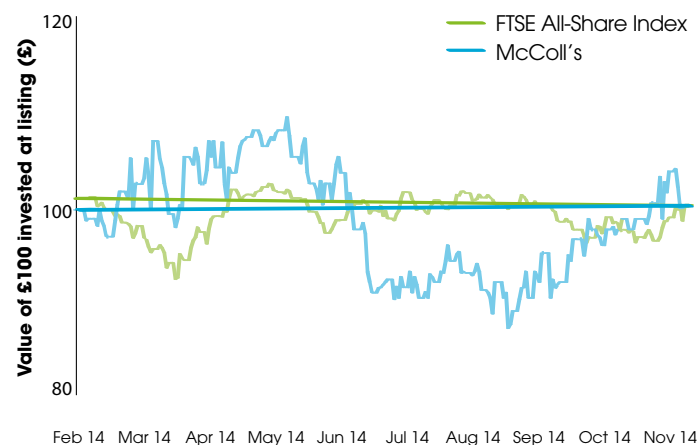
**Payments to previous directors**

Except for the above payments for loss of office, no further 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.*

**Historical performance graph and chief executive single figure of remuneration**

The graph below shows the total shareholder return of the group and the FTSE All Share Index since listing. The FTSE All Share Index is chosen as it is a broad market index of which the group is a member.



<b>James Lancaster, chief executive</b>	<b>2014</b>	2013
Single figure of remuneration (£000)	<b>3,199</b>	834
Annual bonus outcome (% of max)	<b>0%</b>	0%
LTIP vesting (% of max)	<b>n/a</b>	n/a

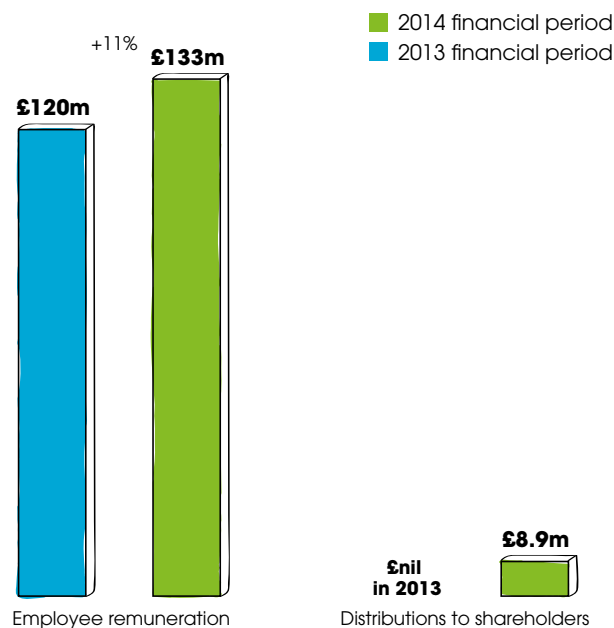
**Increase in chief executive's remuneration**

The table below sets out the percentage increase in the remuneration of the chief executive and the average increase across all employees excluding the board between the years 2013 and 2014.

	<b>Chief executive annual cash</b>			<b>Average increase across all employees</b>
	<b>2014</b>	<b>2013</b>	<b>Increase</b>	
Salary	£594,224	£594,326	0.0%	2.0%
Pension benefit	£187,776	£187,776	0.0%	0.0%
Taxable benefits	£55,635	£51,729	7.6%	3.8%
Annual variable	Nil	Nil	0.0%	0.0%

**Distribution statement**

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



The increase of 11% in 2014 includes the share-based payments of £5,532,000 (see note 6 on page 73) and the additional wage cost incurred in the 60 stores acquired in 2014. The underlying increase in 2014 is 2%.

The group listed on the London Stock Exchange on 28 February 2014, and has since paid an interim dividend of £1.78m representing the 3 month period post listing. The board has recommended a final dividend of 6.8p per share subject to approval by shareholders at the annual general meeting, representing an additional payment of £7.12m.

### Statement of shareholder voting

The group listed on the London Stock Exchange on 28 February 2014. The directors' report on remuneration herein contained will be the first for which a shareholder vote will be sought; the outline of the remuneration arrangements were detailed in the prospectus, which received shareholder support.

### Directors' shareholdings and interest in shares

The executive directors each own significant shareholdings in the company. The committee sets shareholding guidelines which require executive directors to maintain, over time, a personal shareholding in the company of at least equivalent to one times salary.

Director	Owned outright	Unvested and subject to deferral	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Current shareholding (% of salary /fee <sup>1</sup> )	Shareholding requirement (% of salary /fee)	Guideline met?
<b>Executive directors</b>								
James Lancaster <sup>2</sup>	11,399,500	-	-	-	-	3,453%	100%	Yes
Jonathan Miller <sup>2</sup>	11,399,500	-	-	-	-	6,506%	100%	Yes
David Thomas	1,183,792	-	-	-	-	1,268%	100%	Yes
Martyn Aguss <sup>3</sup>	2,850,362	-	-	-	-	n/a	n/a	n/a
<b>Non-executive directors</b>								
John Coleman	31,413	n/a	n/a	n/a	n/a	94%	n/a	n/a
Sharon Brown	10,471	n/a	n/a	n/a	n/a	38%	n/a	n/a
Georgina Harvey	10,471	n/a	n/a	n/a	n/a	42%	n/a	n/a

1. Based on closing share price of \$1.80 and prevailing salary or fees (including committee fees) on 30 November 2014.

2. The ordinary shares held by James Lancaster and Jonathan Miller include shares held beneficially via various individual holdings and holdings of connected persons.

3. Martyn Aguss resigned from the company on 22 July 2014 and ceased to be an executive director on 30 July 2014.

4. 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.

Note: Richard Spedding and Travers Smith Limited served as directors of the company from incorporation to 3 February 2014 and held no shares in the company.

# Statement of directors' responsibilities

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 chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgements 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; and
- 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.

## Directors' responsibility statement

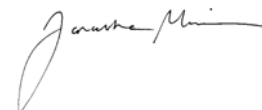
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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 performance, business model and strategy.

By order of the board



**James Lancaster**  
Chief executive  
2 March 2015



**Jonathan Miller**  
Chief financial officer  
2 March 2015



## Financial Statements

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## Independent Auditor's Report to the members of McColl's Retail Group plc

### Opinion on financial statements of McColl's Retail Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 November 2014 and of the group's and the parent company's profit for the 53 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; 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.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company reconciliation of movements in shareholders' funds and the related notes 1 to 32 for the consolidated financial statements and the related notes 1c to 10c in the parent company financial statements. 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 (United Kingdom Generally Accepted Accounting Practice).

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the directors' report on page 28 that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described on page 57 are those that had the greatest effect on our group audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

## Risk

## How the scope of our audit responded to the risk

**Supplier income**

Supplier income is generated from a number of commercial agreements with suppliers including incentives, rebates and discounts. In the current period, this represents a deduction to cost of sales which is material to the group financial statements. There are a large number of individual arrangements which can be complex in nature. The process involves significant manual adjustments as well as determining whether the amounts are recorded in the correct period. Contracts span the end of the reporting period, meaning that estimates and judgements are necessary to calculate the amounts receivable under the terms of the contracts.

See cost of sales accounting policy in note 2 to the financial statements.

Our audit procedures included, but were not limited to:

Testing the design and implementation of controls in place over supplier income and understanding of the commercial process and interaction with financial accountants via meetings with the trading team.

For a statistical sample of supplier income agreements, we understood the contract terms and recalculated the expected supplier income by comparing the amounts used in the calculations to actual purchases in the year taken from system generated reports for which we gained assurance over the validity and completeness.

Performing analytical work on supplier income trends across suppliers and product categories, challenging management's estimates based on this work by investigating any unexpected variances and corroborating with supporting evidence.

Assessing the recoverability of a sample of accrued supplier income was evaluated by agreement to subsequent invoicing and cash receipts, or in the cases where these have yet to be settled, performing alternative procedures such as tracing to third party documentation or contracts to corroborate the accrual.

Inspecting a sample of post year end credit notes for evidence of refunds or of invoiced amounts not being valid.

**Property provisions**

The group has an extensive and diverse property portfolio, including both leasehold and freehold property across the UK. As a result, there are several technically complex areas and judgemental aspects to consider when accounting for property and leases across the group, including:

- provisions for closed branches and onerous leases on vacant or part vacant properties which represent future expenditure comprising the rental payable under the lease agreement which is not recoverable from sub-letting the property and an estimate of ongoing service costs.
- future dilapidations expenses

These provisions are material and include judgements around the future cash flows and the discounting of these.

See provisions accounting policy in note 2 to the financial statements.

For each of the property provisions:

We obtained management's calculations and selected statistical samples of individual properties where we recalculated the provision by testing and challenging the inputs, assumptions and discount rate used and corroborated to supporting external evidence including, but not limited to, lease contracts and dilapidation schedules issued by landlords.

We performed sensitivity analysis on the key inputs applied to assess whether a reasonable fluctuation in these would change the provision by a material level.

We reviewed the list of branches that had been closed during the period to assess the completeness of the provision.

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

Risk	How the scope of our audit responded to the risk
<p><b>Goodwill impairment</b></p> <p>The goodwill value of £137.1m is supported by forecasts of future cash flows of the businesses. There are inherent risks within these forecasts due to the uncertainties as a result of changing industry and economic conditions and the resulting judgements required. The group holds a significant value of goodwill which has been generated through acquisitions of businesses, individual and groups of stores. In the current period, the CGUs to which this goodwill has been applied for impairment testing has been changed as a result of a reassessment by management. See goodwill impairment accounting policy in note 2 and note 13 to the financial statements.</p>	<p>We evaluated management's goodwill impairment calculations and have challenged their calculations by:</p> <ul style="list-style-type: none"> <li>Recalculating the discount rates applied to future cash flows, working with our internal valuation specialists to assess the appropriateness of the underlying calculations and assumptions; we have benchmarked the resulting discount rates against other companies operating in the retail sector.</li> <li>Performing sensitivity analysis on the inputs applied (including discount rates and growth rates) to determine whether any reasonable fluctuations in these would impact the headroom to a material extent.</li> <li>Comparing the assumed growth rates and forecasted cash flows against recent trading activity, historic trends and our understanding of the future prospects of the business to identify whether these scenarios could give rise to further impairment.</li> </ul> <p>We have assessed the change in the way that management group CGUs for the purpose of goodwill impairment against IAS36 to determine whether it complies with the standard.</p> <p>We assessed the appropriateness of the disclosures in the financial statements.</p>
<p><b>Stock provisioning</b></p> <p>Judgement is necessary to assess the carrying value of stock due to the fast-moving and in some cases, perishable nature of stock. There is an obsolescence risk where stock is valued incorrectly due to inadequate stock provisions. Stock counts are performed on a rotational basis throughout the year, rather than at the year end. Stock provisions are based on estimates and stock values are based on a perpetual system as at the reporting date presenting a risk of existence. See inventories accounting policy in note 2 to the financial statements.</p>	<p>We critically assessed the appropriateness of the methodology used to calculate the stock provisions at the period end date.</p> <p>We challenged management's assumptions and tested the mathematical accuracy and the logic of the calculations which supported the provisions. We attended stock counts at a sample of stores and compared the results to the stock system. In addition to this, we tested the controls around the perpetual stock system to gain assurance over this process which is used as the basis for year end stock provisions which are based on estimates.</p>
<p><b>Revenue recognition</b></p> <p>Over 99% of revenue is generated through transactions via the EPOS system, these are settled in cash or credit card. There are manual adjustments between this system and the financial statements which could be vulnerable to manipulation. See revenue accounting policy in note 2 to the financial statements.</p>	<p>We have performed tests of operating effectiveness of controls around the revenue cycle including using our IT specialist team to test the automated controls over the EPOS system.</p> <p>We understood the nature of the manual adjustments, we investigated and challenged a sample of these. We agreed these back to appropriate supporting evidence.</p>

The description of risks above should be read in conjunction with the significant issues considered by the audit committee discussed on pages 38 and 39.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

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### 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.

We determined materiality for the group to be £994,870, which is approximately 5.2% of adjusted pre-tax profit, and 0.9% of equity. Pre-tax profit has been normalised by adjusting for exceptional items (the one-off costs relating to the IPO, the increase in the provision for future costs for the group's former head office, a share-based payment charge related to shares allocated to employees prior to the IPO for nil consideration and income from the post office in relation to converting 191 of the group's existing post offices). We believe this is an appropriate basis for materiality as it reflects recurring performance.

We agreed with the audit committee that we would report to the Committee all audit differences in excess of £50,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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### 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 5 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 identify 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.

As this was the first period reporting as a listed group, we considered the additional requirements and performed additional audit procedures to address these risks including, but not limited to: reviews of UKGAAP to IFRS adjustments, treatment of IPO related costs and corporate governance disclosure checklists.

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### Opinion 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; and
  - 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.
-

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

### 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 arising from these matters.

#### Corporate governance statement

Under the Listing Rules we are also required to review the part of the corporate governance statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

#### Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Sukhbinder Kooner** (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, UK  
2 March 2015

## Consolidated income statement

53 week period ended 30 November 2014

	Notes	53 weeks ended 30 November 2014			52 weeks ended 24 November 2013		
		Before exceptional items £'000	Exceptional items (note 6) £'000	After exceptional items £'000	Before exceptional items Restated (note 4) £'000	Exceptional items Restated (note 6) £'000	After exceptional items Restated (note 4) £'000
Revenue	5	922,420	-	922,420	869,416	-	869,416
Cost of sales		(699,647)	-	(699,647)	(658,424)	-	(658,424)
<b>Gross profit</b>		<b>222,773</b>	<b>-</b>	<b>222,773</b>	210,992	-	210,992
Administrative expenses		(223,045)	(10,187)	(233,232)	(212,977)	-	(212,977)
Other operating income	7	25,749	6,743	32,492	24,483	-	24,483
<b>Operating profit</b>	7	<b>25,477</b>	<b>(3,444)</b>	<b>22,033</b>	22,498	-	22,498
Finance expense		(6,351)	(3,166)	(9,517)	(12,997)	(5,597)	(18,594)
Finance income		121	-	121	488	-	488
Net finance costs	9	(6,230)	(3,166)	(9,396)	(12,509)	(5,597)	(18,106)
<b>Profit on ordinary activities before taxation</b>		<b>19,247</b>	<b>(6,610)</b>	<b>12,637</b>	9,989	(5,597)	4,392
Tax on profit on ordinary activities	10	(4,018)	1,288	(2,730)	(556)	1,306	750
<b>Profit on ordinary activities after taxation</b>		<b>15,229</b>	<b>(5,322)</b>	<b>9,907</b>	9,433	(4,291)	5,142
<b>Earnings per share</b>							
Basic	12	15.6p		10.2p	12.6p		6.9p
Diluted	12	15.6p		10.1p	12.4p		6.7p

## Consolidated statement of comprehensive income

53 week period ended 30 November 2014

	Notes	53 weeks ended 30 November 2014 £'000	52 weeks ended 24 November 2013 Restated (note 4) £'000
Profit for the period		9,907	5,142
Items of other comprehensive income that will not be reclassified to profit or loss:			
Actuarial gain recognised on pension scheme	31	631	8,613
UK deferred tax attributed to actuarial gain:			
Arising from the origination of and reversal of current and deferred tax differences	10	(138)	(1,722)
Arising from changes in the tax rate	10	-	(223)
<b>Other comprehensive income for the period</b>		<b>493</b>	6,668
<b>Total comprehensive income for the period</b>		<b>10,400</b>	11,810



## Consolidated balance sheet

30 November 2014

	Notes	30 November 2014 £'000	24 November 2013 Restated (note 4) £'000
<b>Non-current assets</b>			
Goodwill	13	137,112	130,353
Other intangible assets	13	2,039	2,141
Property, plant & equipment	14	63,063	61,377
Investments	15	18	18
Pension scheme surplus	31	6,504	4,568
<b>Total non-current assets</b>		<b>208,736</b>	198,457
<b>Current assets</b>			
Inventories	17	45,757	44,224
Trade and other receivables	18	30,117	32,754
Cash and cash equivalents	19	11,396	23,528
Derivative financial assets	26	-	34
<b>Total current assets</b>		<b>87,270</b>	100,540
<b>Total assets</b>		<b>296,006</b>	298,997
<b>Current liabilities</b>			
Trade and other payables	20	(112,586)	(117,927)
Borrowings	22	-	(6,978)
Provisions	24	(2,285)	(2,702)
Corporation tax		(2,023)	(1,114)
<b>Total current liabilities</b>		<b>(116,894)</b>	(128,721)
<b>Net current liabilities</b>		<b>(29,624)</b>	(28,181)
<b>Non-current liabilities</b>			
Borrowings	22	(44,852)	(97,216)
Other payables	21	(3,922)	(6,093)
Provisions	24	(3,194)	(1,094)
Deferred tax liabilities	25	(4,701)	(5,117)
Pension scheme liability	31	(5,200)	(4,842)
<b>Total non-current liabilities</b>		<b>(61,869)</b>	(114,362)
<b>Total liabilities</b>		<b>(178,763)</b>	(243,083)
<b>Net assets</b>		<b>117,243</b>	55,914
<b>Shareholders' equity</b>			
Equity share capital	27	105	75
Share premium account	27	47,836	734
Own shares	27	-	(45)
Retained earnings		69,302	55,150
		<b>117,243</b>	55,914

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the board of directors on 2 March 2015.

Signed on behalf of the board of directors

**Jonathan Miller**  
Director

## Consolidated statement of changes in equity

53 week period ended 30 November 2014

	Equity share capital £'000	Share premium account £'000	Own shares £'000	Retained earnings £'000	Total £'000
Balance at 25 November 2012	75	712	(45)	43,340	44,082
Profit for the period (restated note 4)	-	-	-	5,142	5,142
Movement in preference shares	-	22	-	-	22
Actuarial gain recognised on pension scheme	-	-	-	6,668	6,668
Total comprehensive income for the period	-	22	-	11,810	11,832
Balance at 24 November 2013	75	734	(45)	55,150	55,914
Profit for the period	-	-	-	9,907	9,907
Credit for share-based payments	-	-	-	5,532	5,532
Dividends paid	-	-	-	(1,780)	(1,780)
Issue of share capital	30	47,102	45	-	47,177
Actuarial gain recognised on pension scheme	-	-	-	493	493
Total comprehensive income for the period	30	47,102	45	14,152	61,329
Balance at 30 November 2014	105	47,836	-	69,302	117,243

## Consolidated cash flow statement

53 week period ended 30 November 2014

	Notes	53 weeks ended 30 November 2014 £'000	52 weeks ended 24 November 2013 Restated (note 4) £'000
<b>Net cash provided by operating activities</b>	29	34,615	28,353
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(15,188)	(10,779)
Proceeds from sale of property, plant and equipment		11,317	5,270
Acquisition of businesses, net of cash acquired	16	(16,827)	(5,424)
Investments		-	(18)
Finance income		121	644
<b>Net cash used in investing activities</b>		(20,577)	(10,307)
<b>Cash flows from financing activities</b>			
Repayment of loans		(109,414)	(140,428)
Repayment of hire purchase loans		(2,276)	(2,172)
New loans received	22	46,000	111,533
Issue costs		(4,099)	(4,621)
Proceeds on issue of shares		49,802	-
Dividend paid	11	(1,780)	-
Finance expense		(4,186)	(10,844)
Hire purchase interest paid	9	(177)	(217)
<b>Net cash used in financing activities</b>		(26,130)	(46,749)
Decrease in cash and cash equivalents		(12,092)	(28,703)
Cash and cash equivalents at beginning of period	19	23,488	52,191
<b>Cash and cash equivalents at end of period</b>	19	11,396	23,488

## Notes to the financial statements

53 week period ended 30 November 2014

### 1. Basis of preparation

The group financial statements for 2014 consolidate the financial statements of McColl's Retail Group plc (the "company") and all its subsidiary undertakings (together, "the group") drawn up to 30 November 2014. The group's accounting period covers the 53 weeks ended 30 November 2014. The comparative period covered the 52 weeks ended 24 November 2013. 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 corporate governance section on page 28.

An explanation of the transition to IFRS is provided in the IPO prospectus, which can be found at <http://www.mccolls.co.uk/investor/mccolls-ipo>.

The consolidated financial information is presented in sterling, the group's functional currency, and has been rounded to the nearest thousand (£'000).

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 the following items (refer to individual accounting policies for details):

- Derivative financial instruments – fair value through profit or loss; and
- Net defined benefit pension asset or liability – actuarial basis.

#### Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities it is classified as a subsidiary. The consolidated financial information presents the results of the company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial information incorporates the results of business combinations using the purchase method. In the group balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the group income statement from the date on which control is obtained. They are deconsolidated from the date on which control ceases. Acquisition costs are expensed as incurred.

#### Adoption of new and revised standards

In the current financial period, the group has applied for the first time IAS19 'Employee Benefits' (revised). See note 4 on page 72 for full details.

## Notes to the financial statements continued

53 week period ended 30 November 2014

### 1. Basis of preparation (continued)

#### New standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

IFRS9 'Financial Instruments'

IFRS10 'Consolidated Financial Statements'

IFRS11 'Joint Arrangements'

IFRS12 'Disclosure'

IAS27 'Separate Financial Statements'

IAS28 'Investments in Associates and Joint Ventures'

Amendments to IFRS10, IFRS12 and IAS27 'Investment Entities'

Amendments to IAS32 'Offsetting Financial Assets and Financial Liabilities'

Amendments to IAS36 'Recoverable Amount Disclosures for Non-Financial Assets'

Amendments to IAS39 'Novation of Derivatives and Continuation of Hedge Accounting'

IFRIC Interpretation 21 'Levies'

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the group's financial statements when the relevant standards come into effect.

In addition to the above new standards or amendments, there are additional new standards and amendments which will not be applicable to the group and as such have not been listed.

### 2. Significant accounting policies

#### Revenue

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.

Commission from the sale of lottery tickets and electronic phone top-ups is recognised net within turnover, when transactions deriving commissions are completed, as the company 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 amount at the reporting date is included in prepayments and accrued income.

#### Other operating income

Post office, rental income and ATM commissions are recognised in the consolidated income statement when the services to which they relate are 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 business 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 subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units (CGU) 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.

On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

See note 13 on pages 79 and 80 for further details of cash-generating units and impairment testing.

#### Computer software within intangible assets

Computer software is stated at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of five to eight years and are included within other intangible assets. Costs relating to development of computer software for internal use do not meet the recognition criteria of IAS38 Intangible Assets and are recognised as an expense as incurred.

#### 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 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:

#### Land and buildings

Depreciation of land and buildings is charged as follows:

Freehold (including land where it is not separately identifiable)	- 50 years
Long leaseholds improvements	- 50 years
Short leaseholds improvements:	
- Shops	- 10 years
- Other	- term of the lease
Leasehold premiums	- the unexpired portion of the lease

#### Motor vehicles, fixtures and equipment

Depreciation of motor vehicles, fixtures and equipment is charged as follows:

- Motor vehicles	- 4 years
- Computer equipment	- between 5 and 8 years
- Furniture and fittings	- between 5 and 10 years

Gains and losses on disposal 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, excluding goodwill, 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.

#### 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.

## Notes to the financial statements continued

53 week period ended 30 November 2014

### 2. Significant accounting policies (continued)

#### 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 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.

#### Leases incentives

Lease incentives primarily include up-front cash payments or rent-free periods. 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.

#### Inventories

Inventories consist of goods for resale and are stated at the lower of cost and net realisable value. Cost is calculated using a retail method which for each category of stock reduces 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 the business net of selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### 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.

##### 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 counterparty 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 receivables comprise trade and other receivables and cash and cash equivalents in the group balance sheet.

##### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the group balance sheet.

Financial assets are derecognised 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.

### Financial liabilities

The group classifies its financial liabilities into one category:

#### Other financial liabilities

Other financial liabilities include:

- 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 26.

#### Derivative financial instruments

The only derivative financial instruments that the group enters into are interest rate swaps. The purpose of these transactions is to manage the interest rate risk arising from the group's operations and sources of finance.

The group does not hold derivative financial instruments for speculative purposes.

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments, including interest rate swaps (unless qualifying as cash flow hedge accounting) are recognised in the income statement as finance income or costs as they arise.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 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.

#### 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.

## Notes to the financial statements continued

53 week period ended 30 November 2014

### 2. Significant accounting policies (continued)

#### 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

Provisions for onerous leases, measured net of expected sub-let rental income, are recognised when the leased property becomes vacant and is no longer used in the operations of the business.

#### 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.

#### Pensions

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 contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

#### Defined benefit schemes

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; plus
- Unrecognised past service costs; 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 expected return on assets and that actually achieved, 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 where the benefits have vested.

Past service costs are recognised directly in income unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time. In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Finance items comprise the interest on scheme liabilities and the expected return on scheme assets.

Further information on pensions is disclosed in note 31.

### 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 2, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



### Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

#### Supplier income

Supplier income is generated from commercial agreements with suppliers including incentives, rebates and discounts. Agreements are typically for the calendar year so are not concurrent with the financial reporting period. Judgement is required as to the level of income which should be accrued for in relation to achieving pre-set trading targets in the final month of the calendar year. Changes in the judgements used would not have a significant effect on the group's consolidated income statement.

#### Operating segment

IFRS8 requires segment information to be presented on the same basis as that used by the board for assessing performance and allocating resources. Management has used its judgement in determining that the group has one single operating segment. This is based on the reports reviewed by the board of directors to make strategic decisions.

#### Cash-generating units (CGUs)

The group determines CGUs for the purpose of goodwill impairment based on the way it manages the business. Judgement is required to ensure this assessment is appropriate and in line with IAS36. This is expanded upon in note 13 on pages 79 and 80.

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Goodwill impairment

The group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash-generating units (CGUs). The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information including carrying values is included in note 13 on pages 79 and 80.

#### Impairment of tangible and intangible assets excluding goodwill

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value.

Recoverable amount is based on the higher of the value in use and fair value less costs to sell. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Fair values for individual trading stores are based on a multiple of its average weekly sales performance.

Details of the accounting policy on the impairment of tangible and intangible assets, excluding goodwill, are provided in note 2 on page 66.

#### Pensions

The costs, assets and liabilities of the defined benefit pension schemes operated by the group are determined using methods relying on actuarial estimates and assumptions, including rates of increase in pensionable salaries and pensions, expected returns on scheme assets, life expectancies and discount rates. Details of the key assumptions are set out in note 31. 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 balance sheet.

#### Provisions

Provisions have been made for onerous leases and dilapidations. These provisions are estimates, in particular the assumptions relating to market rents and vacant periods, and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Details of provisions are set out in note 24.

## Notes to the financial statements continued

53 week period ended 30 November 2014

### 4. Changes in accounting policy and prior period misstatement

In the current financial period, the group has applied for the first time IAS19 'Employee Benefits' (revised). The most significant change that has impacted the group is that the amendment requires the expected returns on pension plan assets, currently calculated based on management's best estimate of expected returns, to be calculated using the same (high quality bond) discount rate used to measure the defined benefit obligation. IAS19 (revised) requires retrospective application in line with IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The impact on the consolidated income statement is as follows:

	52 weeks ended 24 November 2013			
	As originally presented £'000	Impact of IAS19 (revised) £'000	Impact of deferred tax movement £'000	Restated £'000
Operating profit	23,269	(771)	-	22,498
Net finance costs	(18,361)	255	-	(18,106)
Profit on ordinary activities before taxation	4,908	(516)	-	4,392
Tax on ordinary activities	797	103	(150)	750
Profit on ordinary activities after taxation	5,705	(413)	(150)	5,142

The impact on the consolidated statement of comprehensive income is as follows:

Profit for the period	5,705	(413)	(150)	5,142
Re-measurement of defined benefit pension plans	8,097	516	-	8,613
Deferred tax attributable to actuarial gain	(1,842)	(103)	-	(1,945)
Total comprehensive income for the period	11,960	-	(150)	11,810

### Prior period restatement

It has become apparent that in preparing prior period financial statements under IFRS, a temporary difference on which deferred tax should have been recognised was omitted. The noted temporary difference arises in relation to tax deductible goodwill recognised on new store acquisitions accounted for as business combinations where the group entered into sale and leaseback arrangements in relation to acquired freehold property. The financial statements and accompanying notes have been restated to include this deferred tax asset in line with IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The restatement reduced goodwill by £832,000 and reduced the deferred tax provision by the same amount.

### 5. Segmental analysis and revenue

In accordance with IFRS8 '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. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, as required by IFRS8. 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.

An analysis of the group's revenue is as follows (all continuing operations):

	53 weeks ended 30 November 2014 £'000	52 weeks ended 24 November Restated (note 4) 2013 £'000
Sales of goods	922,420	869,416
Property rental income (note 7)	3,253	3,368
Other operating income (note 7)	29,239	21,115
	32,492	24,483
Investment revenue (note 9)	121	488
Total revenue as defined in IAS 18	955,033	894,387

## 6. Exceptional items

Due to their significance or one-off nature, certain items have been classified as exceptional as follows:

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 £'000
Costs associated with IPO included within administrative expenses <sup>1</sup>	<b>1,823</b>	–
Share-based payments included within administrative expenses <sup>2</sup>	<b>5,532</b>	–
Property related costs included within administrative expenses <sup>3</sup>	<b>2,440</b>	–
Post office costs included within administrative expenses <sup>4</sup>	<b>392</b>	–
Post office income included within other operating income <sup>4</sup>	<b>(6,743)</b>	–
	<b>3,444</b>	–
Unamortised financing costs included in finance expense <sup>5</sup>	<b>3,166</b>	1,188
Additional interest included in finance expense <sup>5</sup>	<b>–</b>	4,409
	<b>6,610</b>	5,597
Tax effect <sup>6</sup>	<b>(1,288)</b>	(1,306)
	<b>5,322</b>	4,291

### 1 Costs associated with IPO

During the 53 weeks ended 30 November 2014 one-off IPO costs of £4,539,000 were incurred of which £1,823,000 was charged to the income statement and £2,716,000 was charged to the share premium account as being directly related to the issue of new shares.

### 2 Share-based payments

During the 53 weeks ended 30 November 2014 share-based payments totalling £5,532,000 were made by way of an allocation of shares to employees prior to the IPO for nil consideration. The fair value of the shares was calculated by reference to the issue price on admission to the stock market on 28 February 2014. The total number of shares allocated was 2,900,332. Details of share-based payments to directors can be found in the directors' remuneration report on pages 40 to 53.

### 3 Property related costs

Provision of £2,440,000 has been made for the onerous lease relating to the group's former head office. The provision has been made to recognise an expected shortfall in rental income compared with rent payable and other property related costs. In calculating the provision a pre-tax discount rate of 10% has been used.

### 4 Post office income

During the 53 weeks ended 30 November 2014 the group received £6,743,000 income from the Post Office in relation to an agreement to convert 191 of the group's existing post offices to a new local format. The group incurred costs of £392,000 associated with the conversions.

### 5 Restructuring costs

On 4 March 2014 the group completed an early debt refinancing which resulted in the write-off of £3,166,000 of unamortised financing costs. On 15 March 2013 the group completed an early debt refinancing which resulted in the write-off of £1,188,000 of unamortised financing costs and additional interest of £4,409,000.

### 6 Tax effect of exceptional items

The tax effect of the exceptional items is a credit of £1,288,000 (2013: credit £1,306,000).

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**7. Operating profit**

a) Operating profit is stated after charging:

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November Restated (note 4) 2013 £'000
Depreciation of property, plant and equipment (note 14)	<b>11,989</b>	11,134
Amortisation of software (note 13)	<b>687</b>	606
Impairment of property, plant and equipment (note 14)	<b>519</b>	(346)
Goodwill impairment losses (note 13)	<b>382</b>	1,359
Goodwill impairment correction to prior period (note 13)	<b>(631)</b>	–
Cost of inventories recognised as an expense	<b>721,432</b>	683,208
Write-downs of inventories recognised as an expense	<b>6,624</b>	5,671
Operating lease payments		
– property	<b>30,642</b>	29,933
– plant and machinery	<b>9</b>	160

The analysis of the auditors remuneration is as follows:

Audit of company	<b>20</b>	20
Audit of subsidiaries	<b>154</b>	130
Total audit	<b>174</b>	150
Audit related assurance services (including interim review)	<b>48</b>	–
Other assurance services	<b>–</b>	–
Total assurance services	<b>48</b>	–
Tax compliance services	<b>50</b>	50
Tax advisory services	<b>51</b>	124
Total services relating to taxation	<b>101</b>	174
Services related to corporate finance transactions not covered above	<b>175</b>	384
Other non-audit services not covered above	<b>36</b>	24
Total other non-audit services	<b>211</b>	408
Total non-audit services	<b>360</b>	582
Total fees	<b>534</b>	732

b) Other operating income:

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
Other operating income	<b>28,074</b>	20,030
Rental income	<b>3,253</b>	3,368
Profit on disposal of fixed assets	<b>1,099</b>	700
Negative goodwill on acquisitions	<b>66</b>	385
Total other operating income	<b>32,492</b>	24,483

Other operating income includes income from the operation of sub-post offices and commission earned from ATMs.

## c) Adjusted EBITDA

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
Operating profit before exceptional items	<b>25,477</b>	22,498
Depreciation and amortisation	<b>12,676</b>	11,740
Impairment of property, plant and equipment (note 14)	<b>519</b>	(346)
Goodwill impairment losses (note 13)	<b>382</b>	1,359
Goodwill impairment correction to prior period (note 13)	<b>(631)</b>	–
Profit on disposal of fixed assets	<b>(1,099)</b>	(700)
Negative goodwill on acquisitions	<b>(66)</b>	(385)
	<b>37,258</b>	34,166

**8. Employee benefits**

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
Wages and salaries	<b>117,753</b>	111,177
Social security costs	<b>5,196</b>	5,032
Other pension costs	<b>1,001</b>	761
	<b>123,950</b>	116,970

The employee benefits cost excludes directors' emoluments.

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
Average number of employees:		
Retailing	<b>18,360</b>	18,455
Central administration	<b>325</b>	309
	<b>18,685</b>	18,764

The group employee benefit trust held title to 2,900,332 ordinary shares which were allocated to the employee shareholders on 24 February 2014 pro rata to their existing holdings of ordinary shares in the company. In addition the trust held 33,668 shares which were sold at IPO, the proceeds of which were utilised to repay loans outstanding from the group.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**9. Net finance costs**

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
<b>Finance income</b>		
Interest receivable	<b>112</b>	454
Gains on fair value movement on interest rate swap	<b>-</b>	34
Other	<b>9</b>	-
Total finance income	<b>121</b>	488
<b>Finance expense</b>		
Bank loans and overdrafts	<b>(5,280)</b>	(15,590)
Hire purchase interest	<b>(177)</b>	(217)
Unwinding of the discount included in provisions	<b>(187)</b>	(80)
Amortisation of issue costs	<b>(3,820)</b>	(2,365)
Loss on fair value movement on interest rate swap	<b>(34)</b>	-
Other	<b>(19)</b>	(342)
Total finance expense	<b>(9,517)</b>	(18,594)
Net finance costs	<b>(9,396)</b>	(18,106)

The bank loans and overdraft interest includes an exceptional amount in 2013. The amortisation of issue costs includes exceptional costs in both 2014 and 2013. See note 6 on page 73 for further details.

## 10. Taxation

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
<b>Income statement</b>		
Current tax:		
Current tax on profit for the period	<b>3,400</b>	1,683
Adjustments in respect of prior periods	<b>(59)</b>	(911)
	<b>3,341</b>	772
Deferred tax:		
Origination and reversal of temporary differences	<b>(715)</b>	(578)
Associated with pension deficit	<b>178</b>	(30)
Arising from change in tax rate	<b>-</b>	(858)
Adjustments in respect of prior periods	<b>(74)</b>	(56)
	<b>(611)</b>	(1,522)
Income tax expense/(credit) for the period	<b>2,730</b>	(750)
<b>Other comprehensive income</b>		
Deferred tax in respect of actuarial valuation of retirement benefits	<b>138</b>	1,722
Arising from change in rate of tax	<b>-</b>	223
	<b>138</b>	1,945

The tax charge for the period can be reconciled to accounting profit as follows:

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
<b>Profit before tax</b>	<b>12,637</b>	4,392
Profit before tax multiplied by the blended applicable corporation tax rate for 2014 of 21.67% (2013: 23.33%)	<b>2,738</b>	1,025
Disallowed expenses and non-taxable income	<b>125</b>	50
Adjustments in respect of prior years	<b>(133)</b>	(967)
Arising from change in rate of tax	<b>-</b>	(858)
Total tax expense/(credit)	<b>2,730</b>	(750)

### Changes in tax rates and factors affecting the future tax charge

The 2013 Finance Act reduced the standard rate of corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015.

Accordingly, deferred tax balances have been recognised at 20% for 2013 and 2014 being the rate of corporation tax substantively enacted at each balance sheet date.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**11. Dividends**

The board has recommended a final dividend of 6.8 pence per share (2013: nil), totalling £7,120,000, subject to shareholder approval at the annual general meeting to be held on 17 April 2015. The final dividend will be paid on 29 May 2015 to those shareholders on the register at the close of business on 1 May 2015. The payment of this dividend will not have any tax consequences for the group. The interim dividend, declared and paid, was 1.7 pence per share (2013: nil), totalling £1,780,000.

**12. Earnings per share**

	<b>53 weeks ended 30 November 2014</b>	52 weeks ended 24 November 2013
Basic weighted average number of shares	<b>97,432,203</b>	75,000,000
Dilutive effect of warrant shares issued	<b>356,129</b>	1,242,483
Diluted weighted average number of shares	<b>97,788,332</b>	76,242,483
Profit attributable to ordinary shareholders (£'000)	<b>9,907</b>	5,142
Basic earnings per share	<b>10.2p</b>	6.9p
Diluted earnings per share	<b>10.1p</b>	6.7p
<b>Adjusted earnings per share:</b>		
Profit attributable to ordinary shareholders	<b>9,907</b>	5,142
Exceptional items (note 6)	<b>6,610</b>	5,597
Tax effect of adjustments (note 6)	<b>(1,288)</b>	(1,306)
Adjusted profit after tax	<b>15,229</b>	9,433
Basic	15.6p	12.6p
Diluted	15.6p	12.4p



**13. Intangible assets**

	Software £'000	Goodwill Restated (note 4) £'000	Total Restated (note 4) £'000
<b>Cost</b>			
At 25 November 2012	5,072	135,958	141,030
Additions	196	590	786
Deferred tax asset movement	-	(150)	(150)
Disposals	(766)	(463)	(1,229)
At 24 November 2013	4,502	135,935	140,437
Additions	585	6,235	6,820
Deferred tax asset movement	-	56	56
Disposals	(1)	(558)	(559)
<b>At 30 November 2014</b>	<b>5,086</b>	<b>141,668</b>	<b>146,754</b>
<b>Accumulated amortisation and impairment</b>			
At 25 November 2012	2,520	4,762	7,282
Provision	606	-	606
Impairment losses	-	1,359	1,359
Disposals	(765)	(539)	(1,304)
At 24 November 2013	2,361	5,582	7,943
Provision	687	-	687
Impairment losses	-	382	382
Correction to prior period impairment charge	-	(631)	(631)
Disposals	(1)	(777)	(778)
<b>At 30 November 2014</b>	<b>3,047</b>	<b>4,556</b>	<b>7,603</b>
<b>Net book value</b>			
As of 25 November 2012	2,552	131,196	133,748
As of 24 November 2013	2,141	130,353	132,494
<b>As of 30 November 2014</b>	<b>2,039</b>	<b>137,112</b>	<b>139,151</b>

The prior period impairment charge was overstated by £631,000 as the net book value of cash-generating units used in the impairment of goodwill IFRS conversion was incorrect.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**13. Intangible assets** (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000	25 November 2012 £'000
CGU1	<b>95,476</b>	94,725	94,648
CGU2	<b>6,525</b>	6,369	6,736
CGU3	<b>35,111</b>	29,259	29,812
	<b>137,112</b>	130,353	131,196

For the current period, the group has reassessed the way in which it determines CGUs for the purpose of goodwill impairment to align with the management of the business, following the fundamental changes to the group's operations, including the completion of changes to the supply chain initiated in 2013. Previously each store had been classed as a CGU for goodwill impairment testing. On a review of CGUs the group have concluded that three groups of CGUs for the purpose of goodwill impairment is more appropriate.

The three groups are as follows:

CGU1 – Goodwill which arose from a management buy-out in 2005, including all goodwill held at that time;

CGU2 – Goodwill generated on a significant acquisition in 2008; and

CGU3 – Goodwill acquired on all other acquisitions after the management buy-out in 2005.

Under the old method, with each store being a CGU, goodwill impairment is £382,000 and this has been included in the current period charge. Under the revised approach, there is no impairment. £382,000 is not considered material to the business.

The recoverable amounts of all three CGUs are determined from value in use calculations with a discounted cash flow model used to calculate this amount. The key assumptions for the value in use calculation include discount rates, growth rates and time. In addition to the value in use calculation, a fair value is estimated based on a multiple of average weekly sales. The group have used a forward looking cash flow of 25 years and a pre-tax 10% discount rate. Management consider 25 years an appropriate period of time to base the forward looking cash flow as stores are expected to trade for at least this period of time. There has been no growth rate applied on a prudent basis. The fair value estimate uses an established market valuation method which management use when making acquisitions.

The group has conducted sensitivity analysis on the impairment testing for goodwill using both the old and new methods of assessing CGUs. With reasonable possible changes in key assumptions, there is no indication that the carrying amount of goodwill would be significantly reduced. Increasing the forward looking cash flow to perpetuity would reduce the goodwill impairment by £72,000. A 1.0% change in the discount rate would result in either a reduction or increase, depending whether the rate was increased or decreased, of £60,000. Applying a 1.0% growth rate would reduce the impairment charge by £64,000. A 25% reduction in the fair value calculation would increase the impairment charge by £100,000.

**14. Property, plant and equipment**

	Land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>			
At 25 November 2012	25,397	80,587	105,984
Acquisitions	4,259	205	4,464
Additions	3,438	7,959	11,397
Disposals	(12,708)	(22,548)	(35,256)
At 24 November 2013	20,386	66,203	86,589
Acquisitions	8,100	1,146	9,246
Additions	6,625	8,760	15,385
Disposals	(10,186)	(895)	(11,081)
<b>At 30 November 2014</b>	<b>24,925</b>	<b>75,214</b>	<b>100,139</b>
<b>Accumulated depreciation</b>			
At 25 November 2012	10,257	34,778	45,035
Charge	2,155	8,979	11,134
Reversal of impairment losses	-	(346)	(346)
Disposals	(8,439)	(22,172)	(30,611)
At 24 November 2013	3,973	21,239	25,212
Charge	2,553	9,436	11,989
Impairment losses	-	519	519
Disposals	(44)	(600)	(644)
<b>At 30 November 2014</b>	<b>6,482</b>	<b>30,594</b>	<b>37,076</b>
<b>Net book value</b>			
As of 25 November 2012	15,140	45,809	60,949
As of 24 November 2013	16,413	44,964	61,377
<b>As of 30 November 2014</b>	<b>18,443</b>	<b>44,620</b>	<b>63,063</b>

The net book value of tangible fixed assets includes an amount of £3,947,000 (2013: £4,941,000) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the period was £1,726,000 (2013: £1,647,000). They all relate to plant and machinery.

See note 2 on page 67 for details of impairment review and assumptions.

## Notes to the financial statements continued

53 week period ended 30 November 2014

## 15. Investments

	30 November 2014 £'000	24 November 2013 £'000
Investments at cost	18	18

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the group during the period.

All held by a subsidiary undertaking 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 Company
Clark Retail Limited	Scotland	Ordinary shares	100%	Retailing
Dillons Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Key Food Stores Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Martin McColl Limited	England and Wales	Ordinary shares	100%	Retailing
Martin Retail Group Limited	Scotland	Ordinary shares	100%	Retailing
Martin McColl Retail Limited *	England and Wales	Ordinary shares	100%	Predecessor Holding Company
Price Smasher Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Smile Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Smile Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
TM Group Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
TM Vending Limited	England and Wales	Ordinary shares	100%	Corporate activities
Tog Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company

\* 100% held by the company.

## 16. Business combinations

During the period, the group made 60 acquisitions, none of which was individually considered material to the group. The cash consideration for these acquisitions and the assets acquired are summarised as follows:

	53 weeks ended 30 November 2014 £'000	52 weeks ended 24 November 2013 £'000
Tangible fixed assets (note 14)	9,246	4,464
Inventory	1,412	333
Goodwill (net of negative goodwill)	6,225	786
Deferred tax liability	(557)	(410)
Deferred tax asset	501	251
Cash consideration	16,827	5,424

## 17. Inventories

	30 November 2014 £'000	24 November 2013 £'000
Goods for resale	45,757	44,224

**18. Trade and other receivables**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Trade receivables	<b>3,060</b>	3,113
Supplier rebates	<b>16,705</b>	17,695
Prepayments	<b>5,561</b>	6,191
Other receivables	<b>4,791</b>	5,755
	<b>30,117</b>	32,754
Ageing of past due but not impaired receivables		
Trade receivables		
31 – 60 days	<b>424</b>	496
61 – 90 days	<b>142</b>	108
91 – 120 days	<b>323</b>	158
	<b>889</b>	762
Supplier rebates		
31 – 60 days	<b>1,483</b>	2,305
61 – 90 days	<b>231</b>	187
91 – 120 days	<b>186</b>	64
	<b>1,900</b>	2,556

**19. Cash and cash equivalents**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Cash at bank	<b>11,396</b>	23,488
Cash held in employee benefit trust	<b>-</b>	40
	<b>11,396</b>	23,528

**20. Trade and other payables**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Trade payables	<b>85,348</b>	88,779
Other taxation and social security	<b>3,494</b>	3,942
Other payables	<b>3,125</b>	2,354
Amounts due under hire purchase obligations	<b>2,185</b>	2,268
Accrued interest	<b>213</b>	1,059
Accruals	<b>14,323</b>	16,659
Deferred income	<b>2,987</b>	1,886
Holiday pay accrual	<b>911</b>	980
	<b>112,586</b>	117,927

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. 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

53 week period ended 30 November 2014

**21. Non-current liabilities – other payables**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Other payables	<b>2,198</b>	2,912
Amounts due under hire purchase obligations	<b>1,724</b>	3,135
Preference shares	-	46
	<b>3,922</b>	6,093

**22. Borrowings**

Details of loans and credit facilities are as follows:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
In one year or less	-	8,519
In more than one year but not more than two years	-	7,922
In more than two years but not more than five years	<b>46,000</b>	91,338
Total borrowings	<b>46,000</b>	107,779
Less: unamortised issue costs	<b>(1,148)</b>	(3,585)
Less: current borrowings (net of amortised issue costs)	-	(6,978)
Non-current borrowings	<b>44,852</b>	97,216

The long term loans are secured by a fixed charge over the group's head office property together with a floating charge over the company's assets.

On 4 March 2014 the group completed a debt refinancing and entered into a new £85,000,000 working capital facility available until 31 August 2018 at an annual interest rate of 2.5% above LIBOR. £60,900,000 was drawn against the group's new working capital facility which, together with the proceeds from the primary fundraising at flotation was utilised to repay the group's existing borrowings. On 30 July 2014 the annual interest rate was reduced to 2.25% above LIBOR. The facility drawn as at 30 November 2014 was £46,000,000.

Details of loans and hire purchase obligations repayable within two to five years are as follows:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Mezzanine Loan repayable on 31 December 2016 at 18.0%	-	47,279
Senior Term Loan A repayable on 30 April 2016 at 4.5% above LIBOR	-	6,434
Senior Term Loan B repayable on 30 June 2016 at 5.0% above LIBOR	-	37,625
Revolving facility available until 31 August 2018 at 2.25% above LIBOR	<b>46,000</b>	-
Hire purchase obligations	<b>836</b>	1,129
	<b>46,836</b>	92,467

**23. Net debt**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Cash at bank and in hand	<b>11,396</b>	23,488
Loans due:		
In one year or less	-	(8,519)
In more than one year but not more than two years	-	(7,922)
In more than two years but not more than five years	<b>(46,000)</b>	(91,338)
Total borrowings	<b>(46,000)</b>	(107,779)
Less: unamortised issue costs	<b>1,148</b>	3,585
	<b>(44,852)</b>	(104,194)
Amounts due under hire purchase obligations	<b>(3,909)</b>	(5,403)
Preference shares	-	(46)
	<b>(48,761)</b>	(109,643)
Net debt	<b>(37,365)</b>	(86,155)

The underlying net debt is £25,685,000 adjusting for the cash flow impact of the 53rd week (see note 29).

**24. Provisions**

	Dilapidations £'000	Onerous contracts £'000	Total £'000
At 25 November 2012	1,704	2,229	3,933
Utilised during the period	(454)	(427)	(881)
Unwinding of the discount included in provisions	15	65	80
Additional provision	916	382	1,298
Released unused	(455)	(179)	(634)
At 24 November 2013	1,726	2,070	3,796
Utilised during the period	(604)	(716)	(1,320)
Unwinding of the discount included in provisions	28	159	187
Additional provision	760	2,692	3,452
Released unused	(436)	(200)	(636)
<b>At 30 November 2014</b>	<b>1,474</b>	<b>4,005</b>	<b>5,479</b>
Included in current liabilities	1,474	811	2,285
Included in non-current liabilities	-	3,194	3,194
	1,474	4,005	5,479

**Dilapidations**

The provision will include estimates for certain properties for which the extent of the dilapidation has not been established. The level of uncertainty associated with the use of estimates is not considered to be significant. It is expected that most of these costs will be incurred in the next five years.

**Onerous contracts**

A provision is recognised for the rent due less estimated rent receivable until the anticipated disposal of a vacant property. The periods of vacant property commitments range from one to 10 years. In addition, provision has been made for excess rent over market rent on one leasehold property as part of fair value assessments made on acquisition. Judgement is used for certain properties in respect of how long the property will remain vacant. The level of uncertainty associated with the use of estimates is not considered to be significant.

£2,440,000 of the additional provision made in the period was exceptional and is described in further detail in note 6 on page 73.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**25. Deferred tax liabilities**

Deferred tax movements are as follows:

	Pension deficit / surplus £'000	Fixed asset £'000	Rolled-over capital gains £'000s	Goodwill £'000	Freehold property £'000	Other temporary differences £'000	Total £'000
At 25 November 2012	(1,969)	2,519	5,200	(725)	-	(485)	4,540
Arising on acquisition	-	-	-	(256)	410	-	154
Income statement (note 10)	(30)	(810)	(600)	149	(410)	179	(1,522)
Other comprehensive income (note 10)	1,945	-	-	-	-	-	1,945
At 24 November 2013 (restated note 4)	(54)	1,709	4,600	(832)	-	(306)	5,117
Arising on acquisition	-	-	-	(501)	557	-	56
Income statement (note 10)	178	(355)	16	86	(557)	22	(610)
Other comprehensive income (note 10)	138	-	-	-	-	-	138
At 30 November 2014	262	1,354	4,616	(1,247)	-	(284)	4,701

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 30 November 2014 has been measured at 20% (2013: 20%) being the tax rate substantively enacted at the balance sheet date expected to be effective for future periods.

**26. Financial instruments and risk management****Derivatives and other financial instruments**

The group's principal financial instruments comprise loans, cash and short term deposits together with interest rate derivatives. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial instruments such as trade and other receivables and trade and other payables that arise directly from its operations.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The group's exposure to financial instrument risk has reduced in 2014 as a result in the reduction in borrowings. There have been no substantive changes in the group's objectives, policies and processes for managing and measuring those risks during the periods in this report unless otherwise stated.

On 4 March 2014 the group completed a debt refinancing and entered into a new £85,000,000 working capital facility available until 31 August 2018 at an annual interest rate of 2.5% above LIBOR. £60,900,000 was drawn against the working capital facility which, together with the proceeds from the primary fundraising at flotation, was utilised to repay the group's existing borrowings. On 30 July 2014 the annual interest rate was reduced to 2.25% above LIBOR. The facility drawn as at 30 November 2014 was £46,000,000.



### 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.

Floating rate financial liabilities on which interest is paid bear interest at rates based on one 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.

In prior years the group managed an element of its floating interest rate risk through interest rate swaps. The derivative agreements to which the group was party to at 24 November 2013 guaranteed a maximum fixed rate borrowing cost on a portion of the group's debt up to 30 April 2015. At 24 November 2013, the interest rate derivative contract had an aggregate fair value of £34,000. In March 2014 these derivative agreements were terminated.

### Interest rate risk profile of financial liabilities and assets

The interest rate profile of the financial liabilities of the group as at 30 November 2014 was as follows:

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Financial liabilities	2,405	47,504	109,105	159,014

The floating rate financial liabilities comprise a sterling denominated working capital facility and hire purchase borrowings.

The interest rate profile of the financial liabilities of the group as at 24 November 2013 was as follows:

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Financial liabilities	49,597	63,586	114,675	227,858

The interest rate profile of the financial assets of the group as at 30 November 2014 was as follows:

	Floating rate financial assets £'000	Financial assets on which no interest is paid £'000	Total £'000
Financial assets	-	35,970	35,970

The interest rate profile of the financial assets of the group as at 24 November 2013 was as follows:

	Floating rate financial assets £'000	Financial assets on which no interest is paid £'000	Total £'000
Financial assets	-	50,143	50,143

If interest rates had been 0.5% higher during the period ended 30 November 2014, with all other variables held constant, the post tax profit for the period would have been approximately £282,000 lower (2013: £180,000) 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.

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.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**26. Financial instruments and risk management** (continued)**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:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Up to 3 months or on demand	<b>107,485</b>	112,879
In 3 – 12 months	<b>1,607</b>	9,625
In more than 1 year but not more than 2 years	<b>1,591</b>	10,650
In more than 2 years but not more than 5 years	<b>48,331</b>	94,230
In more than 5 years	<b>-</b>	474
	<b>159,014</b>	227,858

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 £46,000,000 had been drawn at 30 November 2014 (24 November 2013: £nil).

**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.

**Derivative financial instruments**

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
<b>Fair value of interest rate swaps</b>		
Financial assets – current	<b>-</b>	34

The fair value of a derivative financial instrument is split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows. The interest rate swaps are designated as fair value through profit or loss at initial recognition. The fair value of the group's interest rate derivatives is calculated as the present value of future expected net contracted cash flows at market related rates, which are current at the balance sheet date.

Set out below is a comparison by category of carrying values and fair values of all the group's financial assets and financial liabilities:

	At 30 November 2014		At 30 November 2013	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Financial liabilities</b>				
At amortised cost				
Short term borrowings and current portion of long term borrowings	-	-	(8,519)	(8,519)
Trade and other short term payables	<b>(106,907)</b>	<b>(106,907)</b>	(111,717)	(111,717)
Hire purchase borrowings	<b>(3,909)</b>	<b>(3,909)</b>	(5,403)	(5,403)
Long term borrowings	<b>(46,000)</b>	<b>(46,000)</b>	(99,260)	(99,260)
Long term payables	<b>(2,198)</b>	<b>(2,198)</b>	(2,958)	(2,958)
	<b>(159,014)</b>	<b>(159,014)</b>	(227,857)	(227,857)
<b>Financial assets</b>				
Other investments carried at cost	18	18	18	18
<i>Classified as receivables</i>				
Short term receivables	<b>24,556</b>	<b>24,556</b>	26,563	26,563
Cash and short term deposits	<b>11,396</b>	<b>11,396</b>	23,528	23,528
<i>At fair value</i>				
Interest rate swaps	-	-	34	34
	<b>35,970</b>	<b>35,970</b>	50,143	50,143

#### 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:

	30 November 2014 £'000	24 November 2013 £'000
Net debt (as per note 23)	<b>37,365</b>	86,155
Total equity (as defined above)	<b>115,939</b>	56,188
Debt to capital ratio	<b>0.3</b>	1.5

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**27. Authorised, issued and fully paid share capital**

	Number of shares	Equity share capital £'000	Share premium account £'000	Own shares £'000
Issued ordinary shares at 25 November 2012	750,000	75	712	(45)
Movement on share premium	-	-	22	-
Issued ordinary shares at 24 November 2013	750,000	75	734	(45)
Warrant shares issued to Cavendish Square Partners (General Partners) Ltd	19,228	-	2	-
Conversion of £0.10 ordinary shares to £0.001 ordinary shares in preparation of IPO	76,153,572	-	-	-
Conversion of preference shares into ordinary shares	1,715,910	-	46	-
Transfer of own shares	-	-	-	45
Ordinary shares issued at listing	26,073,332	30	49,770	-
Share issue costs associated with listing	-	-	(2,716)	-
<b>Issued ordinary shares of £0.001 each at 30 November 2014</b>	<b>104,712,042</b>	<b>105</b>	<b>47,836</b>	<b>-</b>

**Reorganisation of ultimate parent company**

On 7 February 2014, McColl's Retail Group plc replaced Martin McColl Retail Limited (formerly McColl's Retail Group Limited) as the ultimate parent company and Martin McColl Retail Limited (formerly McColl's Retail Group Limited) became a wholly owned subsidiary of McColl's Retail Group plc, the entity listed on the London Stock Exchange.

**Voting rights**

Following admission to the London Stock Exchange the ordinary 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.

**28. Leases and commitments****Operating leases**

The group leases various properties and equipment under non-cancellable operating leases. The terms of the property leases vary, although they tend to be with rent reviews every three to five years and many have break clauses.

The total future value of minimum lease rentals payable is as follows:

	30 November 2014 £'000	24 November 2013 £'000
<b>Land and buildings</b>		
Within one year	<b>26,154</b>	23,965
Within one to five years	<b>69,019</b>	65,918
After five years	<b>60,937</b>	50,738
	<b>156,110</b>	140,621

As set out in note 7 property rental income earned during the year was £3,253,000 (2013: £3,368,000). The majority of the properties held have committed tenants for the next five years. 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:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Within one year	<b>631</b>	1,071
Within one to five years	<b>1,238</b>	1,271
After five years	<b>518</b>	268
	<b>2,387</b>	2,610

#### Finance leases

The group acquires the majority of its motor vehicles and computer equipment under hire purchase agreements and such assets are generally classified as finance leases.

Future lease payments are due as follows:

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
<b>Minimum lease payments payable</b>		
Not later than one year	<b>2,320</b>	2,447
Later than one year and not later than five years	<b>1,814</b>	3,294
	<b>4,134</b>	5,741
Less future interest	<b>(225)</b>	(338)
	<b>3,909</b>	5,403

#### Capital commitments

The group has capital commitments of £235,000 as at 30 November 2014 (24 November 2013: £223,000).

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**29. Consolidated cash flow statement**

	<b>53 weeks ended 30 November 2014 £'000</b>	52 weeks ended 24 November 2013 Restated (note 4) £'000
<b>Profit for the period</b>	<b>9,907</b>	5,142
<b>Income and expenses not affecting operating cash flows</b>		
Depreciation and amortisation	<b>12,676</b>	11,740
Impairment losses	<b>270</b>	1,013
Income tax	<b>2,730</b>	(750)
Finance expense	<b>9,517</b>	18,594
Finance income	<b>(121)</b>	(488)
Share-based payment charge	<b>5,532</b>	-
Profit on disposal of fixed assets	<b>(1,099)</b>	(700)
Negative goodwill	<b>(66)</b>	(385)
	<b>39,346</b>	34,166
<b>Changes in operating assets and liabilities</b>		
Decrease/(increase) in trade receivables	<b>53</b>	(423)
Decrease/(increase) in other receivables	<b>2,669</b>	(3,817)
(Increase)/decrease in inventory	<b>(121)</b>	555
(Decrease)/increase in trade payables	<b>(3,431)</b>	3,333
Decrease in other payables	<b>(1,726)</b>	(1,678)
Decrease in pensions	<b>(1,383)</b>	(1,908)
Increase in provisions	<b>1,635</b>	1,754
<b>Cash generated by operations</b>	<b>37,042</b>	31,982
Income taxes paid	<b>(2,427)</b>	(3,629)
<b>Net cash provided by operating activities</b>	<b>34,615</b>	28,353

## Analysis of net debt

	At 24 November 2013 £'000	Cash flow £'000	Other non-cash movements £'000	<b>At 30 November 2014 £'000</b>
Cash and cash equivalent	23,488	(12,092)	-	<b>11,396</b>
Borrowings	(104,194)	63,162	(3,820)	<b>(44,852)</b>
Amounts due under hire purchase obligations	(5,403)	1,494	-	<b>(3,909)</b>
Preference shares	(46)	-	46	<b>-</b>
	<b>(86,155)</b>	<b>52,564</b>	<b>(3,774)</b>	<b>(37,365)</b>

The current period is a 53 week period and therefore cash flow is impacted by certain additional payments to creditors and receipts from debtors, the combined impact of which is to increase cash outflow by £11,680,000 relative to a 52 week period.

**30. Contingent liabilities**

The group did not have any material contingent liabilities at 30 November 2014 or 24 November 2013.

Certain subsidiaries of the company have assigned UK property leases in the normal course of business. Should the assignees fail to fulfil any obligations in respect of these leases, members of the group may be liable for those defaults. The group cannot reliably quantify the amount of such contingent liabilities due to their uncertain nature. The number of such claims arising to date has been small and the liability, which is charged to the profit and loss account as it arises, has not been material.

### 31. Retirement benefit schemes

The group accounts for pensions in accordance with IAS19 revised.

The group operates two 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 £1,042,000 in 2014 (2013: £825,000).

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.

Full actuarial valuations of the two defined benefit pension schemes are carried out in accordance with legislative requirements. The last full valuations of the schemes were carried out at 31 March 2013.

Contributions to the schemes are made in accordance with the advice of independent qualified actuaries on the basis of valuations. The figures for this financial information have been based, in accordance with IAS19 revised, on valuations using the projected unit method.

The contributions made in respect of the accounting period were £1,376,000 in 2014 (2013: £790,000). As at 30 November 2014 contributions of £126,000 (2013: £67,000) due in respect of the current reporting period had not been paid over to the schemes.

The agreed contribution level for future years following the latest actuarial valuation of the schemes, is £1,533,000 per annum increased annually by price inflation. This will be subject to annual review and at the next actuarial valuation the contribution level will be reassessed.

Both defined benefits schemes ceased accrual on 1 July 2008 and now have no active members. Both schemes are closed to new entrants.

The disclosures are based upon the valuation of the schemes which were carried out as at 31 March 2013, updated to 30 November 2014 by qualified independent actuaries. The main assumptions when valuing the assets and liabilities of the schemes under IAS19 revised are as follows:

	Group pension schemes	
	30 November 2014 %pa	24 November 2013 %pa
RPI inflation	<b>2.95</b>	3.35
CPI inflation	<b>1.95</b>	2.35
Rate of increase in pensionable salaries	<b>n/a</b>	n/a
Rate of increase to pensions in payment:		
5% LPI	<b>2.90</b>	3.25
2.5% LPI	<b>2.10</b>	2.20
Discount rate	<b>3.50</b>	4.25

The long term expected return on assets has been set with reference to current market yields on government and corporate bonds, and expected outperformance of equities and property. The overall expected return on assets reflects the relative weighting of different asset classes held by the scheme.

None of the group's own financial instruments or property, either held or occupied by the group, are held as assets within either schemes.

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**31. Retirement benefit schemes** (continued)

## Demographic assumptions

		30 November 2014	
		TM Group pension scheme	TM pension plan
Life expectancy of a pensioner aged 65	- male	86.8	86.9
	- female	88.9	88.6
Life expectancy at age 65 for someone aged 45	- male	89.2	89.2
	- female	90.5	90.2
Life expectancy at age 45 for someone aged 45	- male	86.1	86.2
	- female	88.3	88.1

		24 November 2013	
		TM Group pension scheme	TM pension plan
Life expectancy of a pensioner aged 65	- male	86.4	85.7
	- female	88.1	88.0
Life expectancy at age 65 for someone aged 45	- male	87.5	87.5
	- female	89.7	89.7
Life expectancy at age 45 for someone aged 45	- male	85.7	86.2
	- female	88.3	88.3

TM Group pension scheme  
*Notes to the balance sheet*

	30 November 2014 £'000	24 November 2013 £'000
Fair value of scheme assets	82,076	76,652
Present value of funded scheme obligations	(75,572)	(72,084)
<b>Net pension asset</b>	<b>6,504</b>	4,568

*Notes to the income statement*

	30 November 2014 £'000	24 November 2013 £'000
Current service cost including administration expenses	237	351
Net interest on defined benefit asset	(197)	20
<b>Total included in 'staff costs'</b>	<b>40</b>	371



*Notes to the statement of comprehensive income (SCI)*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Return on assets excluding amounts included in net interest	<b>7,114</b>	2,374
(Losses)/gains due to changes in demographic assumptions	<b>(480)</b>	1,714
(Losses)/gains due to changes in financial assumptions	<b>(5,510)</b>	771
Gains due to plan experience	<b>480</b>	402
	<b>1,604</b>	5,261
Less accrued contributions	<b>(38)</b>	-
Total recognised in SCI	<b>1,566</b>	5,261

*Recognition of defined benefit obligation*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Opening defined benefit obligation	<b>72,084</b>	75,743
Administration costs	<b>237</b>	351
Interest cost on defined benefit obligation	<b>2,958</b>	2,955
Losses/(gains) due to changes in demographic assumptions	<b>480</b>	(1,714)
Losses/(gains) due to changes in financial assumptions	<b>5,510</b>	(771)
Gains due to plan experience	<b>(480)</b>	(402)
Benefits paid including expenses	<b>(5,217)</b>	(4,078)
<b>Closing defined benefit obligation</b>	<b>75,572</b>	72,084

*Reconciliation of fair value of scheme assets*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Opening fair value of scheme assets	<b>76,652</b>	75,421
Interest income on scheme assets	<b>3,155</b>	2,935
Employer contributions	<b>372</b>	-
Return on assets excluding amounts included in net interest	<b>7,114</b>	2,374
Benefits paid including expenses	<b>(5,217)</b>	(4,078)
Closing fair value of scheme assets	<b>82,076</b>	76,652

The group expects to contribute £459,000 to the TM Group pension scheme in the period ended 29 November 2015.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	<b>30 November 2014</b>	<b>30 November 2014</b>	24 November 2013	24 November 2013
Equity securities	<b>15,829</b>	<b>19.3%</b>	16,269	21.2%
Debt securities – Corporate	<b>44,270</b>	<b>53.9%</b>	41,173	53.7%
Debt securities – Government	<b>17,814</b>	<b>21.7%</b>	15,545	20.3%
Real estate	<b>3,723</b>	<b>4.5%</b>	3,282	4.3%
Cash and cash equivalents	<b>440</b>	<b>0.6%</b>	383	0.5%
	<b>82,076</b>	<b>100.0%</b>	76,652	100.0%

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**31. Retirement benefit schemes** (continued)*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*

	<b>Change in actuarial value of liabilities on 30 November 2014 £'000</b>
<b>Change in assumptions compared with 30 November 2014 actuarial assumptions</b>	
0.5% decrease in discount rate	<b>5,377</b>
1 year increase in member life expectation	<b>2,267</b>
0.5% decrease in inflation	<b>(2,275)</b>

	Change in actuarial value of liabilities on 24 November 2013 £'000
<b>Change in assumptions compared with 24 November 2013 actuarial assumptions</b>	
0.5% decrease in discount rate	4,915
1 year increase in member life expectation	2,163
0.5% decrease in inflation	(2,004)

The sensitivities disclosed are calculated using approximate methods taking into account the weighted average duration of the Scheme's liabilities (14 years). This is the same approach as in previous years.

*TM pension plan**Notes to the balance sheet*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Fair value of plan assets	<b>43,502</b>	40,886
Present value of funded plan obligations	<b>(48,702)</b>	(45,728)
<b>Net pension liability</b>	<b>(5,200)</b>	(4,842)

*Notes to the income statement*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Current service cost including administration expenses	<b>258</b>	420
Net interest on defined benefit liability	<b>190</b>	322
<b>Total included in 'staff costs'</b>	<b>448</b>	742

*Notes to the statement of comprehensive income (SCI)*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Return on assets excluding amounts included in net interest	<b>2,540</b>	3,813
(Losses)/gains due to changes in demographic assumptions	<b>(619)</b>	1,152
Losses due to changes in financial assumptions	<b>(3,262)</b>	(325)
Gains/(losses) due to plan experience	<b>427</b>	(1,288)
	<b>(914)</b>	3,352
Less accrued contributions	<b>(21)</b>	-
<b>Total recognised in SCI</b>	<b>(935)</b>	3,352

*Recognition of defined benefit obligation*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
<b>Opening defined benefit obligation</b>	<b>45,728</b>	45,689
Administration costs	<b>258</b>	420
Interest cost on defined benefit obligation	<b>1,893</b>	1,783
Losses/(gains) due to changes in demographic assumptions	<b>619</b>	(1,152)
Losses due to changes in financial assumptions	<b>3,262</b>	325
(Gains)/losses due to plan experience	<b>(427)</b>	1,288
Benefits paid including expenses	<b>(2,631)</b>	(2,625)
<b>Closing defined benefit obligation</b>	<b>48,702</b>	45,728

*Reconciliation of fair value of scheme assets*

	<b>30 November 2014 £'000</b>	24 November 2013 £'000
Opening fair value of plan assets	<b>40,886</b>	37,447
Interest income on plan assets	<b>1,703</b>	1,461
Employer contributions	<b>1,004</b>	790
Return on assets excluding amounts included in net interest	<b>2,540</b>	3,813
Benefits paid including expenses	<b>(2,631)</b>	(2,625)
	<b>43,502</b>	40,886

The group expects to contribute £1,074,000 to the TM pension plan in the period ended 29 November 2015.

The major categories of plan assets as a percentage of total plan assets are as follows:

	<b>30 November 2014</b>	<b>30 November 2014</b>	24 November 2013	24 November 2013
Equity securities	<b>19,624</b>	<b>45.1%</b>	19,243	47.1%
Debt securities – Corporate	<b>17,073</b>	<b>39.2%</b>	15,995	39.1%
Debt securities – Government	<b>3,015</b>	<b>6.9%</b>	2,119	5.2%
Real estate	<b>3,723</b>	<b>8.6%</b>	3,282	8.0%
Cash and cash equivalents	<b>67</b>	<b>0.2%</b>	247	0.6%
	<b>43,502</b>	<b>100.0%</b>	40,886	100.0%

**Notes to the financial statements** continued

53 week period ended 30 November 2014

**31. Retirement benefit schemes** (continued)*Policy for recognising actuarial gains and losses*

The group recognises actuarial gains and losses immediately in the Statement of Comprehensive Income.

*Sensitivity analysis – TM pension plan*

	Change in actuarial value of liabilities on 30 November 2014 £'000
<b>Change in assumptions compared with 30 November 2014 actuarial assumptions</b>	
0.5% decrease in discount rate	3,813
1 year increase in member life expectation	1,461
0.5% decrease in inflation	<b>(2,417)</b>
	Change in actuarial value of liabilities on 24 November 2013 £'000
<b>Change in assumptions compared with 24 November 2013 actuarial assumptions</b>	
0.5% decrease in discount rate	3,482
1 year increase in member life expectation	1,372
0.5% decrease in inflation	<b>(2,147)</b>

The sensitivities disclosed are calculated using approximate methods taking into account the weighted average duration of the plan's liabilities (15 years). This is the same approach as in previous years.

**32. Related party transactions**

Only the directors and senior managers are deemed to be key management personnel and they have responsibility for planning, directing and controlling the activities of the group. All transactions are on an arm's length basis and no period end balances have arisen as a result of these transactions.

*Remuneration of key management personnel*

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS24 related party disclosures.

	30 November 2014 £'000	24 November 2013 £'000
Short term employee benefits	2,816	2,841
Compensation for loss of office	282	–
Share-based payments	5,513	–
	<b>8,611</b>	2,841

There were no material transactions or balances between the group and its key management personnel or members of their close family.

## Additional information (unaudited)

### Pro-forma earning per share

	53 weeks ended 30 November 2014
Adjusted profit after tax	15,229
Net finance costs before exceptional items	6,230
Pro-forma finance costs	(2,689)
	3,541
Tax effect of adjustments	(765)
Deduction for 53rd week	(340)
Pro-forma profit after tax	17,665
Shares in issue at 30 November 2014	104,712,042
Pro-forma earnings per share	16.9p

The IPO of the group took place part way through the period and therefore results for the period reflect three months of the pre-IPO capital structure and the weighted average number of shares does not reflect the number of shares in issue at the period end. Pro-forma earnings per share has been calculated to adjust for these factors. Pro-forma finance costs have been calculated by extrapolating finance costs incurred since the IPO over the full accounting period. A further deduction has been made to remove the impact of the 53rd week in the current period.

See note 6 on page 73 for full details of the exceptional items, unamortised financing costs, additional interest and tax effect of these adjustments.

**Company balance sheet**

30 November 2014

	Notes	30 November 2014 £'000
<b>Non-current assets</b>		
Investments	3c	77
Total non-current assets		77
<b>Current assets</b>		
Trade and other receivables	4c	53,465
Cash and cash equivalents	5c	8,220
Total current assets		61,685
<b>Total assets</b>		<b>61,762</b>
<b>Current liabilities</b>		
Trade and other payables	6c	(5,866)
<b>Total current liabilities</b>		<b>(5,866)</b>
<b>Net assets</b>		<b>55,896</b>
<b>Shareholders' equity</b>		
Equity share capital	7c	105
Share premium account	7c	47,836
Retained earnings	8c	7,955
		<b>55,896</b>

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the board of directors on 2 March 2015.

Signed on behalf of the board of directors

**Jonathan Miller**  
Director

## Notes to the company financial statements

53 week period ended 30 November 2014

### 1c. Basis of preparation

McColl's Retail Group plc was incorporated on 20 November 2013 as De Facto 2075 Limited. On 7 February 2014, McColl's Retail Group plc replaced Martin McColl Retail Limited (formerly McColl's Retail Group Limited) as the ultimate parent company, by way of a share exchange agreement, and Martin McColl Retail Limited (formerly McColl's Retail Group Limited) became a wholly owned subsidiary of McColl's Retail Group plc. Under IFRS3 this has been accounted for as a reverse asset acquisition. On 28 February 2014 McColl's Retail Group plc was listed on the London Stock Exchange.

The company's financial period is the period from incorporation on 20 November 2013 to 30 November 2014.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have considered the company forecasts and projections, taking account of reasonably possible changes in trading performance and the current economic uncertainty, and are satisfied that the company should be able to operate within the level of its current facilities. Accordingly, they have adopted the going concern basis in preparing the financial statements.

The company has taken advantage of the exemption contained in Section 408(4) of the Companies Act 2006 from presenting its own profit and loss account. The company made a profit after tax of £4,600,000.

The company has taken advantage of the exemptions in FRS1 'Cash flow statements' and has not prepared a cash flow statement.

Accounting policies have been applied consistently throughout the period.

The company has not disclosed transactions with related parties that are part of the Martin McColl Retail Limited (formerly McColl's Retail Group Limited) group of companies, which are wholly owned, as permitted by FRS8 'Related Parties'.

### 2c. Significant accounting policies

#### Investments

Fixed asset investments are shown at cost less provision for impairment.

#### 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.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Notes to the company financial statements** continued

53 week period ended 30 November 2014

**3c. Investments**

## Shares in subsidiaries

	30 November 2014 £'000
<b>Cost</b>	
Additions	77
At 30 November 2014	77

The carrying value of the investment in subsidiary undertakings has been reviewed at 30 November 2014 and no impairment charge is required.

To avoid a statement of excessive length, details of investments which are not significant have been omitted. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the company during the period:

All held by a subsidiary undertaking 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 Company
Clark Retail Limited	Scotland	Ordinary shares	100%	Retailing
Dillons Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Key Food Stores Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Martin McColl Limited	England and Wales	Ordinary shares	100%	Retailing
Martin Retail Group Limited	Scotland	Ordinary shares	100%	Retailing
Martin McColl Retail Limited*	England and Wales	Ordinary shares	100%	Predecessor Holding Company
Price Smasher Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Smile Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Smile Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
TM Group Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
TM Vending Limited	England and Wales	Ordinary shares	100%	Corporate activities
Tog Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company

\* 100% held by the company.

**4c. Trade and other receivables**

	30 November 2014 £'000
Amounts owed by group undertakings	53,465

**5c. Cash and cash equivalents**

	30 November 2014 £'000
Cash at bank	8,220

**6c. Trade and other payables**

	30 November 2014 £'000
Amounts owed to group undertakings	5,866



**7c. Authorised, issued and fully paid share capital**

	Number of shares	Equity share capital £'000	Share premium account £'000
Issued ordinary shares at 20 November 2013	2	-	-
Transfer of Martin McColl Retail Limited (previously McColl's Retail Group Limited) shares	769,226	75	736
	769,228	75	736
Conversion of £0.10 ordinary shares to £0.001 ordinary shares in preparation of IPO	76,153,572	-	-
Conversion of preference shares into ordinary shares	1,715,910	-	46
Ordinary shares issued at listing	26,073,332	30	49,770
Share issue costs associated with listing	-	-	(2,716)
<b>Issued ordinary shares of £0.001 each at 30 November 2014</b>	<b>104,712,042</b>	<b>105</b>	<b>47,836</b>

**Reorganisation of ultimate parent company**

On 7 February 2014, McColl's Retail Group plc replaced Martin McColl Retail Limited (formerly McColl's Retail Group Limited) as the ultimate parent company and Martin McColl Retail Limited (formerly McColl's Retail Group Limited) became a wholly owned subsidiary of McColl's Retail Group plc, the entity listed on the London Stock Exchange.

**8c. Reconciliation of shareholders' funds and movement on reserves**

	Equity share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 20 November 2013	-	-	-	-
Issue of share capital (note 7c)	105	47,836	-	47,941
Profit for the period	-	-	4,644	4,644
Credit for share-based payments	-	-	5,091	5,091
Interim dividend paid	-	-	(1,780)	(1,780)
	105	47,836	7,955	55,896

**9c. Dividends**

The board has recommended a final dividend of 6.8 pence per share (2013: nil), totalling £7,120,000, subject to shareholder approval at the annual general meeting to be held on 17 April 2015. The final dividend will be paid on 29 May 2015 to those shareholders on the register at the close of business on 1 May 2015. The payment of this dividend will not have any tax consequences for the company. The interim dividend, declared and paid, was 1.7 pence per share (2013: nil), totalling £1,780,000.

**10c. Related party transactions**

The company has not disclosed transactions with related parties that are part of the McColl's Retail Group Limited group of companies, as permitted by FRS8.

# Contacts and addresses

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10 Snow Hill

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## Independent Auditors

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Capita Registrars Limited

The Registry

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Calls to this number cost 10p per minute plus network  
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(excluding UK public holidays).

Web Portal: [www.capitashareportal.com](http://www.capitashareportal.com)

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