McColl's
RETAIL GROUP

Transforming
neighbourhood convenience

McColl's Retail Group plc
Annual Report and Accounts 2016

We are proud to be one of the UK's leading neighbourhood retailers, with a growing estate of 1,375 managed convenience stores and newsagents.

2016 has been a truly transformational year for McColl's. We've delivered our sixth successive year of sales growth and opened our 1,000th convenience store.

Our recent acquisition of 298 quality convenience stores from the Co-op* will significantly increase our neighbourhood presence and deliver strong returns for shareholders.

* We announced our intention to acquire 298 convenience stores from the Co-op on 13 July 2016. 19 September 2016 shareholder approval was given. 20 December 2016 Competition & Markets Authority (CMA) approval was given. All stores will be transitioned by August 2017.

Investing for growth

- 2016 was our biggest year of capital investment since our listing.
- We acquired 58 new stores and hit our target of 1,000 convenience stores.
- It was another big year of converting newsagents into food and wine convenience stores, with 59 completed, bringing us towards the end of this programme.
- We further strengthened our food-to-go offer, investing in 12 new Subway outlets following the success of our first franchise in 2015.
- We rolled out LED lighting across our estate, improving the ambience for customers and delivering significant energy savings.
- With over 2,800 capital projects completed, we touched almost every store we operate.

Financial highlights

Revenue[1] (£million)

£950.4m

+1.9% 2015

2016	950.4
2015	932.2
2014	904.4[2]

Adjusted EBITDA[3] (£million)

£36.7m

-2.8% 2015

2016	36.7
2015	37.7
2014	36.6[2]

Underlying operating profit[4] (£million)

£22.4m

-6.2% 2015

2016	22.4
2015	23.8
2014	24.1[2]

Profit before tax (£million)

£17.7m

-16.4% 2015

2016	17.7
2015	21.1
2014	12.4[2]

Net debt[5] (£million)

£37.0m

+17.2% 2015

2016	37.0
2015	31.6
2014	37.4

1 Total sales for all stores – see note 2 on page 96 for the definition of revenue

2 Adjusted for the 53 weeks trading in 2014

3 Details of adjusted EBITDA can be found in note 6 on page 103

4 Underlying profit is operating profit before exceptional items and property gains and losses

5 Details of net debt can be found in note 22 on page 112

It has been a momentous year for McColl's. Not only has the business delivered its sixth successive year of sales growth, and achieved the target of operating 1,000 convenience stores, but we have made a significant acquisition of 298 stores from the Co-op. This will enable McColl's to further cement itself as a leading convenience operator and will drive sales and earnings growth in the future.

A transformational year

Development of the Board

As I announced last year, I will be stepping down as Chairman in April, following the AGM. After consultation with our shareholders and with the unanimous support of the Board, I am happy to accept the invitation to remain on the Board as a Non-Executive Director.

As a founder of the Company in 1973, I have seen the business grow from a standing start to its current position as a leading neighbourhood convenience retailer. Under my leadership, we completed a management buyout of the Company in 1995, a secondary buyout in 2005 and the IPO in 2014.

Angus Porter who joined the Board in April 2016 as a Non-Executive Director, will become our new Chairman. In addition to substantial PLC Board experience, he brings with him tremendous experience and expertise in the fields of brand and marketing.

Having worked with Jonathan Miller for over 20 years, I am happy to hand over the reins to him as the new Chief Executive. He was appointed as CEO in April 2016 following a rigorous selection process and I am confident that he will do a great job of steering McColl's through its next stage of growth.

I would like to thank Sharon Brown and Georgina Harvey for their exemplary chairmanships of the Audit Committee and the Remuneration Committee respectively. They have certainly made my job a lot easier. Georgina should also be congratulated for taking up the role of Senior Independent Director in May 2016.

Jonathan has been succeeded in his role as Chief Financial Officer by Simon Fuller who joined McColl's as Deputy Chief Financial Officer in 2015. Simon brings a wealth of retail financial experience and is a great addition to the Board.

These appointments will ensure that McColl's continues to make further progress in complying with the UK Corporate Governance Code.

Dividend

The business continues to generate strong cash returns which we use to fund the capital investment required to deliver sustainable growth in revenue and profit, alongside dividend payments to shareholders.

The Board is recommending a final dividend of 6.8 pence per share, making a total dividend for the period of 10.2 pence. This dividend will be paid on 24 May 2017, to shareholders on the register at the close of business on 5 May 2017, subject to approval at the forthcoming Annual General Meeting.

From 2017, following the acquisition of the 298 Co-op stores, we expect the pence per share of dividend payments to increase as we integrate the new stores. To maintain the right balance between dividends, capital investment and deleveraging, and because we expect our earnings to significantly increase as a result of the acquisition, in the short term we will reduce the dividend pay-out ratio from c.60% to c.50% (of annual reported profits after tax, before exceptional gains, but after exceptional costs).

Looking forward
I feel a huge sense of pride when I look at how the business has grown over the last 40 years, from a small vending business to one of the UK's leading convenience retailers. There are exciting times ahead for McColl's and I have every confidence in the new management team. 2017 will be a busy year and whilst the market is still tough, I know our team of over 19,500 colleagues will continue to work hard and we can look forward to further success.

James Lancaster

James Lancaster FCA
Chairman, Non-Executive Director

Group at a glance

Our vision is to be your neighbourhood's favourite shop.

Through our network of 1,375 neighbourhood stores, over 19,500 dedicated colleagues serve 4.5 million customers every week.

Our goals are to:

- Increase our neighbourhood presence
- Grow our convenience offer
- Provide excellent customer service

1901
Robert Smyth McColl, a Scottish footballer, sets up the first RS McColl with his brother Tom

1973
The Group was founded in vending operations

1994
Retail operations were added to the Group. The strategy to convert to convenience was launched and the Group's first food-based stores were opened

1998
The Martin's chain of newsagents and convenience stores was acquired including the RS McColl estate

2005
The Group consolidated fascias into the core brands of McColl's for convenience and Martin's or RS McColl for newsagents

2014
The Group achieved a successful listing on the main market of the London Stock Exchange

2016

1,001 convenience stores

374 newsagents

Convenience stores

Our 1,001 convenience stores provide a great range of everyday products and local services to our customers 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 online collections and returns around the corner – our convenience stores are at the heart of the UK's neighbourhoods.

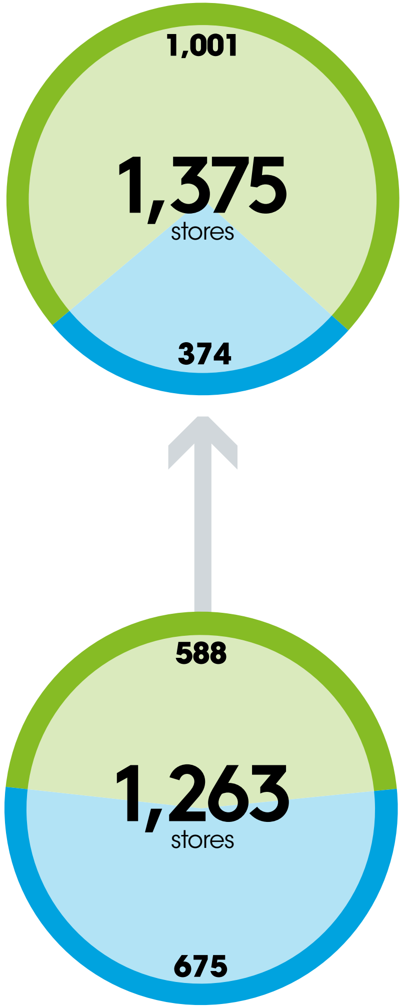
Newsagents

With 374 newsagents across the country, we are the UK's No. 1 specialist confectioner, tobacconist and newsagent.

Our newsagents are not only a strong and established part of the business, they have provided a valuable foundation for our continued growth in convenience through our programme of conversions to convenience stores.

Our change in focus – convenience is the future

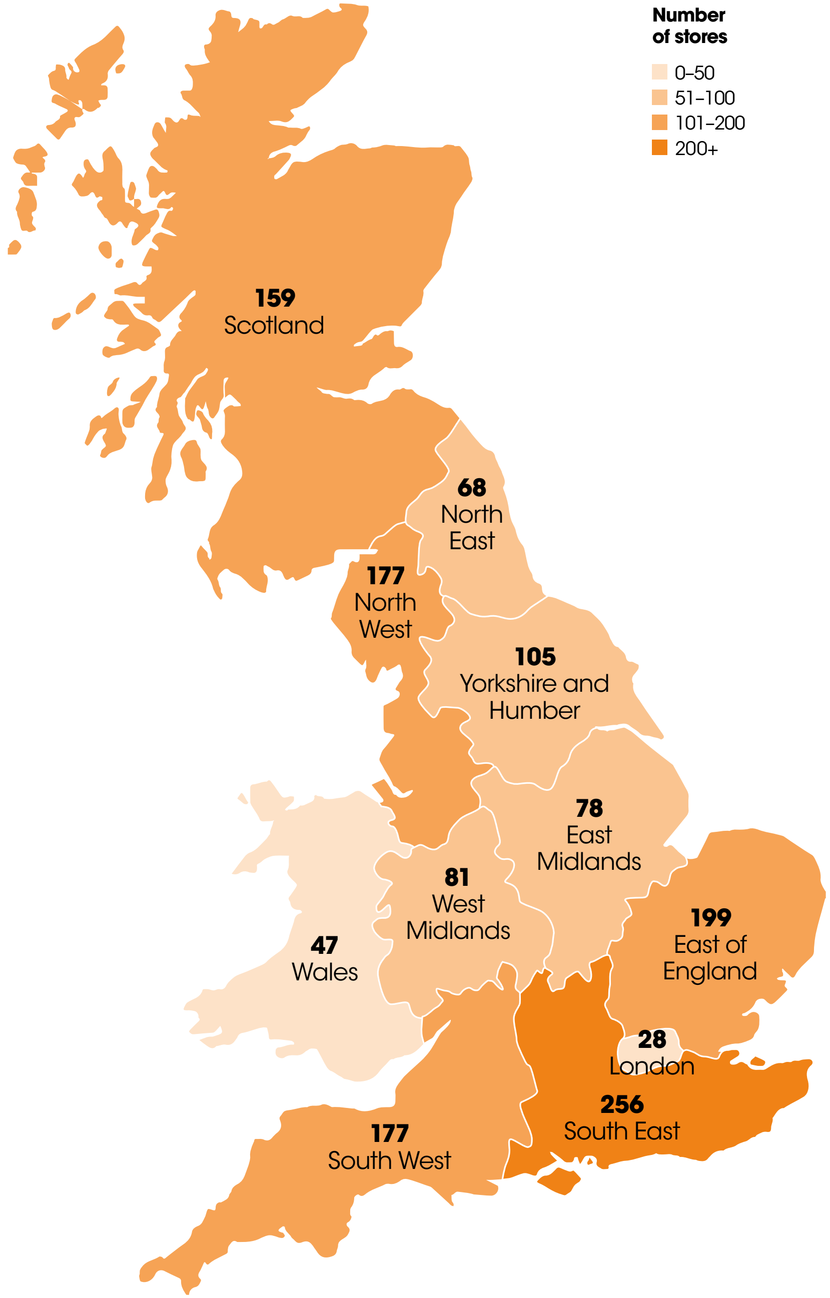
2016



2011

Convenience stores
Newsagents

Where we operate in the UK



2016 was a pivotal year for McColl's, during which we were firmly established as a leading convenience retailer, and positioned ourselves to deliver significant growth in the years ahead. With a new management team and strategy in place we are ready to begin the next stage of our journey to become your neighbourhood's favourite shop.

Laying the foundations for a new McColl's

The McColl's team

It's over 40 years since James Lancaster founded the Group and through his leadership established McColl's as a real force in neighbourhood retail. My own journey at McColl's started 26 years ago and I feel enormously proud that this year I have been given the opportunity to lead the business.

I would like to thank James for his support and guidance over the years, and I am pleased that, as he steps down from his role as Non-Executive Chairman, we are able to retain the benefit of his experience on the Board. I am also pleased in the appointment of Angus Porter as his successor.

I am equally proud of just how much has been achieved by the business in my first year as Chief Executive. One of my first tasks was to make sure that we had the right executive team in place. I'm delighted that our new management team is such a strong mix of talent, bringing together those of us with deep experience of McColl's with some highly capable new recruits who can bring an outside perspective. Together we have over 150 years of retail expertise.

Sixth successive year of sales growth

Last year was not without its challenges. The market remains very competitive, deflation was a persistent feature in some core categories, and the introduction of the National Living Wage continued to put pressure on costs. We faced into these challenges and I'm pleased that we were able to deliver good growth in sales and significantly increase our gross margin. Whilst profit was down slightly, against the backdrop of structural cost pressures, this was a good performance.

Our total sales were up 1.9%, a slightly lower rate of growth than last year as a result of the timing of our new store opening programme. Like-for-like (LFL) sales were down 1.9% in the year, held back by deflation and the continued decline in traditional categories such as tobacco, news and magazines. However, we saw an improving trend in LFL sales towards the end of the year and we maintained a strong performance in our newly acquired and converted stores, where LFL sales were up 0.8%*. This endorses our strategy of investing in our estate to drive growth.

1,000 convenience stores – a significant milestone

In 2014, when we listed on the Stock Exchange, we set a target of operating 1,000 convenience stores by the end of 2016. I'm delighted that we have achieved this target, with the opening of our Erdington store in November. In total, we acquired 58 new stores through the year as part of our goal to extend our neighbourhood presence, bringing our number of convenience stores to 1,001 and our total estate to 1,375.

A transformational acquisition

In July we announced that we would acquire 298 convenience stores from the Co-op for a cash consideration of £117m. As I said at the time, this is a truly transformational acquisition for McColl's. It is a rare opportunity to buy a large number of quality, profitable stores that will complement our existing estate. On a full year basis, we expect the new stores to increase our total sales by a third and increase our EBITDA by around 40%. Having received clearance from the Competition & Markets Authority (CMA) in December we have begun the process of converting the stores, with the first conversion opening at the end of January. We expect to complete this programme by August 2017.

Growing our convenience offer

In the last year we have made significant progress developing our convenience offer. We have completed a further 59 food and wine conversions – reformatting our traditional newsagents by introducing a focused range of grocery and alcohol products. We have also continued to make excellent progress with our food-to-go offer with total sales up 19%. We've introduced over 30 new food-to-go units and following the success of our first Subway unit last year, we now have 13 outlets, with plans for more in the year ahead. For the first time we have introduced a 'free from' range to a number of stores and we have begun our 'focus on fresh' trial, introducing a new fresh offer in over 20 stores.

> *Today's customer expects more from their local shop.*

Average customers per week

4.5m

Average basket spend

£5.24

£5.12 2015

Number of colleagues

19,541

19,243 2015

* LFL sales in stores acquired or converted between 2014/2015 which have traded for over 12 months.

Total revenue

£950.4m

1.9% 2015

Number of convenience stores

1,001

+12.1% 2015

Food-to-go sales up

+19%

Excellent customer service

Today's customer expects more from their local shop than just being able to pick up a few essentials like bread and milk. Of course they want a warm and friendly service, but they also want us to help make life easier for them. We believe a convenience store needs to be just that – convenient. That is why over 90% of our 559 post offices are open from early in the morning until late in the evening. We now have 183 Amazon lockers and over 670 Collect+ points, so that customers can pick up their parcels at a time that suits them. Also this year we've made contactless payment available in all stores making it faster and easier for customers at the till.

A simple and efficient operation

Our business is built on a straightforward, low cost operating model and as you would expect, our focus on cost control has continued. This year we've rolled out LED lighting creating a better store environment for customers and we expect to reduce our lighting costs by 35%. We continue to focus on automating routines in our stores and, for example, have one of the most efficient news and magazines returns processes in the industry.

Optimising our estate

We continue to review our estate to ensure it makes best use of our capital and cash. This year, in addition to converting 59 of our newsagents into our food and wine format, we closed or disposed of 34 underperforming stores, including 20 as part of our previously announced newsagent disposal programme.

> *// We want to be known as your neighbourhood's favourite shop. //*

Your neighbourhood's favourite shop

The new management team has taken the opportunity to comprehensively review our strategy. We want to be known as your neighbourhood's favourite shop and we need the right plans in place to achieve this.

Our overall strategic goals remain largely consistent – we will continue to grow our market share by increasing our neighbourhood presence, we will broaden our convenience offer and strive to provide excellent customer service. We will focus on five key building blocks – brand, offer, customer, stores and colleagues. We have developed comprehensive, deliverable plans behind each of these building blocks, and we will be doing more than ever to communicate these to colleagues, so that everyone from the shop floor to the boardroom understands our goals and their role in achieving them.

Working on our key building blocks

In the year ahead we will begin to execute the next stage of our business plans, making sure that we are working on these key building blocks.

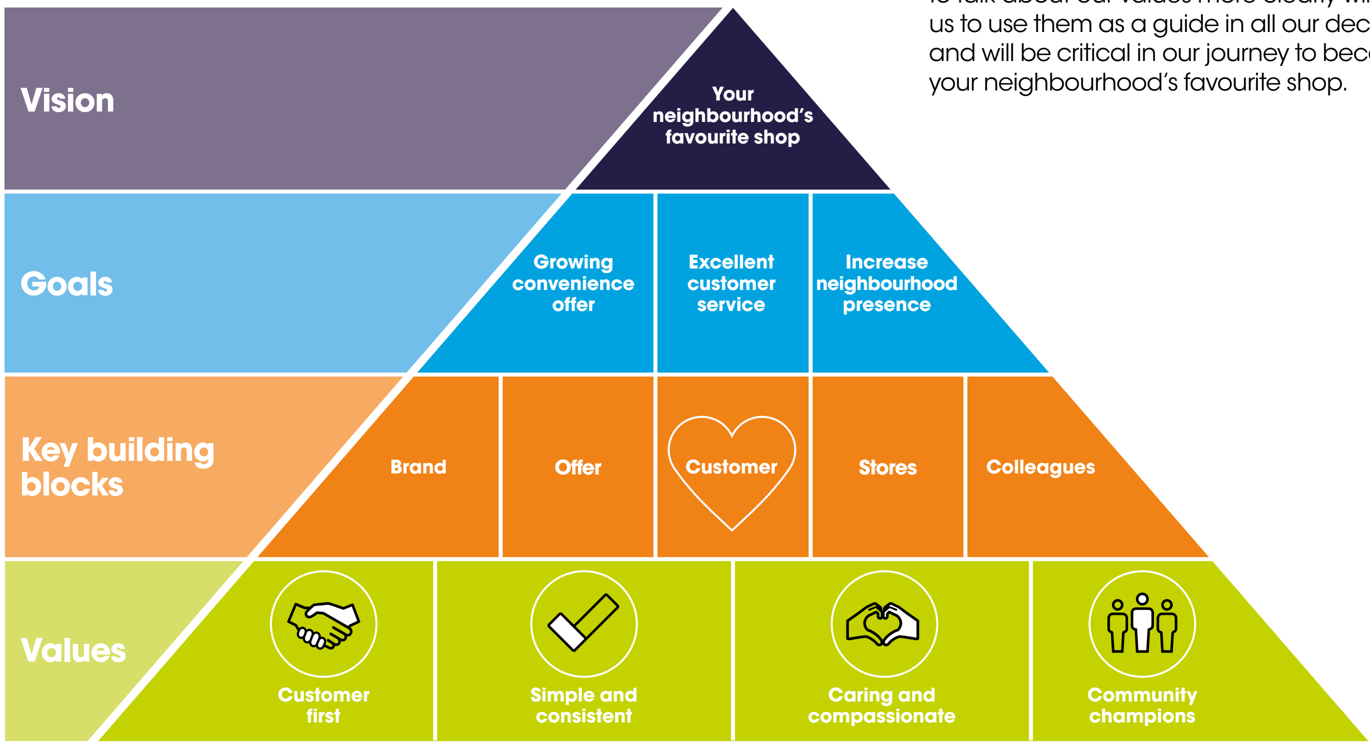
To some we are still perceived as a newsagent business, reflecting our heritage, but as we've grown and become a leading convenience retailer we want all our stakeholders to understand who we are and what to expect from us. Reinforcing the credentials of McColl's as a convenience brand will be a critical area of work in 2017.

We will continue to improve our offer for customers, focusing on top-up areas like fresh and chilled, alongside food-to-go. This will also help us improve our sales mix, moving us away from traditional categories such as news and tobacco that are in decline, and into higher growth, higher margin categories. To reflect the changing shape of our business we have set ourselves a future target, for grocery and alcohol to be our biggest individual sales category.

We'll be developing our customer insight capability to make sure we better understand our customers. We will also explore different ways to engage customers whether that is using our *Plus* card or new digital channels.

We will continue to improve our stores, reviewing standards across the estate. Following our successful pilot in West Horndon, where we have seen significant sales uplifts in key categories such as fresh, we will commence further work on existing store conversions. You can read more about our refresh progress on page 29.

Our updated strategy simplified and summarised



We will be doing more than ever this year to engage our colleagues right across the business and ensure everyone has a voice. We are developing our people plan to support colleagues throughout the business and develop our talent pipeline as the business grows. We also look forward to welcoming our new colleagues from the Co-op stores, I know they'll do a great job in supporting customers through the changes in their store.

Our values

There is a strong supportive culture at McColl's, and as we develop and move forward it's important that we preserve this. Alongside our work to review our strategy we have been listening to colleagues to get a better understanding of our shared values. Being able to talk about our values more clearly will enable us to use them as a guide in all our decisions, and will be critical in our journey to become your neighbourhood's favourite shop.

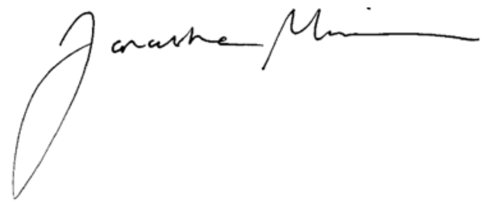
Our values:

- Put the customer first
- Strive to be simple and consistent in everything we do
- Be caring and compassionate towards our customers and colleagues
- Make a difference to communities by getting involved in local good causes

An exciting year ahead

Our main focus for 2017 will be ensuring that there is a smooth transition of the Co-op stores to the McColl's business. We're a business that has grown through acquisition and we are well-experienced at transitioning stores, which gives us great confidence that the integration will be a success. Once these stores have transferred we will continue to look for other acquisition opportunities. The market remains highly fragmented and we believe there are plenty of opportunities for consolidation – there are after all over 50,000 convenience stores in the UK and multiple retailers such as ourselves only account for around 10% of these. However, more importantly, our stores will continue to be focused in neighbourhood locations – where people live – making them community hubs for so many of our customers.

2017 is going to be an exciting year for the team at McColl's and our store colleagues will have the most important job, serving our customers old and new. I'm looking forward to leading them through the months ahead and I'm confident that they will continue to do a great job.



Jonathan Miller
Chief Executive

A year in review

This has been a milestone year for McColl's. With a new management team in place we've made excellent progress against all elements of our strategy and also made significant investments to drive future growth.

// McColl's transformation on track. //

The Herald

December (2015)

Record Christmas Day sales with over 130,000 customers shopping in our stores.

Community champions

January

James Lancaster presents a cheque on behalf of McColl's for over £200,000 to St George's University Hospital. The money was raised by colleagues and customers during the Halloween charity campaign and will be used to fund research into sudden cardiac death in young people.

>£200k raised by colleagues and customers

Caring and compassionate

// Did you forget the sprouts on Christmas Day? It seems McColl's at least was there to save you. //

The Telegraph

April
Jonathan Miller appointed Chief Executive and the new Board is in place.

// McColl's boss Miller: Co-op stores acquisition is 'a significant step up'. //

Retail Week

July
We announced the transformational acquisition of 298 stores from the Co-op.

READ MORE PAGE 14

// The Co-op to sell 298 stores to McColl's in 'transformational' deal. //

The Grocer

August
10th Subway franchise opens in Hamilton, Lanarkshire.

READ MORE PAGE 83

September
LED lighting rolled out across our estate.

READ MORE PAGE 65

Simple and consistent

October
New HR Director and Retail Operations Director appointed, completing the new management team we call the Retail Board.

November
1,000th convenience store opens in Erdington.

Our West Horndon store reopens – the first pilot in our planned refresh programme.

READ MORE PAGE 29

Customer first

West Horndon before and after store refresh

Acquiring 2

Co-op store
We opened our first Co-op conversion on 31 January in Canvey Island. With the support of our supply partner, Nisa, our customers can buy a full range of high-quality products at competitive prices.

A transformational acquisition

In July we announced our intention to buy 298 quality convenience stores from the Co-op in a transformational acquisition for McColl's. This was a rare opportunity to buy a large number of well-located, profitable convenience stores that will significantly accelerate our growth. With an average size of around 1,700 sq ft, the stores are a great fit for our business model and will complement our existing estate.

Following unconditional approval from the Competition & Markets Authority (CMA) in December, we have begun the process of converting the stores, with the first opened under the McColl's banner on 31 January 2017. We expect to complete the integration of all 298 stores by August 2017.

c.80%

Following the integration of the 298 stores, convenience will represent around 80% of our estate.

Customer first

A convenient route to growth

As a business whose strategy for growth is focused on convenience we operate in one of the sweet spots of the UK grocery industry. In the future, we plan to increase our neighbourhood presence and provide an even better range of products and services for our customers.

Market pressures

Customers have access to a multitude of different retail brands and channels, and the battle to win their custom has remained intense, driving deflation in some staple categories. The industry has also faced the challenge of growing cost pressures, including the impact of the increase in the National Minimum Wage and introduction of the National Living Wage.

The outcome of the EU referendum in June has created some uncertainty for the sector and the economy as a whole, particularly the impact of a depreciated pound and what this could mean for food prices over the months ahead. We are committed to working proactively with our suppliers to ensure that we remain competitive. Although we haven't so far seen any discernible impact on customer behaviour following the referendum, wider industry data shows that concerns around price have resurfaced and customers continue to shop around, shopping little and often to manage their budgets. We have an important role to play in this ever-evolving landscape.

1

Changing lifestyles

Long-term trends are changing the way we live and shop, which in turn is shaping the grocery industry. Longer average life expectancy, more single person households, more dual-income households, longer working hours, lengthy commutes and changes in technology are all impacting the way we shop. Average basket size across the industry has been falling and frequency of shopping has increased as customers look for convenient ways to get what they need at the right price.

Modern lifestyles are affecting the way we shop

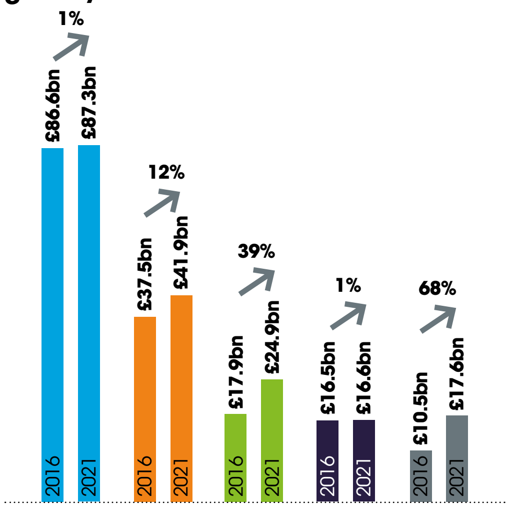
Source: him! research and consulting

2

The growing convenience sector

The overall grocery market is forecast to grow by 10% in the next five years. The convenience sector will outstrip this as it is predicted to continue to benefit from changes in lifestyle and shopping behaviour. It is expected to grow by 12% or £4.4bn to £41.9bn in 2021, at which point it will remain double the size of the online market and two-thirds larger than the discounter market.

Growth in different sectors of the grocery market



- **Supermarkets**
- **Convenience**
- **Discounters**
- **Hypermarkets**
- **Online**

Source: IGD forecasts

3

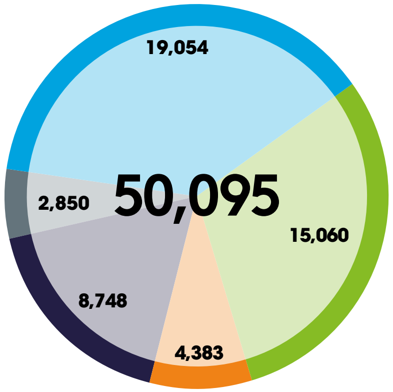
The sector is consolidating

There are just over 50,000 convenience stores in the UK. The market is made up of a number of different players, with true independents and symbol groups still accounting for almost 70% of stores.

The market is consolidating with the number of multiples and co-operative stores increasing by 37% in the last five years. Convenience multiples have been the biggest driver of growth in store numbers and sales in recent years – a trend that is predicted to continue.

We are the second largest multiple convenience store operator in the UK, owning and managing 1,001 convenience stores. There is opportunity for further consolidation as we look to increase our neighbourhood presence.

Number of convenience stores (2016)



1 Tesco – 2,447 stores
2 McColl's – 880 stores*
3 Sainsbury's – 712 stores

- **Unaffiliated independents** – 19,054
- **Symbol groups** – 15,060
- **Convenience forecourts** – 8,748
- **Convenience multiples** – 4,383
- **Co-operatives** – 2,850

Source: IGD statistics
* as at April 2016

4

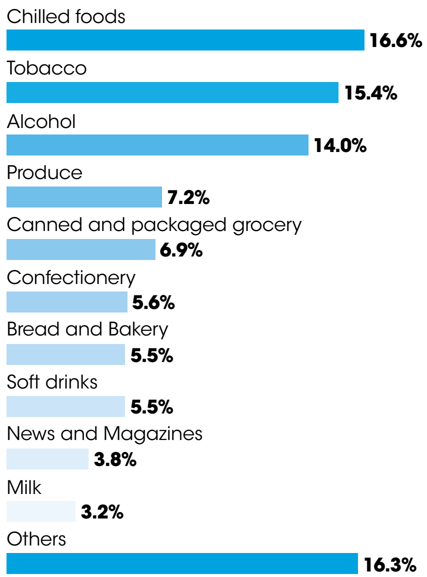
Chilled food is driving growth

Customers use convenience stores to buy a wide range of products and 14% say they have conducted a main shop at a convenience multiple in the last year, up from 9% in 2014.

Shoppers are increasing their frequency of top-up shopping and fresh food is a fundamental part of top-up baskets. This year chilled food was the biggest sales category for the convenience sector, overtaking tobacco which continues to decline. Chilled food and fruit and vegetables combined now represent almost a quarter of sales.

Our mix of sales is also changing as we grow our convenience offer and focus on higher growth, higher margin categories including food-to-go and fresh foods.

Sales contribution by category across the convenience sector



Source: IGD statistics

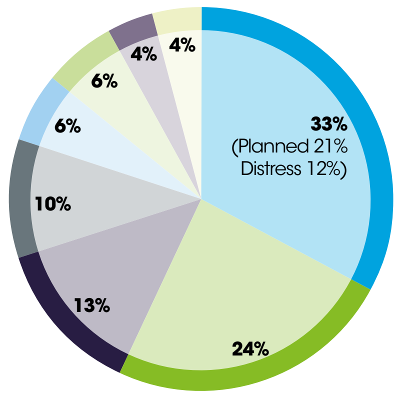
5

The role of the neighbourhood shop is evolving

Convenience stores used to be considered as purely a distress purchase destination, but the role of the neighbourhood shop is evolving. Convenience stores are no longer just a place to buy a few extra items or emergency essentials. They fulfil a wide range of shopper missions at different times of the day – from hot breakfast items to take away to ingredients for an evening meal, and online parcel collection on the way home from work.

As part of our refresh trial we are reviewing the layout and zoning our stores on the basis of different shopping missions. We continue to evolve our convenience offer, using our flexible model and partnering with valuable service providers.

Shopper missions



- **Top-up**
- **Newsagent**
- **Food-to-go**
- **Treat**
- **Drink-to-go**
- **Services**
- **Meal for tonight**
- **Other**

Source: him! CTP 2016

Our competitive advantage

Over the last few years McColl's has grown from being the number one specialist newsagent and tobacconist to a successful convenience store operator. Here's what sets us apart to make us one of the UK's leading neighbourhood retailers.

The McColl's difference – the best of neighbourhood convenience

// Our stores are run by local people for local people. //

We are your neighbourhood shop

Our stores are located in the heart of the UK's neighbourhoods, close to where our customers live and they play a fundamental role in those communities. Most of our colleagues live close by, so our stores are run by local people for local people.

53% of our customers live within 400m of our stores

31% of our customers visit our store every day

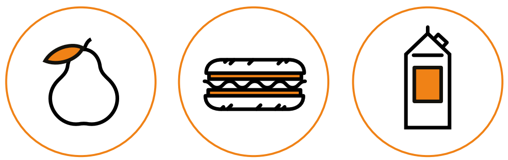
We are open when you need us

Our convenience stores are open seven days a week from early in the morning until late at night serving customers when they need us. Over 600 of our stores were even open on Christmas Day.

6am – 10pm Our stores are open morning till night

Providing the products you need

Whether it is essential food and groceries, fresh fruit and vegetables, a ready meal to take home in the evening or freshly prepared food-to-go we sell it. Our range caters for many different shopping missions – from a hot snack or ingredients to cook your evening meal, to emergency top-up shopping or a full weekly shop, we've got it covered.



And services that make life easier

We offer a wide range of services that make life easier for customers, from cash machines and PayPoint to newspaper deliveries and internet parcel services. For many customers we are providing an essential service whether that is access to fresh food or offering a Post Office with extended opening hours.

559 Post Offices

183 Amazon lockers

1,374 Lottery terminals

925 ATM machines

1,375 PayPoint terminals

676 Collect+ locations

Because being part of the local community matters to us

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

300+ local charities and good causes supported through the 'Making a Difference Locally' scheme


POST
OFFICE


McColl's
Under
25?


Under
25?


@ Slade Green
Welcome to
McColl's
Erith
6am-10pm
Sunday
7am-10pm
McColl's

Business model

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

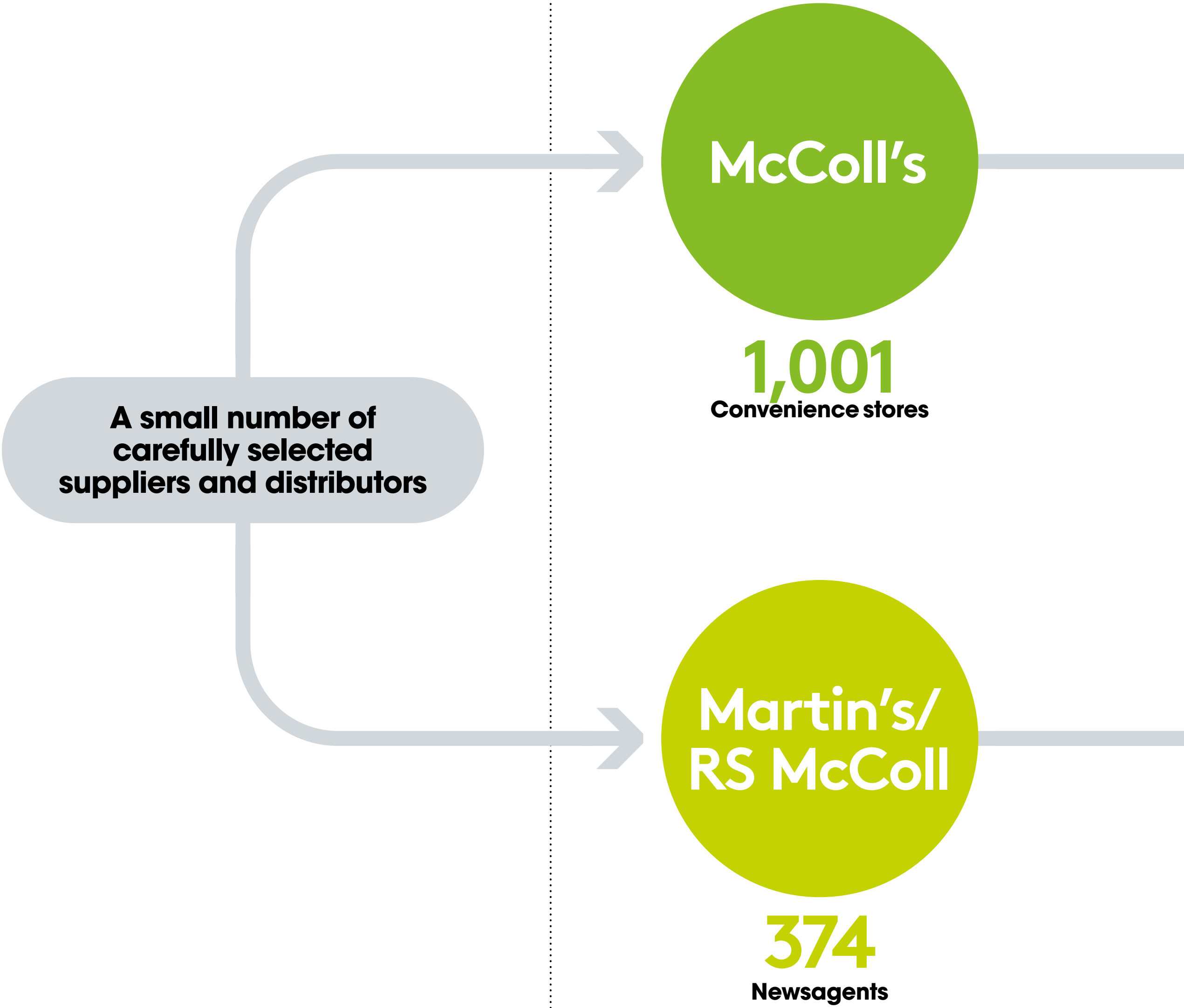
To implement our strategy we have a simple business model that drives value for all our stakeholders and puts us at the heart of the neighbourhood.

Our business model is underpinned by our core values:

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

A well-managed and efficient supply chain

Supplying our growing retail network across the UK



Delivering great products and services at the heart of the neighbourhood

The heart of the neighbourhood

Lotto
1,374
lottery terminals

***Plus* card**
15m
swipes since launch

PayPoint
1,375
PayPoint terminals

Food-to-go
+19%
growth in sales

Beers, wines and spirits
+10%
growth in sales

Chilled food
+7%
growth in sales

Post Offices
559
UK's largest operator

Subway
13
franchises trading

Internet collections
859
collection points

Newspaper delivery
>45m
newspaper and magazine deliveries in the year

Bringing value to all our stakeholders

Shareholders

We are committed to delivering value to shareholders and ensuring they benefit from our success in the form of dividends

Customers

Delivering a great experience for customers is fundamental to our success and they are central to our decision-making

Colleagues

Our 19,541 colleagues are our best asset. Looking after them is a priority so they can look after our customers

Communities

We play a fundamental role in so many communities, providing access to quality, affordable food and essential services

Supply partners

We work closely with our supply partners to grow our convenience offer and provide great value for customers

Progress against strategy

We have made excellent progress against all elements of our strategy and met the key milestone of operating 1,000 convenience stores.

This year our new management team has comprehensively reviewed our strategy to ensure it is fit for future growth. Our three key strategic goals remain clear and are underpinned by strong business plans aligned to our five key building blocks – brand, customer, stores, colleagues and offer. You can read more about them on pages 10 and 11.

	PRIORITY	DESCRIPTION
1	**Increase our neighbourhood presence**	We will grow our neighbourhood presence by acquiring new stores. The convenience market remains highly fragmented with plenty of opportunities for acquisition and consolidation.
2	**Grow our convenience offer**	We offer an ever-greater range of products and services to meet the changing needs of neighbourhoods across the UK.
3	**Excellent customer service**	Understanding customers and doing everything that we can to meet their everyday needs is at our core. We strive to build loyalty and strengthen our reputation in the neighbourhoods we serve, by providing a warm and friendly welcome along with a host of services that make the lives of our customers easier.

PROGRESS IN 2016

- We opened 58 new stores across the UK in 2016
- We acquired 298 convenience stores from the Co-op, which we will migrate in 2017

Number of convenience stores

1,001
2016

893
2015

+

298

FURTHER PRIORITIES

- In 2017 we will transition the 298 stores we acquired from the Co-op
- Once the Co-op integration is complete we will continue to look for opportunities to acquire new convenience stores and serve more neighbourhoods

RISK FACTORS

- Business strategy
- Finance and treasury
- Competition

PROGRESS IN 2016

- We converted 59 stores (formerly newsagents) to our food and wine format
- We continued our roll-out of our food-to-go offer with over 30 new units added this year
- We successfully piloted our convenience store refresh concept, with an enhanced fresh offer and our first ever 'free from' range
- We introduced a further 12 Subway franchises following the first successful partnership last year
- We began our 'focus on fresh' project, where we trialled a larger fresh offer in 22 stores

59
stores converted food and wine format

30+
new food-to-go units

FURTHER PRIORITIES

- We will continue to improve our ranges with a strong focus on fresh and chilled, as well as key growth categories such as food-to-go
- We will explore options to tailor our core offer by analysing key drivers of buying behaviour
- We will begin to roll-out our convenience store refresh programme, with 20 more store refreshes planned for 2017

RISK FACTORS

- Business strategy
- Competition
- Customer proposition
- Economy
- Regulation
- Supply chain

PROGRESS IN 2016

- 559 Post Offices in operation with over 90% offering extended hours
- 183 Amazon lockers now installed in addition to our 676 Collect+ points
- Contactless payment now available in all our stores
- LED lighting rolled out, creating a better environment for customers
- Our *Plus* card members have helped us understand their shopping habits and adapt our offer

559
Post Offices in operation

15m
Plus card swipes

FURTHER PRIORITIES

- Improving our insight capability to ensure we understand our customers better
- Seek new ways to engage customers through digital and social channels as well as our *Plus* card
- Develop our brand recognition so that customers know who we are and what they can expect from us

RISK FACTORS

- Business strategy
- Competition
- Customer proposition
- Economy

READ MORE ABOUT OUR RISKS PAGE 36

Key Performance Indicators

We use six Key Performance Indicators (KPIs) to monitor the performance of the business.

We keep KPIs under review to ensure they remain appropriate and help determine remuneration policy. We show how we performed against our current KPIs.

This year we have replaced one of our three profit measures with a new KPI to reflect our focus on increasing grocery and alcohol sales.

Revenue[1]

£950.4m

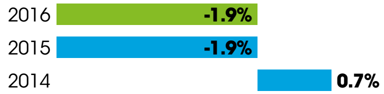
+1.9% 2015

Total revenue grew by 1.9%, reflecting additional sales from our increasing number of stores and our increasing focus on convenience within those stores.

Like-for-like sales[3]

-1.9%

Consistent year-on-year



Like-for-like sales decreased by 1.9%, with some traditional categories such as news and tobacco under pressure.

Adjusted EBITDA[4] (£million)

£36.7m

-2.8% 2015

Adjusted EBITDA was marginally down year-on-year, despite structural cost pressures and after £0.5m of costs incurred in advance of the Co-op stores integration.

Convenience stores[5]

1,001

+12.1% 2015

The growth in our convenience stores came from a combination of acquiring new stores and converting newsagents. It will increase further in 2017 as we convert the acquired Co-op stores.

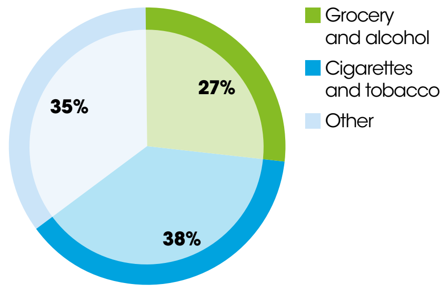
Adjusted earnings per share[6]

16.0p

+0.9% 2015

Adjusted earnings per share, excluding exceptional items, increased slightly to 16.0 pence.

Grocery and alcohol sales (new)[7]



We have set a future target for grocery and alcohol to be our biggest sales category.

1 Total sales for all stores – see note 2 on page 96 for the definition of revenue.
2 Adjusted for the 53 weeks trading in 2014.
3 Like-for-like sales from stores that have traded throughout the whole of the current and prior periods, and including VAT but excluding sales of fuel, lottery, mobile phone top-up and gift cards.
4 Details of adjusted EBITDA can be found in note 6 on page 103.
5 The number of convenience stores operated at the end of each financial period.
6 Earnings per share is stated before exceptional items. Details of the calculation of earnings per share can be found in note 11 on page 106.
7 Grocery sales include ambient, fresh, frozen and household groceries, and food-to-go. Grocery sales exclude impulse categories (including confectionery, crisps and snacks, soft drinks and ice-cream), general merchandise, news and magazines, and services.

In a highly competitive industry like grocery retailing, a business such as ours requires a solid base upon which to build for the future.

Sound fundamentals underpin our future growth ambitions

> *Gross profit margins increased significantly year-on-year.*

2016 undoubtedly provides a solid base for McColl's, with our sixth consecutive year of sales growth, a record gross margin and the announcement of a transformational acquisition that will drive significantly increased earnings and value for shareholders.

Revenue grows to record level
I am happy to report that our full-year revenue grew to £950.4m (2015: £932.2m), an increase of 1.9%. This year-on-year growth was principally driven by our ongoing store investment programme, with approaching 120 stores acquired or converted (from a newsagent to a small convenience store). However, we continue to be impacted by declines in traditional categories such as tobacco and news, alongside some competitor-driven price deflation, primarily in grocery and fresh areas. This gave rise to a full-year like-for-like (LFL) decline of 1.9%, which is a consistent trend with the prior year. Importantly, however, there was a trend of improvement in consecutive quarters from Q2. Additionally, sales in our premium convenience and food and wine stores, the prioritised focus of our recent investment, were up by 0.8% LFL.

Total revenue

+1.9%

Sixth successive year of total sales growth

Gross margin

25.1% +70 bps

24.4% 2015

Continued gross margin improvement

In line with our strategy to evolve our mix of stores and products, gross profit margins increased significantly year-on-year to 25.1% (2015: 24.4%). We enjoy the strongest overall gross margins in our premium convenience stores, which through our investment programme are becoming an ever-greater proportion of our estate. Also, as lower margin traditional categories decline, we are introducing higher margin products such as fresh food and food-to-go. We expect this margin trend to continue into the future. In terms of overall value, total gross profit grew by 4.9%, from £227.5m to £238.7m.

Operating profit impacted by wage inflation

Operating profit before exceptional items decreased by £0.8m to £23.5m (2015: £24.3m), and underlying operating profit (operating profit excluding property gains and losses, which are not core to our business) was down £1.4m year-on-year. Materially, this reduction is due to legislative wage inflation that was not fully offset by growth in total revenue and gross margin. We also expensed some costs (£0.5m) relating to the early recruitment of field and support teams and setting up of logistics, to support the transition of the Co-op store portfolio. In aggregate, administrative expenses, before exceptional costs, increased as a percentage of revenue from 24.3% to 25.2%. A number of self-help initiatives partly alleviated this, for example, the roll-out of LED lighting, and we have more efficiency projects planned for the future.

// We are confident that we have a clear business and financial strategy that will enable us to succeed. //

Overall, however, we expect this percentage of revenue to increase in the short to medium term, due to further wage inflation and the higher costs (but also higher margins) of operating convenience stores.

Other operating income remained similar to last year at £23.1m (2015: £23.2m).

On 13 July we announced the £117m acquisition of 298 convenience stores from the Co-op, and it was given unconditional CMA clearance on 20 December. In the year we had exceptional charges of £2.0m comprising legal fees, due diligence and other professional adviser costs relating to this transaction. The balance of these costs will fall into 2017. We also had exceptional charges of £0.3m relating to legacy properties, most significantly the costs associated with surrendering the lease for a former office building in Woking. Finally, we have reflected a £0.8m exceptional charge in property costs, relating to our previously announced programme to dispose of 97 marginal newsagents. This is to reflect a lower level of anticipated net proceeds and potential future lease obligations for loss-making stores, given a softening of market conditions compared to our original expectations.

Net finance costs slightly increased

In 2016 we continued to benefit from a lower cost of borrowing, following our 2015 refinancing. Net finance costs before exceptional items slightly increased to £2.7m. An exceptional charge of £0.2m has also been made relating to undrawn facility fees for the new term loan to support the Co-op stores acquisition.

Profit before tax reduced by exceptional costs

Profit on ordinary activities before taxation reduced to £17.7m (2015: £21.1m). This principally reflects the impact of cost pressures and exceptional costs.

Stable effective rate of tax

The tax charge for the period reduced to £3.7m (2015: £5.0m), representing an effective tax rate of 21.2% (2015: 23.8%). This effective rate compares to the statutory rate for the period of 20.0%. Excluding the current year impact of disallowable costs relating to our acquisition, alongside the effect of FRS 101 transition, and the prior year deferred tax adjustment, the effective tax rate is broadly consistent year-on-year.

Basic earnings per share impacted by exceptional items

Basic earnings per share reduced to 12.8 pence (2015: 15.4 pence). Adjusted earnings per share, stated before exceptional items, increased slightly to 16.0 pence (2015: 15.9 pence).

Dividend per share maintained

I am pleased to confirm that the Board has recommended a final dividend of 6.8 pence per share (2015: 6.8 pence). As with the interim dividend, this dividend per share has been preserved despite the additional shares in issue, as a consequence of the July placement of 9.99% of issued share capital. Accordingly, the total dividend for the period has been maintained at the prior year level of 10.2 pence per share.

Balance sheet strengthened through investment

We have continued to grow the business, increasing total shareholders' funds at the end of the period by £14.5m to £140.5m (2015: £126.0m).

Our ongoing programme of capital investment increased the book value of goodwill and other intangibles, property, plant and equipment by £10.8m to £221.1m (2015: £210.3m).

Current assets at the end of the period marginally reduced to £97.7m (2015: £99.9m). This reduction of £2.2m is explained by a drop in cash and cash equivalents (as we worked to minimise our gross borrowings), partly offset by a growth in stock and debtor balances, as the business enlarged.

Our current liabilities increased to £139.1m (2015: £135.8m), reflecting higher trade and other payables, once again driven by business growth.

Non-current liabilities reduced to £50.2m (2015: £58.3m), as we continued to reduce our facility borrowings, in part supported by the receipt of share placement monies ahead of the final completion of the Co-op stores acquisition.

Pension schemes stable, actuarial review underway

We operate two defined benefit pension schemes, the TM Group Pension Scheme and the TM Pension Plan, both of which are closed to future accrual. The combined accounting surplus in the two schemes at the end of the period was consistent year-on-year at £6.1m.

An actuarial review of the two schemes, which commenced in 2016, will conclude by June 2017. This assessment will focus on both future funding levels, alongside the broader pension strategy. The Company currently contributes approximately £1.5m per year, inclusive of fees and levies.

Dividend

10.2p

10.2p 2015

Net debt

1x EBITDA

Investing for future growth

The cash generation of McColl's continues to support significant investment in the business and a strong dividend yield for shareholders, whilst also maintaining an appropriate level of debt.

Net cash provided by operating activities reduced in the year to £21.6m (2015: £43.5m). However, within the 2015 performance was an approximately £12m year-on-year working capital benefit from the reversal of the 2014 53rd week (which drove additional payments in 2014). The remaining working capital difference is principally explained by the prepayment of acquisition fees (including a deposit of £1m) and the cash payment to surrender the Woking office lease. Together these contributed to a working capital outflow in the period of £4.6m (2015: underlying £1.2m outflow).

Adjusted EBITDA (see note 6c on page 103 for definition) reduced by £1.0m to £36.7m (2015: £37.7m), which also part contributed to the year-on-year reduction in cash generated.

Net capital expenditure, which excludes the acquisition of stock, increased by £1.8m to £25.7m (2015: £23.9m). This reflects our continued investment in the business for growth, including our programme of store acquisitions and conversions, alongside the development and extension of our food-to-go offer and the installation of LED lighting across our estate. In the period we added 58 premium convenience stores, completed 59 food and wine conversions and delivered 12 new Subways in our stores.

Net finance expense of £2.7m was slightly higher than the prior year. The interim and final dividends paid in the period totalled £11.0m, up slightly in total cash terms due to the additional shares in issue for the interim payment.

Net debt at the end of the period was £37.0m (2015: £31.6m), representing 1.0 times adjusted EBITDA (2015: 0.8 times adjusted EBITDA).

Debt refinancing to support acquisition

During the period, we renegotiated our debt facilities, to support the £117m acquisition of stores from the Co-op. This was predominantly a debt-supported deal, which will therefore maximise value for shareholders and make best use of the Company's available sources of funding. On the effective date of the transaction, the current £85m working capital facility will be extended to £100m and be supplemented by a £100m repayment term loan. Both of these elements will run through until July 2021, with the borrowing rate reducing as the business deleverages. At the end of the period, drawings against the current working capital facility were reduced at £37.0m (2015: £44.5m).

Future outlook

2016 has been a landmark year in the history of McColl's and we have set the foundations to deliver significant growth in 2017. The immediate focus of the business will be to embed our new stores and harmonise their operations, whilst also beginning to deliver synergies and leverage our significantly increased scale. Alongside this, we will continue to focus on self-help measures to alleviate cost inflation and invest in our estate for growth now and into the future. Although the 2016 Brexit decision has created some macroeconomic uncertainty in the UK, we are confident that we have a clear business and financial strategy that will enable us to succeed in 2017 and the years beyond.

Simon Fuller FCA
Chief Financial Officer

Refreshing our convenience stores

This year we have begun the process of reviewing our existing stores to develop a plan to invest and improve them. The aim is to give these stores a modern look and feel, an enhanced range of products that is tailored to the local demographic, and shopping mission-based zoning to reflect the way customers shop.

We started with a pilot store in West Horndon where we reviewed every aspect of the store from range and pricing, interior and exterior signage and point of sale materials, to staffing levels and training. The refreshed store opened in November and the customer response has been very positive – we have seen both an increase in transaction numbers and basket spend.

We will continue our work on convenience stores in 2017 with plans to refresh 20 more stores during the year.

Highlight:

+50%

Sales in key categories like chilled food and food-to-go are up by 50% or more since the refresh.

Customer first

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

Environmental and Social Review

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

With everyday access to fresh food and other groceries, and a range of services such as cash machines, Pay Points and Post Offices our stores provide a vital service to lots of communities across the UK. In fact, a recent study by the Association of Convenience Stores (ACS) showed that convenience stores and Post Offices are the two services that are seen to have the most positive impact on their local area by councillors, consumers and MPs.

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

Improving energy efficiency
We have an ongoing commitment to improving our energy efficiency. This year we completed the roll-out of energy-efficient LED lighting, which we expect will save us 3,500kg of CO_2 and deliver a lighting cost saving of around 35%. Other energy saving initiatives include fitting doors to refrigeration units, removing surplus or particularly inefficient equipment from our stores; undertaking measures such as 'last man out' switches (where all the lights can be switched off via one switch); and photocells that switch lighting on and off when areas aren't used. Many of our stores have live energy monitors, so we can see how much energy each store uses in real time and actively manage them accordingly.

In 2016 we reduced our LFL energy consumption by a further 2.5%. This has been achieved despite increasing our chilled and frozen space – all of which requires energy.

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

"Our stores provide a vital service to lots of communities."

Greenhouse gas emissions

This year our carbon intensity ratio reduced to 5.4, down from 5.9 in 2015. Our overall carbon emissions were 51,316 tonnes CO_2, a significant reduction on 2015 when they were 54,609 tonnes CO_2, and against our 2014 baseline of 56,131 tonnes CO_2. This reduction has been achieved despite a growing proportion of refrigeration and a significant increase in our overall footprint.

We are 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. This is the third GHG emissions report in line with UK mandatory reporting requirements set out by the Department for Environment, Food and Rural Affairs (Defra) and we have therefore expressed the report alongside the 'base year' of 2014 for comparison. The mandatory requirement is for the disclosure of the scope 1 and 2 emissions only. Scope 1 emissions include heating, vehicle fuel and fugitive emissions (refrigerant leakage). Scope 2 emissions include purchased electricity. The Group's total GHG footprint is shown in the table below.

Emissions data for period 30 November 2015 to 27 November 2016

	2014 (Base Year) Tonnes CO_2(e)	2015 Tonnes CO_2(e)	**2016 Tonnes CO_2(e)**
Scope 1			
Fuel combustion (natural gas, vehicle fuels and other fuels)	2,125	1,931	**2,268**
Refrigerants	2,122	2,733	**2,897**
	4,247	4,664	**5,165**
Scope 2			
Purchased Electricity	51,884	49,945	**46,151**
Total	56,131	54,609	**51,316**
Intensity – CO_2(e) tonnes per £100,000 of revenue	6.1	5.9	**5.4**

- The Group has reported on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013
- The Group has used the guidance as set out in Defra's Environmental Reporting Guidelines, including mandatory greenhouse gas emissions reporting guidance, dated June 2013
- Emission factors are based upon UK Government conversion factors for Company Reporting 2016. The electricity emissions are based upon a reduced emission factor for electricity in 2016 reflecting the UK's increasing use of renewable energy in the overall electricity grid mix
- The Group has engaged a consultancy firm, The Miles Consultancy, to oversee the collection of vehicle data and provide guidance on complying with appropriate regulations
- The figures disclosed above for 2016 and the methodology used to collate the information has been reviewed and verified by Project Rome Ltd
- For electricity, gas and other fuels, consumption data has been extracted from billing information from 1 December 2015 to the date of the last bill received for each type of supply. Therefore some extrapolation has been required in order to calculate the full 52-week consumption figure
- Petrol and fuel data has been collated from information received from the Group's fleet management consultant. Data for 11 months of the reporting year is calculated using data captured directly from the fleet. For the final month of the reporting year, data has been estimated using an average based on the previous 11 months
- Refrigerant data has been calculated by reference to individual items of equipment and then extrapolating this based on an estimated level of equipment within each property used by the Group. The methodology utilises annual leakage rates as set out in Appendix C of the Environmental Reporting Guidelines for mandatory greenhouse gas emissions

Colleagues

Making all the difference

Just as we are at the heart of the UK's neighbourhoods, so our colleagues are at the heart of our business. Their commitment, friendliness and professionalism make all the difference. We invest in recruiting, retaining and developing great people, many of them from the local communities we serve. For example, we delivered over 5,700 hours of new starter induction training in this year alone. Also, the vast majority of our colleagues live close to the stores they work in, so our stores are run by local people, for local people which gives us a strong sense of community.

Developing people

We are committed to equal opportunities for colleagues at all levels. To help embed and build on our friendly professional way of working, we have an induction programme for our store-based colleagues with modules on customer service, safety and fresh food, in response to the ongoing growth and developments in our convenience business. We operate a comprehensive training programme for Store Managers including Post Office operations for those who will be operating a Post Office Local. We also run an academy for Area Managers and a senior manager programme to develop colleagues to take their next step into an elevated field or Head Office role.

We offer a range of work qualifications and we work in partnership with learndirect to offer a vibrant apprenticeship programme where currently we have over 100 colleagues across the Group working towards a qualification. We also run a very successful 'onwards and upwards' development programme, focusing on some of the key roles within the business. We have a good track record of promoting colleagues with 52% of Store Manager vacancies being filled internally, 55% of our Area Managers having been promoted from store management and 45% of our Regional Managers having been promoted from area management. Many of our Store Managers started out with us on a paper round or as Sales Assistants, underlining the career opportunities we provide and the role we play for local people and the younger generation.

Rewarding people

We offer a range of benefits for colleagues as well as flexible working opportunities. Through our colleague handbook, for example, we ensure everyone across the Group understands what benefits are available to them as well as what is expected of them. It's all part of our desire to foster a strong and enjoyable high-performing retail business. Over 130 of our senior colleagues are part of a bonus scheme that encourages their involvement in the Group's success. We also operate an active sales incentive that allows stores to earn a bonus each period, creating an incentive for retail colleagues across all stores.

Recognising people

We like to recognise the outstanding contributions of our people. One of the ways we do this is through rewarding long service each year. Many of our colleagues have been with us for a long time – we're proud to have such a high level of loyalty. In 2016 we gave our Lifetime Achievement Award to Karl Maxwell our Store Manager in Birkdale, Southport where he has worked for over 37 years. We also hold annual Store Of The Year Awards to recognise exceptional contributions from across our network. 2016's Overall Store of the Year Winner went to Paul Simpson from our store in Blackhall for his hard work and the commitment of his team to deliver great service to their community.

Store Manager, Karl Maxwell receiving his Lifetime Achievement Award

Store colleagues

Male	36%
Female	64%

Senior managers

Male	81%
Female	19%

Directors

Male	71%
Female	29%

Store Managers

Male	50%
Female	50%

Length of service (years)

0-5	69%
5-10	15%
10-20	11%
20+	5%

> *"Many of our Store Managers started out with us on a paper round or as Sales Assistants."*

Diversity and inclusion

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

50% of our Store Managers are women and we are committed to developing our pipeline of female talent as part of our people plan.

Human rights

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

Modern slavery

We are absolutely committed to preventing modern slavery in all our activities and ensuring that our supply chain is free from slavery and trafficking. Our statement (pursuant to s.54 of the Modern Slavery Act 2015) is on page 51 of the Directors' Report.

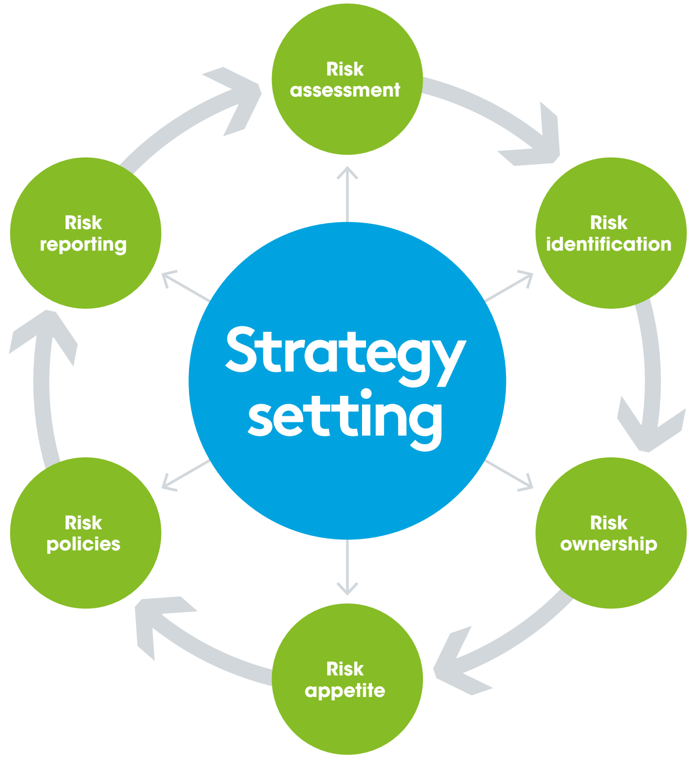
Health and safety

We continue to demonstrate our commitment to health and safety across the Group. It is discussed by the Board, and through our health and safety committee, strategy and forums, we take a consistent and collaborative approach to creating a safe place for our colleagues, customers and visitors. In 2016, colleague safety continued to be a key focus with a significant investment of time and money in security measures. We invested in colleague safety technology across key locations working with two partners, SoloProtect and Positive Response, to install, and train colleagues to use lone working devices. These have panic alarms connected to monitoring centres with audio capability and improved police response. We also continue to work closely with insurers, brokers and local authorities to advance our risk management, for example by increasing proactive risk management in stores. By improving the level of compliance across our business we saw a downturn in both employee and public liability claims and our defensibility has improved on claims to one in two. All initiatives are managed and monitored through a health and safety governance group of executives and senior management.

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

How we identify, assess and manage risk

Our risk management framework



We are exposed to a number of risk factors which may affect our performance. Our risk management framework aims to provide a consistent and structured approach to the management of risks faced by the Group in implementing our strategic plans. The framework supports the regular review and assessment of risks and includes appropriate processes and procedures to help mitigate them.

The purpose of the risk management framework is not only to identify risk but, more importantly, to facilitate better business decisions. By ensuring risk is factored into all key activities, the consideration of risk is being driven into the decision-making process.

Risk management tools are used within the business to help ensure that the risks involved in delivering our strategy are managed effectively and remain within the Board's risk appetite and tolerance.

This year, ahead of our detailed annual strategy event we completed a thorough review of risk.

Operational Risk Committee
Our Operational Risk Committee is made up of members of our Retail Board and other relevant senior managers from across the business. Its role is to assist management in the identification, management and mitigation of risk across the Group.

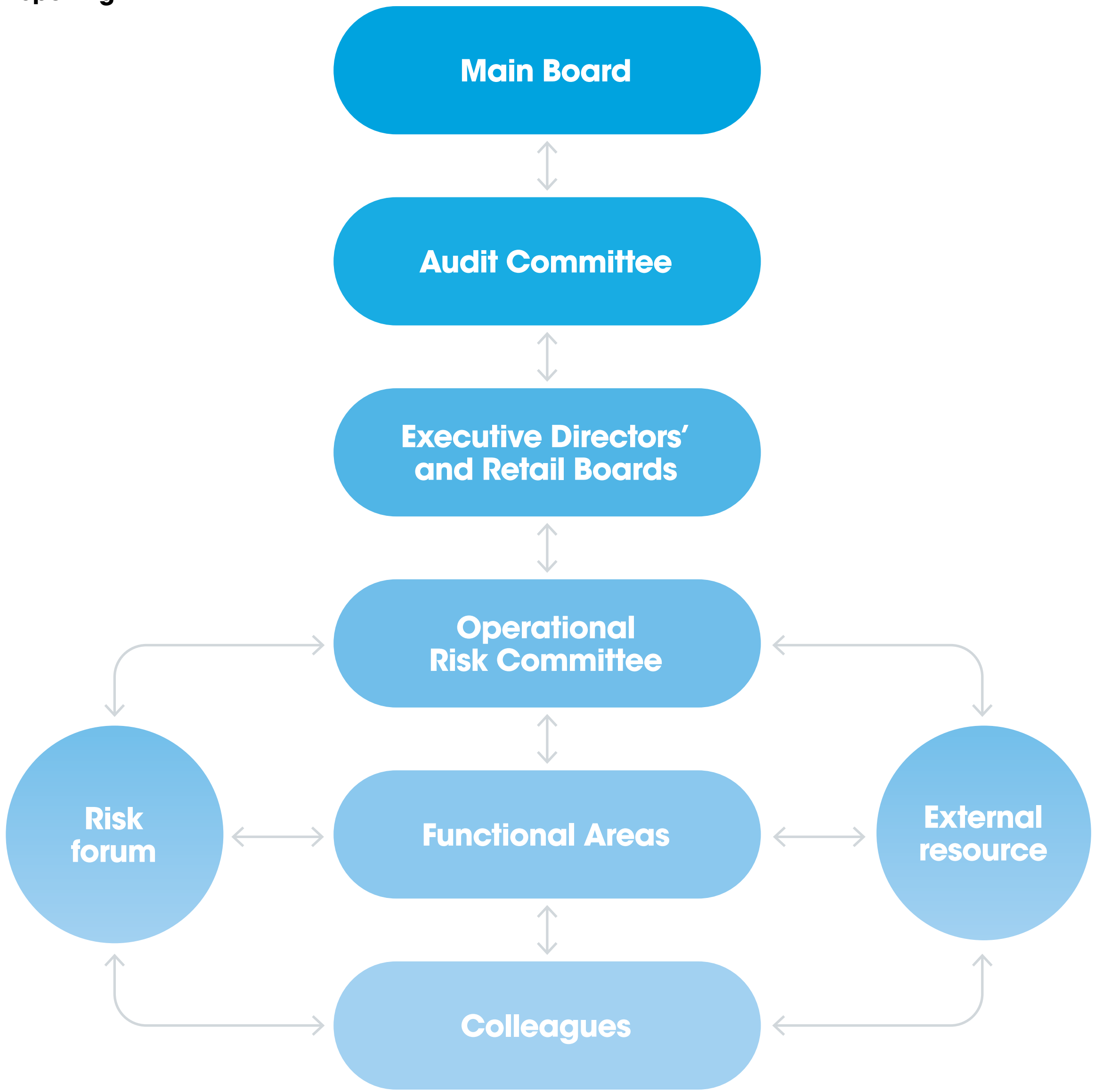
The Committee meets at least four times a year, normally in advance of routine Retail Board meetings, allowing key findings and risks to be escalated to the Retail Board for consideration.

The Operational Risk Committee is also supported by the Risk Forum, which has representatives from internal functions, regional management and store colleagues. The Forum meets quarterly, prior to the Operational Risk Committee meetings.

Risk reporting is carried out at all levels within the business, starting with individual stores. Key risks or trends are reported to the Operational Risk Committee and the Retail Board, and then to the Audit Committee.

The key risks on page 36 and 37 have been assessed in terms of both severity and likelihood. We identify those risks that remain most significant to the business and assess where additional investment or resource may be required. We also evaluate our risk appetite and tolerance.

Risk reporting



RISK CHANGE IN YEAR

Increased · Maintained

The Board, through the Audit Committee, has reviewed the Group's risk profile and determined that the following are the principal risks facing the Group:

PRINCIPAL RISK	**Business strategy** (Maintained)	**Acquisitions** NEW	**Competition** (Maintained)	**Customer Offer** (Maintained)
RISK	If the Board either adopts the wrong strategy or does not implement it effectively the goals of the business will not be met and our performance may suffer.	Failure to successfully integrate the 298 stores acquired from the Co-op could impact profitability, our reputation and our funding arrangements.	We operate in a highly competitive and continually changing market. Failure to maintain market share could have an adverse effect on the Group's performance and profitability.	Customer shopping habits are influenced by a wide range of factors. If we do not respond to their changing needs they are more likely to shop with a competitor and our revenues could fall.
MITIGATION/STRATEGIC RESPONSE	• Strategic development led by experienced senior management team • Colleagues' views at all levels are sought and influence annual business plans • Customer and competitor trends analysed and used to shape strategy • External views and expertise considered • Annual strategic review takes place alongside budget-setting process • Strategy widely communicated • Business plans developed, monitored and reviewed against strategic KPIs	• We are highly experienced at integrating acquired stores – the business has already acquired a significant number of stores as part of our ongoing expansion plans • We have a dedicated and experienced management team with extensive integration experience leading the Co-op acquisition • We have implemented regular progress reviews with Co-op management • Clear migration plans have been developed with a phased roll-out schedule • We produced a specific separate risk register for the acquisition of the Co-op stores which has guided the onboarding plan	• Monitoring competitor activity • Monitoring customer trends. • Regular meetings with suppliers to develop and enhance our offer • Ongoing development of the *Plus* card loyalty scheme • Increasing brand awareness through our marketing channels	• Membership of third party organisations (such as the IGD and ACS) gives us greater insight into the convenience sector trends and developments • Customer trends are regularly reviewed by the Retail Board and trading teams, and are used to drive ranging decisions • Promotional programmes offer customers great value • We have a customer loyalty scheme – *Plus* card
CURRENT CHANGES	• In 2016 we accelerated our strategy to increase our neighbourhood presence with the acquisition of 298 convenience stores from the Co-op			

The Strategic Report set out on pages 2 to 39 has been approved by the Board and signed on its behalf by

Simon Fuller
Director and Chief Financial Officer
26 February 2017

Economy ↗	Financial and treasury →	Information Technology →	Operational cost base ↗	Regulation →	Supply chain →
All our revenue is generated in the UK. Any deterioration in the UK economy, for example, as a consequence of Brexit, could impact on consumer spending and cost of goods, which would therefore impact our sales and profitability.	The main financial risks are the availability of short- and long-term funding to meet business needs, fluctuations in interest rates, movements in energy prices and other post-Brexit impacts.	We depend on the reliability and capability of key information systems and technology. A major failure, a breach, or prolonged performance issues with store or head office systems could have an adverse impact on the business and its reputation.	We have a relatively high cost base, consisting primarily of salary, property rental and energy costs. Increases in these costs without a corresponding increase in revenues could adversely impact our profitability.	We operate in an environment governed by strict regulations to ensure the safety and protection of customers, colleagues, shareholders and other stakeholders. Regulations include alcohol licensing, employment, health and safety, data protection and the rules of the Stock Exchange.	We rely on a small number of key distributors and may be adversely affected by changes in supplier dynamics and interruptions in supply.
• We sell food and household essentials which are not heavily exposed to discretionary spend categories • We offer a wide range of products at different price points, e.g. value and premium brands • Our flexible business model allows us to respond to changes in customer behaviour, for example, by adapting our ranges • Our growing scale enables us to achieve better buying terms, helping to mitigate inflationary pressures	• Committed loan facilities are in place, which provide us with headroom to deliver our strategy (see note 25) • Funding requirements are managed through regular forecasting and treasury management • The Board approves budgets and business plans • Relationships with lenders are managed through regular meetings • Our risks associated with financial instruments are disclosed in note 25 on pages 113 to 115 • We manage exposure to fluctuating energy prices by forward buying electricity. We acknowledge that the forward contracts in place are derivatives, they are treated as a pre-agreed price for electricity	• All business-critical systems are well established and are supported by an appropriate disaster recovery strategy designed to ensure continuity of the business • Business continuity plans are tested on an annual basis • Regular reviews assess our vulnerability and our ability to re-establish operations in the event of a failure • Testing is performed to ensure data is controlled and protected	• We operate a flexible staff model aligned to revenue levels • We monitor legislation and developments related to our costs, e.g. minimum wage, rents and energy tariffs, to allow us to plan and mitigate increases • Property management is a key function with regular review processes in place • We minimise energy costs by combining energy efficiency initiatives and forward purchasing	• We have clear accountability for compliance with all laws and regulations • Our policies and procedures are designed to meet all relevant laws and regulations • We train colleagues to comply with all relevant rules and regulations • We have established governance groups, such as our Health and Safety Steering Group to review and manage our compliance	• Our distribution partners are carefully selected and maintain their own contingency planning • We monitor supplier performance including service level agreements • We hold regular discussions to discuss performance and monitor financial stability of key partners • As we grow our business we work with supply chain partners to ensure we leverage our increasing scale
• Greater economic uncertainty following the European Union referendum may impact future consumer spending	• Revised banking facilities will come into place in 2017, £200m – split between term loan and revolving facility		• In 2017 wage costs will increase due to rises in the National Minimum Wage and National Living Wage. Business rates will also change	• Regulatory impacts in 2017 include the Tobacco Products Directive, the Soft Drinks Industry Levy and the Apprenticeship Levy	• We appointed Nisa as our supply partner to service the 298 stores acquired from the Co-op that will be integrated in 2017

Meeting our target

In November we opened our 1,000th convenience store in Erdington, meeting the target we set ourselves in 2014, when we floated on the London Stock Exchange. This is a big milestone for McColl's. We have been moving away from our historic focus of news and tobacco to provide a broader offer for customers and increase our presence in the growing convenience sector. It's the right thing to do for customers and shareholders – we are better able to meet customers' changing needs and it's helping us to improve our sales mix, from low margin declining categories to faster growing, higher margin categories like chilled foods and food-to-go.

Convenience store growth

35%

Since our listing in 2014 we have grown our convenience estate by around 35%.

Customer first

C
convenience stores

Highlight:
In the last few years we have been acquiring stores as well as converting some of our newsagents into a new food and wine format. We opened 58 new stores this year and convenience now represents 73% of our total estate.

Board of Directors' biographies

James Lancaster *
Non-Executive Chairman

Current appointment: James established the Group in 1973, becoming Group Managing Director in 1984, Chief Executive in 1990 and then Chairman and Chief Executive in 1995. Following the IPO, James stepped down as Chairman on 22 July 2014 to focus on his role as Chief Executive. He relinquished the role of Chief Executive and was appointed as Non-Executive Chairman on 1 April 2016. James is Chairman of the Company's Nomination Committee.

Key strengths: James has significant executive leadership experience within the retail and convenience industry.

Experience: James has over 40 years of experience in the business. Under his direction McColl's has grown to be a leading convenience store business. He successfully led a management buyout of the business in 1995, a secondary buyout in 2005 and the IPO in 2014.

Jonathan Miller *
Chief Executive

Current appointment: Jonathan joined the Group in 1991, working initially as Financial Director of vending operations and subsequently in Group Finance. He was appointed Finance Director of the Group's retail businesses in 1998. Jonathan was then appointed Chief Financial Officer of the Group in 2004 and Chief Executive on 1 April 2016.

Key strengths: Jonathan has significant financial and executive management expertise within the retail and convenience sector.

Experience: Jonathan has a deep understanding of convenience retail and a broad knowledge across the business. He has significant corporate finance experience, playing a key role in the secondary buyout in 2005 and the IPO in 2014. He also has extensive experience of acquisitions and led the acquisition of the 298 Co-op stores announced in July 2016.

Simon Fuller
Chief Financial Officer

Current appointment: Simon joined the Group in 2015 as Deputy Chief Financial Officer prior to being appointed Chief Financial Officer on 1 April 2016.

Key strengths: Simon has significant financial management experience gained within UK food retail and extensive listed company experience in this and other fast moving sectors.

Experience: Since joining the Group, Simon has been instrumental in securing the acquisition of 298 convenience stores from the Co-op and a successful refinancing of the business. Before joining the Group, Simon gained significant financial experience at a senior level, most recently holding various finance director roles at Tesco, including distribution and supply chain, retail operations, online and trading. Simon began his career at PricewaterhouseCoopers, where he trained as a Chartered Accountant.

Dave Thomas
Chief Operating Officer

Current appointment: Dave joined the Group in 1998, initially as Regional Manager for convenience. He was appointed Operations General Manager in 2000 and Operations Director in 2005. Dave was appointed Chief Operating Officer on 22 July 2014.

Key strengths: Dave has significant operational leadership experience within the UK supermarket and convenience sector.

Experience: Dave has spent most of his career in operational roles within the supermarket and convenience sector. 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.

Georgina Harvey ≈ ◊ ✱

Senior Independent Director

Current directorships: Georgina was appointed as an Independent Non-Executive Director on 7 February 2014 and is Chairman of the Company's Remuneration Committee. On 24 May 2016 Georgina was appointed as the Company's first Senior Independent Director. Georgina is also an Independent Non-Executive Director of William Hill PLC and Big Yellow Group PLC.

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

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

Sharon Brown ≈ ◊ ✱

Independent Non-Executive Director

Current directorships: Sharon was appointed as an Independent Non-Executive Director on 7 February 2014 and is Chairman of the Company's Audit Committee. Sharon was appointed as Interim Chairman on 2 October 2015 until James Lancaster was appointed Chairman on 1 April 2016. Sharon is a Non-Executive Director and Audit Committee Chairman of Fidelity Special Values PLC, F&C Capital and Income Investment Trust plc, a Director of Farm Park Limited and Delight Delicatessen Limited and was recently appointed as a Non-Executive Director of Celtic plc.

Key strengths: Sharon has deep knowledge of finance and audit-related matters.

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

Angus Porter ≈ ◊ ✱

Independent Non-Executive Director (Chairman elect)

Current directorships: Angus Porter was appointed as a Non-Executive Director on 1 April 2016. He is currently Senior Independent Director of Punch Taverns Plc where he also is Chairman of the Remuneration Committee, Co-Chairman of Direct Wines Ltd and a Non-Executive Director of TDC A/S.

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

Experience: Angus has held numerous executive and non-executive roles, including senior roles within Mars Confectionery Ltd and he was Managing Director at BT Group Plc. He was also Chief Executive of the Professional Cricketers Association until March 2016.

KEY

≈ Remuneration Committee member

◊ Audit Committee member

✱ Nomination Committee member

Retail Board biographies

The executive management team we call the Retail Board is a strong combination of people with deep knowledge of McColl's and newer recruits who can bring an outside perspective. Together they have over 150 years of retail experience.

Jonathan Miller
Chief Executive

READ MORE PAGE 40

Dave Thomas
Chief Operating Officer

READ MORE PAGE 40

Simon Fuller
Chief Financial Officer

READ MORE PAGE 40

Steve Green
Finance Director

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

Experience: Before joining McColl's, Steve was the Financial Controller for Tesco's Malaysian business, with a broad financial control responsibility. In total, Steve was with Tesco for 14 years, both in the UK and overseas.

Peter Miller
Trading Director

Current appointment: Peter originally joined McColl's as Buying Director in July 2011.

Experience: Before joining McColl's, Peter was Group Trading Director at SPAR UK Ltd. Prior to this, Peter worked as Director of Trading at Big Food Group and Group Buying Director at Booker PLC.

David Archibald
Development Director

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

Experience: As well as store development he is responsible for all aspects of estate management. Previously David worked at Independent Stores, Fine Fare, Asda, Victoria Wine and the Ministry of Defence.

Karen Bird
HR Director

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

Experience: Before joining McColl's, Karen worked for Tesco where she gained over 30 years' experience in a variety of operational and HR roles, most recently leading their people agenda for UK operations.

Neil Hodge
Information Technology Director

Current appointment: Neil joined the Group in 1993 as Field Support Manager becoming Information Technology Manager in 1997 and Information Technology Director in 2011.

Experience: Before joining McColl's, Neil worked at Dexham Shops and Royal Doulton.

Steve Goswell
Operations Director

Current appointment: Steve joined McColl's as Operations Director in September 2016.

Experience: Before joining McColl's, Steve was a Regional Store Director with Tesco. He has spent the majority of his career with Tesco, holding a number of senior positions.

Highlight:
Post Offices are not just good for the local community, they are good for business too. Almost one in ten of our shopper missions are driven by visits to the Post Office.

5

559 Post Offices

Communities really value their local Post Office – according to the Association of Convenience Stores, a Post Office has the most positive impact on the local community of any service or retail offer. We are the UK's biggest operator of Post Offices, with 559 in our stores, more than the Post Office itself. Over 90% of these have been modernised with a Post Office Local to mirror store hours, so you can pop in on the way home from work in the evening to post a parcel and pick up something for dinner at the same time.

Highlight

UK's No.1

We are the UK's largest Post Office operator.

Community champions

Directors' Report

McColl's Retail Group plc (the 'Company' or 'McColl's' or 'Group') is a public company incorporated in England and Wales and limited by shares. The Company's registered number is 08783477. Its shares are listed within the premium sector of the main market of the London Stock Exchange. The principal activities of the Group are described in the Strategic Report on pages 2 to 39.

Directors

The current Directors and their appointment dates are as shown below:

Director	Appointment date
James Lancaster*	3 February 2014
Jonathan Miller	3 February 2014
Simon Fuller	1 April 2016
Dave Thomas	3 February 2014
Georgina Harvey	7 February 2014
Sharon Brown	7 February 2014
Angus Porter	1 April 2016

* James Lancaster founded the business in 1973

Photographs of the Directors, along with their biographies can be found on pages 40 and 41.

At the start of the year the Board comprised of five members. The Board included three Executive Directors and one Independent Non-Executive Director, excluding the Interim Independent Non-Executive Chairman. Since the start of the financial year, the following changes to the Board have been implemented:

Director	Date	Position
James Lancaster	1 April 2016	Resigned as Chief Executive Appointed as Non-Executive Chairman
Jonathan Miller	1 April 2016	Resigned as Chief Financial Officer Appointed as Chief Executive
Simon Fuller	1 April 2016	Appointed as Chief Financial Officer
Sharon Brown	1 April 2016	Resigned as Interim Non-Executive Chairman
Angus Porter	1 April 2016	Appointed as an Independent Non-Executive Director
Georgina Harvey	24 May 2016	Appointed as Senior Independent Director

At the end of the financial year the Board comprised of three Executives, three Independent Non-Executive Directors and the Non-Executive Chairman. The Company is pleased to continue to have two female Directors on the Board.

Corporate governance

The Board has established Audit, Nomination and Remuneration Committees. Details of these Committees, including their membership and activities during the year are contained in the Governance section of this Annual Report on pages 58 to 81 and form part of this Directors' Report.

The Company's Articles of Association

The Company's Articles of Association set out the rights of shareholders including voting rights, distribution rights, attendance at general meetings, powers of Directors, proceedings of Directors as well as borrowing limits and other governance controls. A copy of the Articles of Association ('Articles') can be requested from the Company Secretary. The Company may alter its Articles by special resolution passed at a general meeting of the Company.

Share capital

Details of the share capital from 29 November 2015 to 27 November 2016 are shown in note 26 of the financial statements. The nominal value of the total issued ordinary share capital of the Company at the start of the year was £104,712.04, divided into 104,712,042 fully paid ordinary shares of 0.1 pence each. On 18 July 2016 a further 10,460,732 ordinary shares of 0.1 pence each were placed, increasing the total number of shares in issue at the end of the year to 115,172,774 and the total issued ordinary share capital to £115,172.77.

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

Shareholders' rights

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

Restrictions on transfers of securities

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

Substantial shareholdings

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

As at 27 November 2016 and at 28 February 2017 (being the last practical day before printing) the Company has been notified of the interests shown below which represented holdings of 3% or more of the ordinary shares of the Company. This information was correct at the date of notification. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Directors' interests

Although the Directors are not required to hold shares in the Company under the Articles or under their letters of appointment or service agreements, all of the Directors except Simon Fuller do hold shares in the Company and details of their shareholdings can be found in the Directors' Remuneration Report on page 81.

Conflicts of interest

The Board considers and authorises potential or actual conflicts as appropriate. Directors with a conflict do not participate in the discussion or vote on the matter in question. Further detail can be found in the Corporate Governance Report on page 55.

Directors' indemnities and liability insurance

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

Appointment and replacement of Directors

Under the Articles each Director is required to retire from office at the third Annual General Meeting (AGM) after the AGM at which he or she was last elected or re-elected although he or she may be re-elected by ordinary resolution if eligible and willing. As the Company is outside of the FTSE 350 the Company is not obliged to comply with provision B.7 of the UK Corporate Governance Code (the Code) relating to the annual re-election of Directors. However, the Directors wish to be transparent in all their dealings and accordingly, all of the Directors will submit themselves for annual re-election by the shareholders at the AGM. The Company is therefore in compliance with this provision of the Code. The appointment and replacement of Directors is governed by the Company's Articles, the Code and prevailing legislation. Directors may be appointed by ordinary resolution of the Board on recommendation of the Nomination Committee.

	As at 27 November 2016		As at 28 February (last practical printing date)	
Shareholder	Number of shares	Percentage	Number of shares	Percentage
Aberforth Partners LLP[1]	11,605,614	10.08	11,605,614	10.08
James Lancaster[2]	11,399,500	9.89	11,399,500	9.89
Jonathan Miller[2]	11,399,500	9.89	11,399,500	9.89

1 Held indirectly.

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

A Director appointed by the Board holds office only until the following Annual General Meeting and is then eligible for election by shareholders. The Company may, in accordance with the provisions of the Companies Act 2006 remove any Director by ordinary resolution of which special notice has been given before the expiry of his or her term of office. In addition, the Company must have not less than two Directors.

Further information on appointments to the Board is set out in the Corporate Governance Report on pages 52 to 57.

Powers of Directors

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

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Directors' Remuneration Report on page 75.

Employee engagement

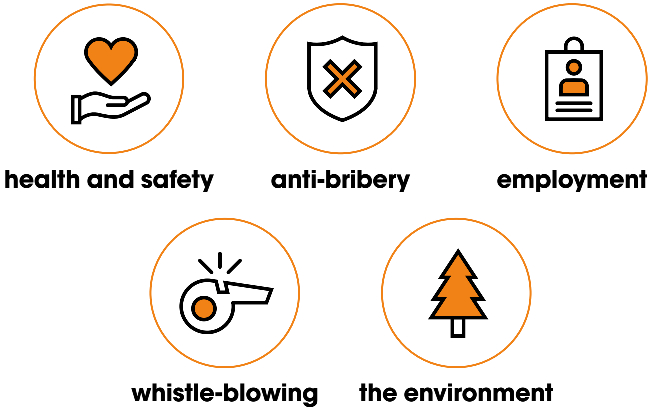
The Group employed 19,541 employees including 4,190 young Home News Deliverers (HND) and had 6,570 full time equivalents at the period end. The workforce mix is 37%/63% male to female ratio and 35% of our employees are under the age of 30. The Group actively involves its employees in the business and 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 the 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. However, we have additionally started to obtain colleague feedback through engagement surveys so as to ensure that future strategies and action plans can have a focus on key areas where improvements can be made. Employees are also made aware of the financial and economic factors affecting the performance of the Group via briefings by management. The Group encourages the involvement of employees in the Group's performance through operation of a bonus scheme which applies to over 130 senior employees and provides an incentive to them. We also operate an active sales incentive that gives stores the opportunity to earn a bonus each period creating an incentive for retail colleagues across all stores.

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, distance learning modules, 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. For those employees wishing to progress, we operate our successful 'onward and upward' development programme focusing on some of the key roles within the business. The Group also works in partnership with learndirect, a national provider of apprenticeships, offering opportunities to all eligible colleagues to gain relevant work-based qualifications and employ new apprentices into Head Office roles where appropriate.

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 also committed to being an equal opportunities employer and aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin, disability or on any other basis. The Company's policy and procedures are designed to provide for full and fair consideration and selection, including disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment the Group will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles.

Corporate responsibility

The Company's environmental and social review is set out on pages 30 to 33. The Company has a Code of Conduct which has been communicated to all employees and is available on the Company's intranet. The Company has relaunched its values and also adopted specific policies including:



The Board or its committees regularly reviews these and other policies and revises them as and when appropriate.

Directors' statement of disclosure of information to auditors

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

External auditors

Deloitte LLP have given their independent audit report on the financial statements to the shareholders of the Company on pages 84 to 91.

Annual General Meeting (AGM)
The Board welcome the opportunity to meet with shareholders at the AGM which will be held on 27 April 2017 at 1.30pm at the registered office: McColl's House, Ashwells Road, Brentwood, Essex CM15 9ST. The Chairman of the Board and of each of its committees will be in attendance at the AGM to answer questions from shareholders.
All Directors will be standing for reappointment at the AGM. The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

Dividend
A final dividend for 2015 of 6.8 pence per ordinary share was paid in May 2016. From 2017, following the acquisition of the 298 Co-op stores, we expect the pence per share of dividend payments to increase as we integrate the new stores. To maintain the right balance between dividends, capital investment and de-leveraging, and because we expect our earnings to significantly increase as a result of the acquisition, the Board will reduce the pay-out ratio of the Group, from 60% to 50% (of annual reported profits, before exceptional gains, but after exceptional costs and post-tax). This is in line with the dividend policy aligned to the free cash generation of McColl's and the investment required to deliver sustainable growth in revenue and profit over the medium term.

The Board intends that the Company will pay an interim and a final dividend in the approximate proportions one-third and two-thirds respectively of the total expected annual dividend. An interim dividend of 3.4 pence per share was paid on 9 September 2016. The Directors have also proposed a final dividend of 6.8 pence per share, amounting to £7.8m, which is subject to shareholder approval at the AGM. Provided shareholder approval is received the final dividend will be paid on 24 May 2017 to those shareholders on the register at the close of business on 5 May 2017. If approved, a total dividend of 10.2 pence per share (3.4 pence plus 6.8 pence) will have been paid in respect of the year being reported.

Reappointment of auditors
The Board confirms that Deloitte LLP was originally appointed to the Group in 2006 (when the Group was a private limited company). In line with best practice the Company will tender the external audit prior to its AGM in 2024. The audit partner has been rotated within the last five years with the appointment of Sukie Kooner in 2014. Deloitte LLP have indicated their willingness to continue as the Company's auditors and accordingly, a resolution to reappoint them as auditors of the Company and the Group will be proposed at the 2017 AGM.

Authority to allot shares
The Company was granted a general authority by its shareholders at the 2016 AGM to allot shares up to an aggregate nominal amount of £34,904. The Company also received authority to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £34,904. As at the date of this report, 10,460,732 shares have been issued under these authorities. These authorities will expire at the conclusion of the 2017 AGM unless revoked, varied or renewed prior to that meeting. Resolutions will be proposed at the 2017 AGM to renew these authorities.

Authority for the Company to purchase its own shares
The Company was granted authority by its shareholders at the 2016 AGM to purchase up to 10,471,204 of its ordinary shares. As at the date of this report, no ordinary shares have been purchased under this authority and, therefore, the Company may purchase up to 10,471,204 ordinary shares under its existing authority. This authority will expire at the conclusion of the 2017 AGM unless revoked, varied or renewed prior to that meeting.

A resolution will be proposed at the 2017 AGM that the Company be authorised to purchase up to approximately 10% of its ordinary shares at the Directors' discretion. If the resolution is passed, the new authority will replace the existing authority and will lapse at the conclusion of the 2018 AGM.

Financial risk management
The Company manages its risks to ensure that the Group's performance is not adversely affected by its exposure to financial risks resulting from its operation and sources of finance. Financial risk management objectives and policies, including information on financial risks that materially impact the Group can be found in note 25 of the Group's financial statements.

Going concern
The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements. The Directors continue to adopt the going concern basis in preparing the financial statements. The financial position of the Group, its cash flows and liquidity position are set out in the financial statements section on pages 84 to 124.

Furthermore, note 25, page 113 to the Consolidated Financial Statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

In July 2016, the Company announced it had signed an amended credit facility agreement. The updated facility consists of a £100m Revolving Credit Facility (a £15m increase from the existing £85m, being available on commencement of the Co-op store transition to fund working capital) and a £100m term loan for specific use to part finance the 298 Co-op store acquisition.
In addition, there is a £50.0m unsecured accordion facility available at the Company's option. At the end of the period, the Group had drawn down £37.0m (2015: £44.5m) of its original facilities.

The Directors have reviewed the Group's long-term forecasts including its requirements for capital expenditure, operational needs and the expansionary impact of the Co-op store acquisition. The Directors, taking into account these forecasts and the revised facilities available to the Group, continue to adopt the going concern basis in preparing the financial statements. The Directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council in September 2014.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'going concern' provision. The Directors have assessed the viability of the Group over a three-year period through to 2019 which has been informed by the Group's strategic review. This assessment has considered the potential impact of the principal risks on the business model, future performance and liquidity over the period. In making this statement the Directors have considered the resilience of the Group under varying market conditions together with the effectiveness of any mitigating actions. As already described in the statement of going concern, as part of this assessment the Directors have taken account of the Group's Revolving Credit Facility with accordion option which runs through to July 2021, strong track record of operational cash inflow and forward dividend cover. Additionally, the Directors have reviewed the expected impact of government and legislative changes, in particular the National Minimum and Living Wage, alongside the key financial ratios over the period, e.g. EBITDA, operating profit, fixed charge cover and indebtedness. Finally it is noted that even in the event of a very severe impact on the business through continued food deflation and cost inflation, the business could reduce or suspend acquisitions activity, reassess the dividend pay-outs and review the store disposal programme. Based on this assessment, the Directors have a reasonable expectation that the Group will have sufficient resources to continue in operation and meet its liabilities as they fall due over the period to November 2019.

Post year-end events

On 20 December 2016 the Group received a decision by the Competition & Markets Authority to give final and unconditional approval to its acquisition of all 298 convenience stores from the Co-op that was announced on 13 July 2016.

The Group began to integrate the stores in late January 2017 and expects all conversions to be completed by the end of August 2017.

Future developments within the Group

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

Political donations

Further to shareholder approval at the 2016 AGM empowering the Directors to make political donations or incur political expenses, it is confirmed that no such donations or expenses were made/incurred in the year ended 27 November 2016 (2015: £nil). Whilst it is the Company's policy not to make political donations or incur political expenses, it will be seeking to renew this authority at its 2017 AGM.

Charitable donations

The Group donates 4 pence (net of VAT) from every carrier bag sale to specific charities in England, Scotland and Wales. During the year, the following donations were made:

Region	Charity	Donation amount
England	St. George's University Hospital	£210,000
Scotland	Ronald McDonald	£65,000
Wales	Hope House	£17,000
		£292,000

These donations were raised from both carrier bag sales and the Group's own Halloween related fundraising activities in 2016.

In addition, the Group donated a further £300,000 to St George's University Hospital in December 2016.

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
3	Details of long-term incentive schemes	See Remuneration Report on page 78
4	Waiver of emoluments by a Director	Not applicable
5	Waiver of future emoluments by a Director	Not applicable
6	Non pre-emptive issues of equity for cash	See note 26 on the Placing of shares
7	Item (7) in relation to major subsidiary undertakings	Not applicable
8	Parent participant in placing by a listed subsidiary	Not applicable
9	Contracts of significance	Not applicable
10	Provision of services by a controlling shareholder	Not applicable
11	Shareholder waivers of dividends	Not applicable
12	Shareholder waivers of future dividends	Not applicable
13	Agreements with controlling shareholder	Not applicable

Modern Slavery Statement for Financial Year 2016/17

This statement is made pursuant to s.54 of the Modern Slavery Act 2015 and sets out the steps that McColl's has taken and is continuing to take to ensure that modern slavery or human trafficking is not taking place within our business or supply chain.

Modern slavery encompasses slavery, servitude, human trafficking and forced labour. We are committed to acting ethically and with integrity and transparency in all business dealings.

Our business

McColl's Retail Group is a leading neighbourhood retailer in the independent managed sector, operating 1,375 convenience stores and newsagents. We operate 1,001 McColl's branded UK convenience stores as well as 374 newsagents branded Martin's, except in Scotland where we operate under our heritage brand, RS McColl. We have more than doubled our number of convenience stores over the last eight years. We are focused on evolving our estate, which is predominantly centred around neighbourhood and village locations, to focus on the convenience format.

Our policies

We operate a number of internal policies to ensure that we are conducting business in an ethical and transparent manner.

These include:

- Anti-slavery policy. This policy sets out the organisation's stance on modern slavery which encompasses slavery, servitude, forced and compulsory labour and human trafficking. The policy explains how employees can identify any instances of this and where they can go for help
- Recruitment policy. We operate a robust recruitment policy, including conducting eligibility to work in the UK checks for all employees to safeguard against human trafficking or individuals being forced to work against their will
- Whistle-blowing policy. We operate a whistle-blowing policy so that all employees know that they can anonymously raise concerns about how colleagues are being treated, or practices within our business or supply chain, without fear of reprisals

Our suppliers

McColl's operates with a small number of preferred suppliers. We undertake due diligence on our preferred suppliers, to ensure that particular organisation to ensure that they have not been convicted of offences relating to modern slavery. Our policy on anti-slavery is reflected in any new contract with a supplier and they are required to confirm that no part of their business operations contradicts this policy.

When considering contracting with a new supplier, we expect:

- They have taken steps to assess, prevent and if necessary eradicate modern slavery within their business
- They hold their own suppliers to account over modern slavery
- Them to pay their employees at least the National Minimum Wage/National Living Wage (as appropriate)

We undertake due diligence on our preferred suppliers to ensure that they have not been convicted of offences relating to modern slavery.

Approval for this statement

This statement was approved by the Board of Directors on 26 February 2017.

Simon Fuller
Chief Financial Officer

Corporate Governance Report

Chairman's Letter

As Non-Executive Chairman I am pleased to report that the Company has continued to make progress in strengthening its Board and its governance.

In particular, I would like to thank Sharon Brown, who assumed responsibility as Interim Chairman on 2 October 2015. The Board made a number of key changes in early 2016, which will ensure that the Company continues to make further progress in complying with the UK Corporate Governance Code. The Board continues to develop with planned further appointments in 2017, which I am confident will provide the necessary leadership for the continuing success of the business.

James Lancaster
Chairman

Governance Code

This report sets out how the Company applied the principles of the UK Corporate Governance Code ('the Code') and the extent to which the Company complied with the provisions of the Code in the year.

Compliance with the Code

It is the opinion of the Board that the Company has been compliant with the provisions of the Code throughout the year with the following exceptions:

- The Code recommends that a Chairman should be independent upon appointment (Code A.3.1). In the statement made on 26 November 2015, the Board announced that once James Lancaster stepped down as Chief Executive he would be appointed to the position of Non-Executive Chairman of the Company. Following consultation with major shareholders, his appointment became effective on 1 April 2016, at which point the Company became in breach of this provision. James' appointment as Chairman will remain effective until the conclusion of the 2017 Annual General Meeting
- The Code recommends that the Board should appoint one of the Independent Non-Executive Directors to the position of Senior Independent Director (the 'SID') (Code A.4.1). During the year the Company reviewed the composition and requirements of the Board and the needs of shareholders and decided to appoint Georgina Harvey as SID on 24 May 2016. The Company was in compliance with this provision from this date
- Code B.1.2 – The Code 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. With effect from the appointment of Simon Fuller and Angus Porter as Directors and James Lancaster as Chairman on 1 April 2016 the Company became compliant with this provision of the Code
- Code C.3.1 – The Code recommends that the Board should form an Audit Committee of at least three, or in the case of smaller companies, two Independent Non-Executive Directors and that at least one member has recent relevant experience. In smaller companies the company Chairman may be a member of, but not chair, the committee if he or she was considered independent on appointment as Chairman. The Audit Committee fulfilled the requirement to have three Independent Non-Executive Directors as members on 1 April 2016 on the appointment of Angus Porter. The Company was therefore in compliance with this provision from 1 April 2016
- Code D.2.1 – The Code also recommends that the Board establish a Remuneration Committee of at least three, or in the case of smaller companies, two Independent Non-Executive Directors. The Remuneration Committee fulfilled the requirement to have three Independent Non-Executive Directors as members on 1 April 2016 on the appointment of Angus Porter. The Company was therefore in compliance with this provision from 1 April 2016

Board composition

The Directors recognise that it is important to build a Board which has the right balance of skills, knowledge and experience in order to meet the future needs and challenges of the business as it continues on its strategic journey. In recent years this journey has included the Company's public listing in 2014 and more recently a Class 1 transaction to acquire 298 stores from the Co-op. During the year the Board was further strengthened by the appointment of an additional Independent Non-Executive Director and one Executive Director. These individuals bring additional experience and depth of knowledge, which will help the Company deliver its vision to make McColl's 'your neighbourhood's favourite shop'.

Furthermore, as announced on 27 February 2017, Angus Porter will be appointed as Chairman of the Board, when James Lancaster steps down from the role at the conclusion of the 2017 Annual General Meeting. Details of individual Directors' experience and skills can be found on pages 40 and 41.

Changes during the year included:

On 1 April 2016:

- James Lancaster stepped down as Chief Executive and was appointed as Chairman until the end of the 2017 Annual General Meeting. He replaced Sharon Brown who was appointed as Interim Chairman on 2 October 2015
- Jonathan Miller was promoted from Chief Financial Officer to Chief Executive
- Simon Fuller was promoted from Deputy Chief Financial Officer to Chief Financial Officer
- Angus Porter was appointed as an Independent Non-Executive Director

On 24 May 2016 Georgina Harvey was appointed as the Company's first Senior Independent Director. Since her appointment she has led the search for the new Chairman and has sought views of major shareholders regarding the composition of the Board. Details of these activities are given in the Nomination Committee Report. In line with best practice the Board has approved specific responsibilities to be undertaken by the Senior Independent Director.

Board responsibility

The Board's principal responsibility is to promote the long-term success of the Company in line with its culture and values. In doing this, it must ensure that it delivers the right balance between short- and long-term objectives and creates sustainable shareholder value. The Board also agrees the strategic direction of the business and takes the lead in areas such as strategy, financial policy and maintaining robust systems of internal control. Each year, the Board meets to set annual objectives for the business in line with its agreed strategy. The Board has a rolling annual agenda of items that are to be considered by the Board and this agenda is continually updated to include any topical matters that arise.

In order to provide the necessary oversight of financial reporting and risk management and to protect shareholder interests in respect of executive remuneration and the future leadership of the business, the Board delegates certain functions to a number of standing committees. The level of delegation determined by the Board may be found in individual terms of reference for each Committee.

All Directors, having notified the Chairman in the first instance, are able to take independent professional advice at the Company's expense in furtherance of their duties. During 2016 no Director felt it necessary to take such advice. They also have access to the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters.

Matters reserved for the Board

In discharging its responsibility for the direction and governance of the business, the Board has adopted a schedule of matters which are reserved for its decision. These are key matters which determine the purpose, value and structure of the business including:

- Approval of the Company's strategy
- Oversight of business performance
- Major acquisitions and disposals and new business developments
- Capital structure
- Risk appetite, risk management and internal controls
- Annual budget
- Borrowings and treasury policies
- Shareholder communications
- Pensions
- Dividends
- Board appointments
- Group Policies
- Corporate Governance

This schedule was further reviewed and updated by the Board in November 2016. All other matters fall within the responsibility and decision of the Chief Executive, who has established a separate authorities framework through which he delegates certain decisions to individuals and management.

Board activity

At each Board meeting, the Chief Executive presents updates including, but not limited to, strategic progress, key projects and trading performance across the Group. The Chief Financial Officer presents a detailed analysis of the financial performance for the period, including updates against key performance indicators and institutional/shareholder feedback. The Chief Operating Officer provides an update on key operational matters. At scheduled meetings a deep dive into one aspect of the business is regularly presented by senior executives, often from a member of the Retail Board. During the year the Board has received in-depth updates on matters including food-to-go, capital allocation and wholesale distribution. This gives the Board the opportunity to review key aspects of the business in detail and increases non-executive access to the wider executive team. In addition, the Board generally holds one dedicated strategy meeting each year, where external parties such as the Company's brokers, media advisers and trade bodies may be invited to present.

Board meetings and other activities

November 2015 – November 2016

February
Reviewing the Group's Annual Report and Preliminary Statement

April
Reviewing progress against the Group's strategic objectives and cancellation of share premium account

June
Reviewing the half-year update, the acquisition of 298 Co-op stores, the Group's banking facilities and a food-to-go deep dive

August
Reviewing the shareholder circular to approve the acquisition of 298 stores from the Co-op

October
Reviewing the Group's strategy, and undertaking a capital allocation deep dive

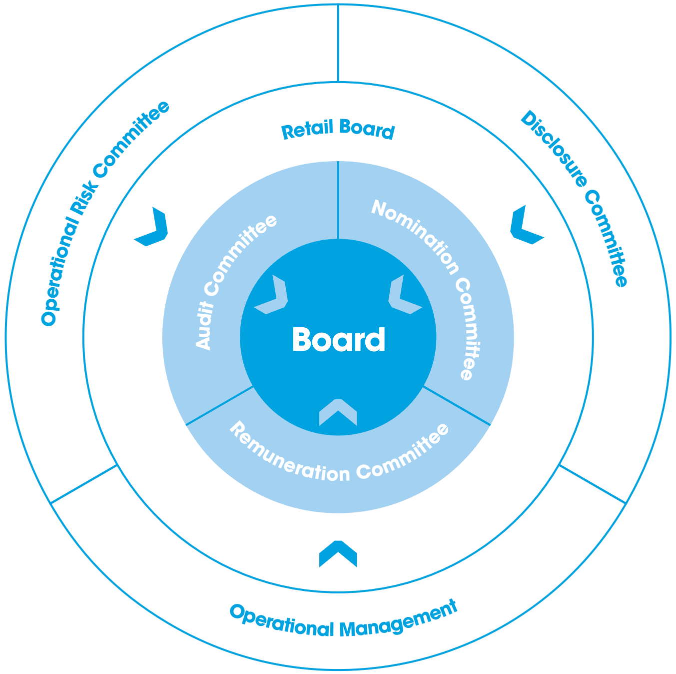
November
Approving the Group's budget, undertaking policy reviews and a distribution deep dive

	Board	Audit	Remuneration	Nomination
Max. number	10	4	4	6
Director				
James Lancaster	10/10	–	–	6/6
Jonathan Miller	10/10	–	–	3/4
Simon Fuller[1]	8/8	–	–	–
Dave Thomas	10/10	–	–	–
Georgina Harvey	10/10	4/4	4/4	5[2]/6
Sharon Brown	10/10	4/4	4/4	6/6
Angus Porter[1]	8/8	3/3	2/2	4/4

1 Angus Porter and Simon Fuller were appointed on 1 April 2016.

2 Georgina Harvey did not attend the meeting where her appointment as Senior Non-Executive Director was considered.

Governance structure



The Board and its Committees are supported by the Retail Board, which is chaired by the Chief Executive. The Chief Financial Officer and Chief Operating Officer are also members of the Retail Board together with other senior executives representing Information Technology, Human Resources, Finance, Trading, Operations and Property. The biographies of the Retail Board may be found on pages 42 and 43. The Retail Board is supported by a number of operational committees including the Operational Risk Committee, which monitors and reviews risk related to Group activities. The Operational Risk Committee membership includes both executive Board members and other members of the Retail Board, the Health and Safety Manager and Company Secretary. Where appropriate this Committee will implement new guidance or policies across the Group and where necessary escalate matters to the Retail Board or Audit Committee for further consideration.

Board Committees

The Board has established the following three sub-committees: Audit, Nomination and Remuneration. A report from each Committee is set out on pages 58 to 81 of this Report. The Chair of each Committee reports to the Board after each Committee meeting on the matters discussed and minutes of each meeting are available to the Board for information, except where it would be inappropriate to do so. The terms of reference of the Committees are available at www.mccolls.co.uk/investor. The Company Secretary serves as Secretary to these Committees.

The Board and its Committees meet at scheduled intervals during the year and otherwise as required. The Directors' attendance at Board and relevant Committee meetings during the period is shown on page 54. In addition, the Directors have an ongoing dialogue between Board meetings to ensure all Directors are kept up-to-date. The Executive Directors are invited and generally attend all Audit and Remuneration Committees, except where it is inappropriate to do so.

During the year, five additional Board meetings were principally called to consider the Class 1 acquisition of 298 convenience stores from the Co-op. In addition to the Annual General Meeting held on 19 April 2016, a general meeting was held on 19 September 2016 for the purpose of approving the acquisition of the above-mentioned Co-op stores. The Company also held two strategy meetings during the year in January and October. All Directors attended both strategy meetings.

Division of responsibilities

Role of the Chairman and Chief Executive

The Board is responsible overall to shareholders for the creation and delivery of sustainable performance and long-term shareholder value. There is a clear division of responsibility between the Chairman of the Board and the Chief Executive. The Chairman is responsible for setting the Board agenda and leading the Board's discussions and decision-making. In addition, the Chairman actively promotes a culture of openness and debate by facilitating the effective contribution of the Independent Non-Executive Directors.

The Chief Executive has the responsibility for delivering the Group's strategy 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 other members of the Retail Board and executive management.

This separation of responsibilities between the Chairman and the Chief Executive, coupled with the schedule of matters reserved for the Board, ensures that no individual has unfettered powers of decision-making.

Role of the Non-Executive Directors

The Chairman and Independent Non-Executive Directors have a broad range of skills and experience which they bring to bear in formulating the Company's strategy and in providing constructive challenge and support to the Executive Directors. Each Director brings a complementary set of skills and diversity to the Board, having served in companies of varying size, complexity and market sector. When combined, these skills provide your Board with the necessary skills required to deliver the Group's strategic objectives and long-term success. More details can be found in the Directors' Biographies on pages 40 and 41. The Board considers that Georgina Harvey, Sharon Brown and Angus Porter are independent in accordance with the recommendations of the Code. The Non-Executive Directors have letters of appointment setting out their duties and the level of commitment expected. The Independent Non-Executive Directors were appointed for an initial three-year term with typical tenure expected to be two, three year, terms but they may be invited by the Board to serve an additional third term, subject to re-election by shareholders. The Non-Executive Directors and Chairman are expected to commit approximately 15-20 and 20-25 days per annum respectively to their roles.

Directors' induction and professional development

The Company has a structured induction programme for new Directors, which is designed to enable them to familiarise themselves with the Group's operations, financial affairs and strategic position. This programme ensures that they attain sufficient knowledge of the Company to discharge their responsibilities effectively. The programme includes meeting with each Retail Board member, functional heads and advisers. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics, including updates on financial, corporate governance and regulatory matters. All Directors are also given the opportunity to visit the Group's stores and discuss aspects of the business with employees as well as attending internal briefings. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring the Board procedures are complied with.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of the Company, unless that conflict is first authorised by the Directors. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles allow the Board to authorise such potential conflicts and there are processes in place for any potential conflicts of interest to be disclosed and for Directors to avoid participation in any decisions where they may have any such conflict or potential conflict. Non-Executive Directors are required to inform the Board of any subsequent changes to their commitments, which if material must be pre-cleared with the Chairman. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Company, they are required to notify the Board. The Board deals with each actual or potential conflict on its merits and takes into consideration all the relevant circumstances. The Nomination Committee annually reviews any conflicts authorised by the Board and considers other significant commitments or external interests of potential appointees as part of the selection process and discloses them to the Board when recommending an appointment.

Board evaluation

The effectiveness and performance of the Board is vital to the Company's continuing success. An externally facilitated performance evaluation of the Board and its Committees was commenced during the year and completed in early 2017. This evaluation was facilitated by Deloitte, independent of any audit service. A structured approach was adopted to provide Directors with an opportunity to consider and express their views about:

- Strategic priorities
- Performance
- Reporting
- Ways of working
- Committee performance

The results of the evaluation were considered by the Board and its Committees immediately prior to the publication of this report. The Board plans to consider fully any findings and recommendations with the new Chairman who will be appointed on 27 April 2017 at the conclusion of the Company's Annual General Meeting. Any recommendations will be implemented during 2017.

The evaluation concluded that the Board and its Committees have performed effectively during the year.

Effectiveness of internal controls and risk management

The Board has overall responsibility for establishing and maintaining the Group's system of risk management and internal controls to safeguard shareholders' investments and the Group's assets, and for reviewing the effectiveness of this system. Such a system is 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. An ongoing process has been established for identifying, evaluating and managing risks faced by the Group, which enables the Board to make a robust assessment of the principal risks facing the business. This process, which complies with the requirements of the Code, has been in place for the full financial year and up to the date the financial statements were approved, and accords with the guidance issued by the Financial Reporting Council in September 2014 on 'Risk Management, Internal Control and Related Financial and Business Reporting'.

The Board also recognises that effective risk management is essential to the long-term success of the business and through the Audit Committee, considered the key risks facing the Group in delivering its strategy. The likelihood and severity of each key risk was assessed, taking into account market conditions and any appropriate mitigation. The Audit Committee also reviewed the Group's internal Risk Management Framework to ensure that an appropriate governance structure is embedded at all levels within the business.

The Operational Risk Committee has established a risk register which is reviewed routinely by the Retail Board and Audit Committee.

The risk register enables the Retail Board to identify, evaluate and manage risks faced by the Group on an ongoing basis, both at an operational and strategic level. Appropriate action is taken to manage and mitigate risks identified and is reported to the Board via the Audit Committee and the Chief Financial Officer. 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 approach to risk management as well as key risks, and how they are mitigated, are described on pages 34 to 37.

Financial and business reporting process

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, strategy and business model of the Company. In addition to the Annual Report the Company also ensures that other financial reports and information is published externally. The Group has a thorough assurance process in place in respect of the preparation, verification and approval of periodic financial reports, including:

- The involvement of qualified, professional employees with an appropriate level of experience (both in Group finance and throughout the business)
- Where appropriate, formal sign-offs from the Disclosure Committee and appropriate business segment Senior Executives
- Comprehensive review and, where appropriate, challenge from appropriate Senior Executives and Executive Directors
- A transparent process to ensure full disclosure of information to the external auditors
- Oversight by the Audit Committee, involving (amongst other duties):
  - A detailed review of key financial reporting judgements which have been discussed by management
  - Review and, where appropriate, challenge on matters, including:
    - The consistency of, and any changes to, significant accounting policies and practices during the year
    - Significant adjustments resulting from an external audit
    - The viability statement assumptions
    - The going concern assumption
- The above process, and the review by the Audit Committee of a comprehensive note that sets out the details of the preparation, verification and approval for the Annual Report and Accounts, provides comfort to the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Anti-fraud, bribery and corruption

The Company aims to promote honest and ethical conduct. To support this, it has in place an anti-bribery policy, which was reviewed and updated in 2016 and applies to all employees.

The Policy prohibits bribery in any form whether direct or indirect through third parties. It prohibits offering, promising, giving, accepting, agreeing to accept or soliciting of an advantage as an inducement which is illegal or a breach of trust.

Whistle-blowing

Details of the Company's whistle-blowing policy can be found on page 64 of the Audit Committee Report.

Relations with shareholders

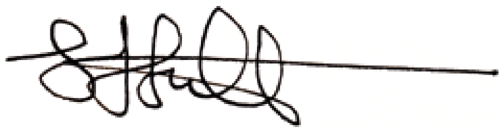
Responsibility for shareholder relations rests with the Chairman and Chief Executive. They ensure that there is effective communication with shareholders on matters such as governance and strategy, and are responsible for ensuring that the Board understands the views of major shareholders. The Board aims to present a balanced and clear view of the Group's performance in its communications with shareholders and believes that being transparent in describing how we see the market and the prospects for the business to be extremely important.

The Board communicates with shareholders in a number of different ways. The formal reporting of our full- and half-year results together with the related presentations, is accompanied by one-to-one meetings with institutional investors. Regular meetings are held with existing and prospective shareholders to provide updates on the Company's latest performance or to introduce them to the Company and, where appropriate, arrange a visit to the business to give analysts and major shareholders a better understanding of the business. These visits and meetings are principally undertaken by the Chief Executive, Chief Financial Officer and Chief Operating Officer, with any relevant material being uploaded to the corporate website, so being available to all shareholders.

The Board receives regular updates on the views of its shareholders through regular reporting from the Company's brokers, which is an agenda item for all routine Board meetings. In addition, the Senior Non-Executive Director and other Independent Non-Executives are available to meet shareholders if they wish to raise issues separately from the arrangements as described above.

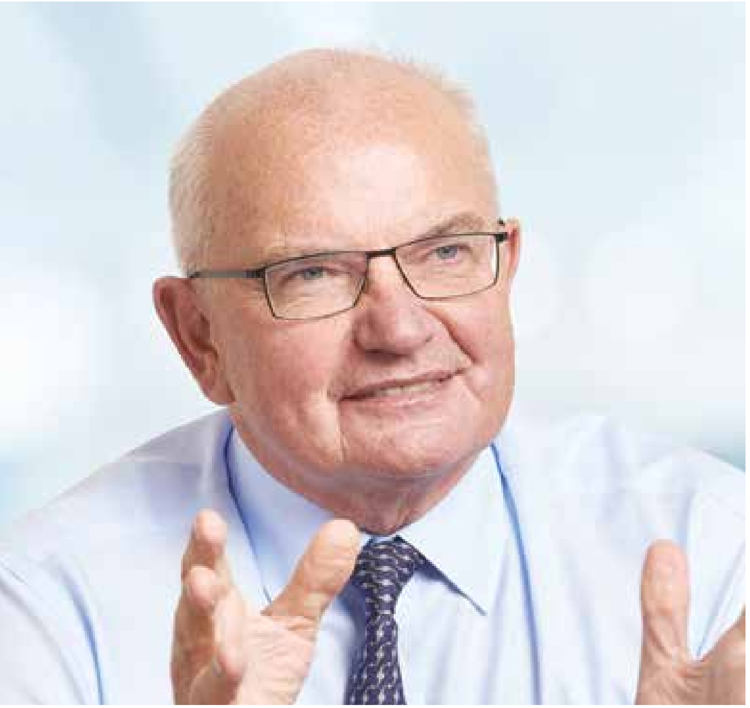
The Group's website (www.mccolls.co.uk/investor) contains all the latest announcements, press releases and published financial information including the Annual Report. The Notice of the Annual General Meeting will be distributed to shareholders at least 20 working days before the meeting and is also available from the website. The Company will propose all resolutions on a poll, as this allows for the vote of shareholders not present in person or by proxy to be counted and therefore provides more accurate representation of shareholders' votes.

Approved by the Board and signed on its behalf:



Simon Fuller
Chief Financial Officer

Nomination Committee Report



I am pleased to be able to take this opportunity as Chairman of the Nomination Committee to summarise the important ongoing objectives and responsibilities of the Committee and the work that has been carried out during 2016.

The Committee's achievements during 2016 are set out below. Key priorities during the year were to focus on ensuring that the present and future composition of the Board and the Group's executive management team is appropriate for the delivery of the Group's strategy and that high standards of governance are met.

Composition of the Committee

The members of the Committee during the financial year were:

Committee Chairman

James Lancaster (succeeded Sharon Brown as Committee Chairman on 1 April 2016)

Committee members

Sharon Brown (Independent Non-Executive Director);

Georgina Harvey (Senior Independent Director);

Angus Porter (Independent Non-Executive Director) appointed on 1 April 2016; and

Jonathan Miller (Chief Executive) appointed on 1 April 2016.

There have been no further changes in the membership of the Committee since 27 November 2016.

Under the Committee's terms of reference the Committee will normally meet not less than twice a year when appropriate. Due to the number of Board appointments being considered during the year, a total of six Committee meetings were held. These additional meetings were held to ensure the correct level of scrutiny and robustness was applied when considering new appointments or internal promotions. After each Committee meeting, the Chairman reports to the Board on the main items discussed.

The role and duties of the Nomination Committee
The Committee's key objective is to support the Board in fulfilling its responsibilities to ensure that there is a formal, rigorous and transparent process for the appointment of new Directors to the Board. This includes the evaluation of the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and its Committees. To ensure that effective succession planning processes are in place and to assist with the selection process of new Executive and Non-Executive Directors including the Chairman. The Committee ensures that there is clarity in respect of the role description and capabilities required for such appointments. The Committee is also responsible for reviewing, at least annually, or more frequently if required, the Directors' potential conflicts of interest and for making recommendations to the Board in respect of authorising such matters, and the re-election of Directors at the Company's AGM.

The Committee's terms of reference explains the Committee's role and responsibilities, and can be found on the Company's website at www.mccolls.co.uk/investor.

// The Committee's key objective is to support the Board in fulfilling its responsibilities. //

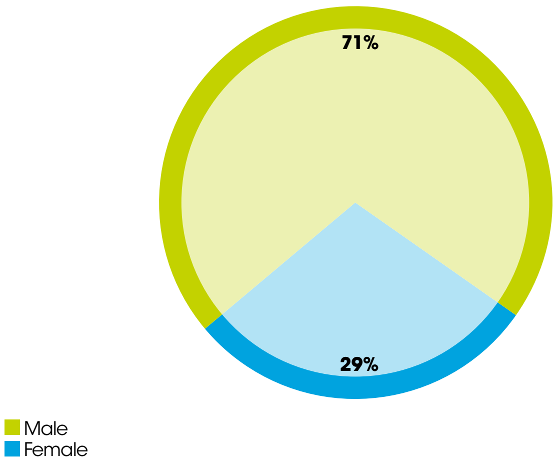
Main activities during 2016
During the year, the Committee discharged its responsibilities as detailed within its terms of reference and in particular considered:

1. the Nomination Committee's report to shareholders;
2. the independence of Directors. This review found that Georgina Harvey, Sharon Brown and Angus Porter were all independent in their judgement;
3. the nomination of the Directors for election at the Company's AGM. Consideration was given to the skills, experience and value each Director contributed to the business. Accordingly, all Directors were recommended to the Board for re-election by the shareholders;
4. Board succession planning. Consideration was given to a number of changes to the Board during the year, principally:
   a. Chairman – As previously reported, James Lancaster stepped down as Chief Executive and was appointed Chairman to replace Sharon Brown, the Interim Chairman, on 1 April 2016. The Committee recently completed the process for the selection of a new Chairman to replace James Lancaster when he retires as Chairman at the end of the 2017 AGM. As a result Angus Porter will succeed James Lancaster as Chairman at the conclusion of the 2017 AGM;
   b. Chief Executive – the recruitment of a new Chief Executive, following James Lancaster's notification to step down in 2015. This recruitment followed a review of internal, and external candidates using an external search agency, the Miles Partnership. This search resulted in the promotion of Jonathan Miller from Chief Financial Officer to Chief Executive on 1 April 2016;
   c. Chief Financial Officer – Simon Fuller, the Group's Deputy Chief Financial Officer, was appointed Chief Finance Officer on 1 April 2016 on the appointment of Jonathan Miller as Chief Executive;
   d. Independent Non-Executive Directors – the recruitment of one additional Independent Non-Executive Director. The appointment of Angus Porter as Independent Non-Executive Director on 1 April 2016 followed a review of candidates using an external search agency, the Inzito Partnership. A search for an additional Independent Non-Executive Director has been commenced to further strengthen the Board. Further details will be announced once the search has concluded.
   e. Senior Independent Director – Following an internal review and recommendation by the Committee, the Board appointed Georgina Harvey as Senior Independent Director on 24 May 2016.

As part of the above selection and appointment processes, the Committee debated the skills and experience required to fulfil the required roles and the additional areas of knowledge or experience which would be advantageous to the business in delivering its strategy. In addition, the Committee considered;

1. the time spent by the Independent Directors in fulfilling their responsibilities. It was recognised that due to the number of Board changes and the Class 1 transaction regarding the acquisition of 298 stores from the Co-op, the demands on Non-Executive Directors' time had been unusually high but had been justified. The Committee concluded that the proposed time commitment of 15-20 days identified in the Independent Non-Executive Directors' service agreements remained appropriate;
2. the Directors' potential conflicts of interest as approved by the Board. During the year no new conflicts were approved by the Board; and
3. the Committee's terms of reference. These were reviewed, and updated terms of reference were adopted.

Board diversity



Committee evaluation

The Board takes its performance seriously and as such undertakes an annual evaluation of the Board and each of its Committees. As the Board has undergone a number of changes during the year, the Committee carried out an externally facilitated evaluation of the Board at the end of 2016. The evaluation involved Directors being asked to give their opinions on key areas such as strategy, key priorities, ways of working, performance reporting, and its Committees. The evaluation was externally facilitated with the support of Deloitte and involved a tailored online questionnaire. The results of the evaluation were considered by the Committee immediately prior to the publication of this report. The Committee plans to report its findings to the Board and consider any recommendation with the new Chairman who is due to be elected on 27 April 2017 at the conclusion of the Company's Annual General Meeting. The findings of the evaluation will be fully considered and any recommendations will be implemented during 2017.

Evaluation of skills, knowledge, experience and diversity

During the year the Committee considered the appointment of two Executive Directors, the Chairman, the Senior Independent Director and two Independent Non-Executive Directors. As part of the selection processes used to evaluate candidates it was first necessary to consider the Board's existing skills, knowledge, experience and diversity to determine the ideal characteristics being sought for the role.

Board diversity

The Committee supports diversity, accepting the advantages that comes from having diverse viewpoints and the influence in decision-making. It is the aim of the Committee to always consider the benefits that arise from a diverse Board when making Board appointments. The Committee does not judge it appropriate to introduce a quota system to enhance diversity in all of its forms to the Board. The Company's recruitment and appointment strategy is based on the merits of the candidates and their ability to meet the requirements of the role.

Currently two out of seven Board Directors (29%) are female. Diversity, including gender diversity, is practised throughout the business and the Committee continues to follow a policy of appointing talented people at every level to enhance the business's performance. This will enable the business to achieve the Group's own strategic objectives.

Approved by the Nomination Committee and signed on its behalf:

James Lancaster
Chairman and Nomination Committee Chairman

Audit Committee Report

On behalf of the Audit Committee, I am pleased to present this report for the year ended 27 November 2016. The report describes how the Committee has carried out its responsibilities during the year.

The Committee's focus has, as in previous years, continued to centre on the integrity of the Company's financial reporting, together with related internal control activities and risk management practices. These activities have been particularly important in a year where the Group has undertaken a major acquisition to acquire 298 stores from the Co-op. The Committee has also considered new developments in corporate governance and reporting, and, in light of its review of such matters, was able to offer advice and guidance on such issues.

During the year we welcomed Angus Porter onto the Committee. This means we now have three Independent Non-Executive Directors as members, in line with the Corporate Governance Code. I would like to thank the Committee members, the McColl's Executive and finance teams and Deloitte for their support in carrying out the Audit Committee responsibilities during the year.

Sharon Brown

Sharon Brown
Audit Committee Chairman

Committee composition and meetings

The members of the Committee during the year were: Sharon Brown (Chairman), Georgina Harvey and Angus Porter (from 1 April 2016).

All members of the Committee are considered independent by the Board. The Committee considers that collectively the members have appropriate recent and relevant financial experience to fully discharge their responsibilities, with Sharon Brown being a member of the Chartered Institute of Management Accountants, a previous Finance Director and the Chairman of Audit Committees of a number of companies. Angus Porter (Independent Non-Executive Director) was appointed to the Committee on being appointed to the Board on 1 April 2016. During the year the Committee met on four occasions, at the appropriate times in the financial reporting and audit cycle. After each Committee meeting, the Chairman reports to the Board on the main items discussed, including any items requiring escalation to the Board. The Committee Chairman periodically meets privately with the external audit partner to provide them with an opportunity to discuss any issues without management present.

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

The Chairman works closely with the Chief Financial Officer and Company Secretary to ensure the Committee is provided with the necessary information it requires to discharge its duties. The Committee operates with a rolling agenda programme, taking into account its terms of reference, the Group's annual reporting requirements and any other matters which arise on an ad hoc basis. The Committee sets aside appropriate time for the review of financial reporting and the risk assurance process to ensure they both receive robust consideration and challenge.

The Executive Directors, other senior managers and the audit partner from the external auditor attend Committee meetings by invitation. The performance of the Committee was evaluated as part of the Board evaluation process detailed on page 56.

Role and responsibilities of the Audit Committee

The Board has delegated to the Committee responsibility for overseeing the financial reporting, risks and internal controls, reviewing the scope of the annual audit and non-audit work undertaken by external auditors, and for making recommendations to the Board in relation to the appointment of the Company's external auditors. The Committee's terms of reference explains the Committee's role and responsibilities and can be found on the Company website at www.mccolls.co.uk/investor.

The principal activities carried out during the year were:

1. Financial reporting – the Committee reviewed and assessed the Company's financial reports to ensure they were fair, balanced and understandable. The Committee also considered the implications of new accounting standards, regulatory changes, significant accounting judgements and the appropriateness of the accounting policies adopted.
2. Risks – the Committee evaluated the key risks facing the Company together with the risk management framework and the adequacy and effectiveness of mitigating internal controls. The Committee concluded that an internal audit function was not required at this stage to maintain effective internal controls. However, this will be kept under review on a routine basis. Further information on the Company's risk management framework can be found on page 34.
3. Internal Controls – the Committee also assessed whether an internal audit function was necessary. In considering the need for such a function the Committee considered the 'Report on the Financial Position and Prospects Procedures' prepared by KPMG as part of the Company's share placing in July 2016. The internal control framework is communicated by line management and is supported by internal training and provision of manuals. Routine internal control activities are performed by members of the finance team. The Company's Retail Support Centre includes a team of stock compliance auditors, who conduct annual store visits 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 this would be kept under review.
4. External audits – the Committee evaluated the scope of the external audit plan and the subsequent outcome of this work. The Committee considered the performance, independence (in particular when considering provision of additional services by the auditor), fees and suitability of re-election of Deloitte LLP as auditor.

Main activities

February
- Reviewed the Group's Annual Report and Preliminary announcement for the period ended 29 November 2015 and going concern and viability statements
- Assessed compliance with the UK Corporate Governance Code
- Recommended a potential final dividend
- Reviewed the management representation letter
- Considered the external audit internal control and risk management findings
- Reviewed the reappointment, independence and remuneration of the external auditor

July
- Reviewed the Company's half-year report, including interim dividend and going concern statement
- Reviewed the risk register
- Reviewed the following Company policies:
  - Related Party Transactions
  - Policy on the Supply of non-audit services by the external auditor.

October
- Considered the Group's:
  - Risk Register
  - Risk Heat Map
  - Risk Management Framework

November
- Reviewed the Company's internal annual report planning document
- Reviewed the auditor's planning report including areas of significant risk
- Reviewed the auditor's engagement letter and proposed audit fees
- Reviewed/considered audit-related guidance
- Reviewed the Group's:
  - Accounting policies, particularly the first time adoption of FRS 101
  - Policy on employment of former employees of the external auditor
- Reviewed internal financial controls, internal control and risk management systems
- Considered the need for internal audit function
- Reviewed the Group's policies on, and compliance with, whistle-blowing and, anti-bribery and corruption best practice
- Reviewed the financial personnel resources and succession planning
- Reviewed the Committee's constitution and terms of reference
- Reviewed Committee meetings planned for 2017

Non-audit services

The Committee regards the continued independence of the external auditor to be of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard
- the auditors are not considered to be expert providers of the non-audit services
- the provision of such services by the auditor creates a conflict of interest for either the Board
- the services are considered to be likely to inhibit the auditor independence or objectivity as auditors

The revised policy includes a list of services that the auditor is specifically prohibited from providing, including valuation, legal, HR, bookkeeping and tax services.

In July 2016 the Committee adopted a revised policy whereby the costs of all non-audit services will ordinarily be limited to 70% of statutory audit services. However, this ratio may be exceeded where the Committee is satisfied on the question of independence and in its judgement believes that the auditor is best placed to undertake a particular piece of non-audit work. The revised policy provides the Chief Financial Officer and Committee Chairman the ability to approve the performance of non-audit services by the auditor up to an aggregate of £25k and £250k per annum respectively. Any services exceeding the cap of £250k will require prior approval of the Audit Committee.

For the current year the other non-audit services amounted to £354k, which included £290k relating to one-off debt refinancing services regarding the acquisition of 298 Co-op stores. The debt refinancing work was put out to tender and the Audit Committee is satisfied that it was appropriate for Deloitte LLP to be appointed and that, given it was performed by a functionally separate team, it did not impair their independence or objectivity.

During the financial year 2016 the Company paid the external auditors non-audit advisory fees of £354k, as against the audit fee of £214k.

Auditor assessment, independence and appointment

The Committee reviews the reappointment of the auditor every year, and has considered the effectiveness and independence of Deloitte LLP as the Company's auditors. The Committee believes that the reappointment of Deloitte as auditors for a further year is appropriate and in compliance with Corporate Governance guidelines and as such recommended their reappointment to the Board. The Committee has reviewed and agreed terms of engagement, fees and areas of responsibility in respect of the year-end 2016. Details of the amounts paid to the auditor can be found in note 6 to the accounts. For further details regarding the reappointment of auditors see the Directors' Report on page 49.

Reappointment of auditors

The Board confirms that Deloitte LLP was originally appointed to the Group in 2006 (when the Group was a private limited company). In line with best practice the Company will tender the external audit prior to its AGM in 2024. The audit partner has been rotated within the last five years with the appointment of Sukie Kooner in 2014. The auditors Deloitte LLP have indicated their willingness to continue as the Company's auditors and accordingly, a resolution to reappoint Deloitte LLP as auditors of the Company and the Group will be proposed at the 2017 AGM.

Significant accounting judgements and uncertainties considered by the Committee during the year
The Committee reviewed regular reports and updates from management regarding the operation of the business. These updates allow the Committee to challenge management's assumptions and calculations in making their decisions/recommendations. Summarised below are the most significant issues considered by the Committee in respect of these financial statements and how these issues were addressed.

Supplier income:
The Company operates its own internal peer review process, utilising people from across the finance team to check income assumptions and accounting. The findings are discussed with the Company's external auditors. In addition, the external auditors reported on their testing of the income and the appropriateness of the assumptions made and concluded that they were satisfied that supplier income had been appropriately recognised in the year. The Committee concurred with management's assessment and judgements in establishing the level of income for the year.

Goodwill impairment:
The Company prepared review papers covering both goodwill impairment and property provisions, which were discussed with the Company's external auditors. The Committee received a report from the external auditors of their testing of the assumptions and calculations. The Committee considered the calculation process and the reasonableness of the assumptions made, and concluded that the cash flows supported the level of goodwill reflected in the financial statements.

Property provisions:
The Committee assessed the reasonableness of the property provisions in respect of closed branches, onerous leases and future dilapidations expenses. The external auditor reported that there were no issues as a result of their testing on property provisions. The Committee agreed with the judgements made in establishing the level of property provisions required.

Major acquisitions:
The Committee considered the appropriateness of the classification of the costs incurred in relation to the acquisition of the 298 convenience stores from the Co-op, and the associated costs relating to the financing for this acquisition. The Committee has also recognised the failure to successfully integrate these stores could impact on the Group's profitability, reputation and funding arrangements. As such, an additional new risk 'Acquisitions' has been added to the Group's key risk register. Further details can be found on page 36.

Whistle-blowing procedures
In line with best practice and to ensure that the Company operates within the highest ethical standards, a whistle-blowing facility has been in operation throughout the year. The Group provides the means for colleagues to make confidential phone calls to an external independent provider should they wish to raise concerns about business practices anonymously. This service may be used, for example, to report malpractice or misconduct of colleagues as part of the Group's anti-bribery controls. The whistle-blowing policy is included in the Group's Code of Conduct. The Committee considers the whistle-blowing policy and procedures to be appropriate for the size and scale of the Group.

Summary
The Committee has advised the Board that the Annual Report including the review of the going concern and viability statements, when taken as a whole are fair, balanced and understandable. The Committee is also satisfied that appropriate corporate governance continues to be applied to the Company's systems of internal control, risk management and other compliance areas.

Approved by the Audit Committee and signed on its behalf:

Sharon Brown

Sharon Brown
Audit Committee Chairman

LED lighting

This year we completed the roll-out of LED lighting across our estate. The new lighting has given the stores a fresher feel, but more importantly it will significantly reduce our carbon footprint and deliver material lighting cost savings. Striving to be simple and efficient in everything we do is one of our values and our LED lighting roll-out is just one example of this in action.

Lighting accounts for almost a quarter of the total energy consumed in our stores. Replacing traditional lighting with LED bulbs will save 3,500kg of CO_2 and deliver a lighting cost saving of around 35%.

Highlight:

c.35%

LED lighting will generate a cost saving of around 35%.

Simple and consistent

Remuneration Report

I am pleased to present the Directors' Remuneration Report for the financial period ended 27 November 2016.

This report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2013, as amended and the principles of the UK Corporate Governance Code.

In 2016 we continued to perform well with revenue up by 1.9% to £950.4m, our sixth consecutive year of growth. Our focus on neighbourhood convenience continued to gain momentum as we achieved our target of 1,000 convenience stores and announced that we would acquire a further 298 stores from the Co-op. This acquisition will materially increase both our neighbourhood presence and earnings as a business. As well as increasing our number of convenience stores, we also expanded the range of products and services our stores offer.

Following a good performance in 2016, we will make an annual bonus payment close to target for the period under review.

During the year a number of Board changes have been implemented to ensure continued growth within the business. Sharon Brown, who assumed the role of Interim Chairman on 2 October 2015, stepped down from her position to allow James Lancaster to take over as Chairman. At the same time Jonathan Miller and Simon Fuller were appointed to the vacant roles of Chief Executive and Chief Financial Officer, respectively. The Board also appointed Angus Porter as the Company's third Independent Non-Executive Director, and I was also appointed as Senior Independent Director.

During 2016, the Committee implemented the remuneration policy approved by shareholders at the Company's Annual General Meeting on 17 April 2015. Following the Board changes in April 2016 the Executive Directors received an average salary increase of 3.1% in January 2017, which was below the average increases made across the wider employee population to reflect statutory increases to the National Minimum Wage, and the introduction of the National Living Wage.

The Committee continues to set stretching annual operating profit targets and strategic objectives linked to the priorities of the business which include onboarding the 298 Co-op stores and delivering the first year of the strategic plan for 2017. 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. No element of the bonus will be awarded unless at least threshold operating profit is achieved. During 2017 we will make a third grant under the LTIP, which was introduced and approved by shareholders at the time of the Company's IPO. The LTIP will continue to vest based 70% on EPS and 30% on TSR measured relative to the combined constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drug Retailers Index. The Committee continues to believe that this combination of measures will help reinforce delivery of the Company's growth plans. For the EPS element of the 2017 LTIP awards, 25% will vest for three-year cumulative EPS of 60.4 pence and will vest in full for EPS of 68.6 pence. These targets have been increased compared to 2016 to reflect the acquisition of 298 convenience stores from the Co-op. The Committee considers that this will provide Executives with an appropriately challenging and meaningful incentive to drive performance which, at the same time, delivers a level of financial performance which supports internal and external expectations. The LTIP has a three-year performance period plus an additional two-year holding period for any shares that vest.

James Lancaster received no payments in relation to his transition from Chief Executive to Non-Executive Chairman. However, he will receive bonus and LTIP benefits on a pro-rata basis for the period whilst Chief Executive.

The Committee has presented the Remuneration Report in line with 2013 regulations governing the disclosure and approval of Directors' remuneration. At our Annual General Meeting, which will be held on 27 April 2017, the second section of this report, the annual report on remuneration, which details the implementation of our policy, will be subject to an advisory vote. The first section, the policy report, is unchanged (other than minor changes to improve clarity) and is not due to be submitted for a vote having already been approved by shareholders at the 17 April 2015 Annual General Meeting.

Finally, I would like to thank my colleagues on the Committee for their support during 2016 and to all employees for their hard work. I would also like to thank shareholders for their support at the 2016 Annual General Meeting on the resolution to approve the Annual Report on Remuneration.

Georgina Harvey
Remuneration Committee Chairman

"The achievement of strategic objectives and profit remain key measures in our annual bonus plan."

Remuneration at a glance

The following is a summary of the key components of Executive Directors' remuneration and their single figure total remuneration.

Key components of Directors' remuneration

Fixed pay

Base salary
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.

Pension
Provide post-retirement benefits for participants in a cost-efficient manner.

Benefits
To provide competitive benefits for each role.

Variable pay

Annual bonus
Aims to focus executives on achieving stretching profit targets and delivering the strategic business priorities for the financial period.

Long-term incentive plan (LTIP)
Aligns the interests of executives with shareholders in growing the value of the business over the long term.

Other arrangements

Shareholding guidelines
To align Executive Directors' interests with the long-term interests of shareholders, they are required to build up and 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 guidance has been met.

Non-Executive Directors' fees
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.

Single figure for total remuneration of Executive Directors

	Salary		Pension Benefit		Taxable Benefit		Single-year Variable		Multiple-year Variable		Total	
£'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Jonathan Miller[1]	**397**	321	**102**	99	**53**	45	**146**	–	**–**	–	**698**	465
Dave Thomas	**276**	276	**41**	41	**24**	23	**100**	–	**–**	–	**441**	340
Simon Fuller[2]	**176**	–	**26**	–	**11**	–	**120**	–	**–**	–	**333**	–
James Lancaster[3]	**198**	594	**62**	188	**20**	58	**59**	–	**–**	–	**339**	840

1 Jonathan Miller was promoted from Chief Financial Officer to Chief Executive on 1 April 2016.
2 Simon Fuller was appointed Chief Financial Officer on 1 April 2016.
3 James Lancaster stepped down as Chief Executive and became Non-Executive Chairman on 1 April 2016.
These figures are described in more detail on page 76.

Directors' remuneration policy

This section describes the Group's remuneration policy for Directors which was approved at the AGM on 17 April 2015 and applies for up to three years from that date.

The policy for Executive Director remuneration is 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 comprises 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 is 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.

Policy table

The key components of Executive Directors' remuneration are as follows:

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fixed pay **Base salary** 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.	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. Any increases are generally effective from 1 January.	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.	Individual and Group performance is taken into account when determining appropriate salaries.
Fixed pay **Pension** To provide post retirement benefits for participants in a cost-efficient manner.	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.	Pension contributions vary based on individual circumstances. Pension benefits will be capped at 20% of salary, excluding legacy arrangements for the current Chief Executive. Further details are set out on page 79.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fixed pay			
Benefits			
To provide competitive benefits for each role.	Benefits currently include the provision of car or car allowance, fuel, private medical insurance and life assurance. Reasonable relocation, travel and subsistence allowances and other benefits may be provided based on individual circumstances.	The maximum value of benefits is set at a level that is comparable to market practice. The Committee retains the discretion to amend benefits in exceptional circumstances or in circumstances where factors outside of the Group's control have materially changed (e.g. increases in insurance premiums).	None.
Variable pay			
Annual bonus			
To focus Executives on achieving stretching profit targets and delivering the strategic business priorities for the financial period.	Performance measures and targets are set prior to, or shortly after, the start of the financial period. At the end of the financial period, the Remuneration Committee will determine the extent to which the targets have been achieved. Awards are delivered in cash. The Committee has discretion to reduce the bonus in the event of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back annual bonus payments previously made.	The maximum bonus opportunity for Executive Directors will be up to 100% of salary. For the 2017 financial period the maximum bonus opportunity will be set at 100% of salary. Up to 10% and 40% of maximum will vest for threshold and target performance respectively. 80% of the award for 2017 will be based on achievement of Group operating profit, of which none will vest below threshold. 20% of the award for 2017 will be based on achievement of strategic performance measures, of which none will vest until the operating profit threshold is achieved.	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. Details on the measures used during the period under review are set out on pages 77 and 78. 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.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-term incentive plan (LTIP) Aligns the interests of Executives with shareholders in growing the value of the business over the long term.	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. The Committee has discretion to reduce any unvested long-term incentive awards (including those in a holding period), or to vary the opportunities for future awards, in case of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back vested long-term incentive awards. Participants are eligible to receive cash or shares equal to the value of dividends that would have been paid over the vesting period on shares that vest.	Awards may be made up to a maximum of 150% of salary in normal circumstances and up to 250% in exceptional circumstances. For the 2017 financial period Executive Directors' awards will be up to 100% of salary. The award size is reviewed in advance of grant.	Awards will vest on achievement of financial performance measures, measured over a three-year performance period, to include both EPS and TSR. EPS will receive a weighting in the LTIP of at least 50%. For the 2017 financial period the weightings on EPS and TSR will be 70% and 30% respectively. TSR will be measured on a relative basis against a relevant peer group. Other measures may be considered in future years to help capture the strategic goals of the business and may be used in conjunction with these metrics. Nothing will vest below threshold. 25% of each element will vest for achievement of threshold performance under each metric, then increase on a straight-line basis to full vesting for achieving stretch performance. The Committee has discretion to adjust the formulaic LTIP award downwards (or upwards with shareholder consultation), within the limits of the plan, to ensure alignment of pay with the underlying performance of the business. Further details of awards to be made during the upcoming financial period are set out on pages 78 and 79.
Other arrangements			
Shareholding guidelines To align Directors' interests with the long-term interests of shareholders.	Executive Directors are required to build up and 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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Other arrangements			
Non-Executive Directors' fees 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 and the Senior Independent Director. Non-Executive Directors do not participate in any incentive schemes, nor do they receive any pension or benefits (other than reasonable expenses incurred in the proper performance of their duties).	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 79.	n/a

This policy is unchanged in substance since approval at the AGM on 17 April 2015, other than minor text changes to ensure this policy remains clear for the reader.

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.

Threshold and stretch performance levels under the EPS element of the LTIP will be set at the start of the three-year performance period. The Remuneration Committee aims to set stretching but achievable targets, taking account of a range of reference points, including broker forecasts and the Group's strategic plan. Performance targets for 2017 awards are detailed on page 78. 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 invited to enrol into a pension scheme. Store managers participate in a bonus scheme that targets specific key performance indicators for their store.

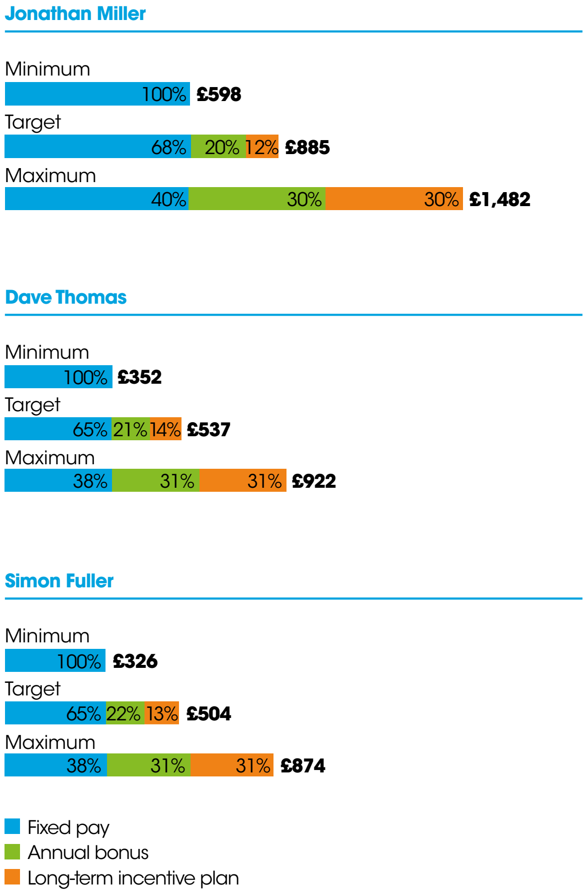
Other

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

Performance scenarios

The 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'.

Executive Director remuneration for 2017 (£'000s)



The potential reward opportunities illustrated are based on the policy approved at the Annual General Meeting on 17 April 2015, applied to the base salaries in force at 1 January 2017. 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. Salary supplements in lieu of pension contributions of 23.2% of salary for Jonathan Miller and a pension contribution of 15% of salary for the Chief Operating Officer and Chief Financial Officer. Benefits as for the most recent financial period.	No annual bonus payable.	Threshold not achieved (0%).
Target		On target annual bonus payable (40% of maximum).	Performance warrants threshold vesting for 2017 (25% of maximum).
Maximum		Maximum annual bonus payable for 2017 (100% of salary).	Performance warrants full vesting for 2017 (100% 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.	Not applicable
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.	Not applicable
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 forgone.

In cases of appointing a new Executive Director by way of internal promotion, the approach will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Group will continue to honour these arrangements. Incentive opportunities for below Board 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 72.

Service contracts and exit payment policy

Non-Executive Directors

The current Chairman and Angus Porter were appointed as Non-Executive Directors on 1 April 2016, whilst Georgina Harvey and Sharon Brown were both appointed as Non-Executive Directors on 7 February 2014. All Non-Executive 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 travel expenses directly incurred in the performance of their role) on top of the fees disclosed on page 77. Non-Executive Directors have a notice period of one month and receive no compensation on termination.

Executive Directors

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

Jonathan Miller's pension arrangements were reviewed in 2008 upon closure of the Group's defined benefit pension schemes to future accrual. Prior to 1 April 2016 he received a salary supplement in lieu of previous defined benefit arrangements representing the actuarial valuation of the defined benefit forgone. On 1 April 2016 Jonathan Miller's salary supplement was fixed as a monetary amount and not increased in line with his new salary. His salary supplement will remain fixed until such time as it falls below 20% of his salary, at which point it will be increased to represent 20% of salary in line with policy. This is kept under review by the Committee. On appointment of James Lancaster as Chairman on 1 April 2016 his salary supplement in lieu of pension ceased. Pension arrangements for other Executives are in line with the remuneration policy set out on page 69.

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
Bonus		
Summary dismissal, resignation	Awards lapse.	Not applicable.
Good leaver	Normally at year end.	The annual bonus plan for the period under review would normally have performance measured to the end of the financial period. In exceptional circumstances, the Committee may bring forward the date of award to the termination date and base it on performance over the period to termination. Awards will normally be pro-rated for time unless the Committee determines otherwise.
Change of control	On change of control, or shortly thereafter.	The annual bonus plan for the period under review would normally be paid immediately and be based on pro-rata performance to date, with Committee discretion to treat otherwise.
LTIP		
Summary dismissal, resignation	Awards lapse.	Not applicable.
Good leaver[1]	In line with the vesting schedule at grant.	Unvested LTIP shares are normally pro-rated for performance to the end of the performance period. In exceptional circumstances, the Committee may bring forward the vesting date to the termination date and vest on performance over the period to termination. Awards will normally be pro-rated for time unless the Committee determines otherwise.
Change of control	On change of control.	Unvested LTIP shares are normally pro-rated for performance to the date of change of control and paid immediately. Awards will normally be pro-rated for time unless the Committee determines otherwise.

1 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 the 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 Committee considers shareholder feedback carefully when reviewing remuneration and regularly reviews the remuneration policy in the context of key institutional shareholder guidelines and best practice. It is the Committee's policy to consult with significant major shareholders prior to making any major changes to its executive remuneration structure. Details of shareholder consultations carried out during the year are included on page 80.

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 three Independent Non-Executive Directors, Georgina Harvey (Committee Chair and Senior Independent Director), Sharon Brown and Angus Porter (appointed 1 April 2016). The Remuneration Committee meets not less than twice a year and at such other times as required. During the 2016 financial year, the Remuneration Committee held four scheduled meetings. The Chief Executive and Chief Financial Officer, and the Committee's independent advisers, Kepler, a brand of Mercer (Kepler), 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, who were appointed by the Committee and attend Committee meetings from time to time, and who also provide remuneration advice to the Group. Kepler were appointed independent advisers to the Remuneration Committee through a competitive tender process in 2014 and fees for advice provided to the Remuneration Committee were £34,723 for the financial period under review. Fees covered support in drafting the Directors' Remuneration Report, benchmarking of Executive Directors' remuneration and of Chairman and Senior Independent Director fees, attendance at Remuneration Committee meetings including advice on remuneration policy, shareholder consultation, long-term incentive target-setting, trends in executive remuneration, remuneration adjustment principles, EPS target setting, TSR performance reporting and developments in corporate governance. Kepler do not provide any other services to the Group and the Committee is satisfied that they provide independent and objective remuneration advice to the Committee. 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.

Committee activities
During 2016, the Committee met to consider the following remuneration matters:

- Latest developments in corporate governance of relevance to the Committee
- Review of the remuneration policy
- Review and approval of the Remuneration Report
- Shareholder consultation on remuneration proposals relating to the annual bonus target
- Benchmarking for the Executive Directors' 2017 salary reviews
- Review of performance and adjudicating annual bonus payments for 2016
- Reviewing proposals for the 2017 annual bonus
- Setting of incentive targets for both the 2016 annual bonus and 2016 LTIP awards, and approving LTIP and CSOP award allocations by participant
- Review of EPS targets for 2017 LTIP awards
- Oversight of Group-wide remuneration and wage increases, including the impact of implementing the National Living Wage and gender pay reporting proposals
- Setting remuneration adjustment principles and discussing impacts on 2015/16 LTIP
- Review of policy for Directors' expenses
- Review of Remuneration Committee performance, constitution and terms of reference
- The number and timing of scheduled Committee meetings planned for 2016 and 2017

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 27 November 2016 and the prior period:

	Salary		Pension Benefit[2]		Taxable Benefit[3]		Annual Bonus[4]		Multiple-year Variable[5]		Total	
£'000	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Jonathan Miller[1]	**397**	321	**102**	99	**53**	45	**146**	–	**–**	–	**698**	465
Dave Thomas	**276**	276	**41**	41	**24**	23	**100**	–	**–**	–	**441**	340
Simon Fuller[1]	**176**	–	**26**	–	**11**	–	**120**	–	**–**	–	**333**	–
James Lancaster[1]	**198**	594	**62**	188	**20**	58	**59**	–	**–**	–	**339**	840

1 On 1 April 2016 a) James Lancaster stepped down as Chief Executive; b) Jonathan Miller was appointed Chief Executive; and c) Simon Fuller was appointed Chief Financial Officer.

2 Pension benefits include pension contributions and/or salary supplement payments. Pension payments paid during the year for Simon Fuller and Dave Thomas were £6,000 and £14,000 respectively.

3 Taxable benefits include car or car allowance, of £12k, £37k, £10k and £10k (taken as car allowance) to James Lancaster, Jonathan Miller, Dave Thomas, Simon Fuller respectively for 2016 (£36k, £30k, £10k and £0k for 2015), fuel allowance of £3k, £7k, £5k and £0k for 2016 (£7k, £7k, £5k and £0k for 2015), healthcare of £4k, £8k, £9k and £1k for 2016 (£12k, £7k, £5k and £0k for 2015), and other benefits of £1k for James Lancaster (£2k for 2015).

4 Annual bonus paid for performance over the relevant financial period. Annual bonus payable in cash. Simon Fuller's bonus includes £37k related to the fair value of awards forfeited at his previous employer, which was paid to him in July 2016.

5 The LTIP was introduced in 2015 under which awards will begin to vest, subject to achievement of stretching performance conditions, in 2018. No long-term incentives were due to vest during 2015 or 2016.

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 27 November 2016.

	Total Fee		Taxable Benefits		Total	
£'000	**2016**	2015	**2016**	2015	**2016**	2015
James Lancaster[1]	**100**	–	**–**	–	**100**	–
Sharon Brown[2]	**72**	61	**2**	2	**74**	63
Georgina Harvey[3]	**53**	50	**0**	0	**53**	50
Angus Porter[4]	**30**	–	**0**	–	**30**	–

1 James Lancaster was appointed Non-Executive Chairman on 1 April 2016. Fees shown are for the period 1 April 2016 to 27 November 2016.

2 Sharon Brown stepped down as Interim Chairman on 1 April 2016. Taxable benefits include nominal travel expenses to and from Company meetings, and tax incurred on these expenses.

3 Georgina Harvey was appointed as Senior Independent Director on 24 May 2016.

4 Angus Porter was appointed Non-Executive Director on 1 April 2016.

The aggregate fees paid to Non-Executive Directors for the year fell within the £350k aggregate limit contained within the Company's Articles of Association. The Company intends to seek shareholder approval to increase this limit to £500k at the 2017 Annual General Meeting.

Basic annual salary

Base salaries are reviewed annually, with any changes normally effective from 1 January, 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. As a result of the Board changes on 1 April 2016, the Committee determined that Jonathan Miller's salary be set at £430,000 on his appointment as Chief Executive. The salary for Dave Thomas as Chief Operating Officer remained unchanged at £276,000. Simon Fuller was appointed on 1 April 2016 as Chief Financial Officer on an annual salary of £265,000. Salaries were further reviewed for 2017, and an average increase of 3.1% was awarded, below increases for the wider workforce of 4.3%.

Executive Director	1 December 2015	1 April 2016	1 January 2017	% change for 2017
Jonathan Miller[1]	£331,207	£430,000	£442,000	2.8%
David Thomas	£276,000	£276,000	£285,000	3.2%
Simon Fuller[2]	–	£265,000	£274,000	3.4%

1 Jonathan Miller was promoted from Chief Financial Officer to Chief Executive on 1 April 2016.

2 Simon Fuller was appointed to Chief Financial Officer on 1 April 2016.

Annual bonus

The Group operates an annual performance-related bonus scheme for a number of Senior Executives including Executive Directors. For the 2016 financial period, annual bonuses for the Executive Directors were based on 80% of operating profit and 20% on key strategic performance measures.

The Committee consulted with our largest shareholders in December regarding the operating profit element of the annual bonus for 2016. As a result of the Class One transaction to acquire the 298 convenience stores from the Co-op, £0.5m in pre-acquisition preparation costs were incurred in 2015/16, and charged to operating profit. The Committee has determined that this should be excluded from the 2015/16 operating profit for bonus purposes in light of the unbudgeted and one-off nature of these costs. The Committee intends to use adjusted operating profit going forward for bonus purposes in a consistent manner, and has developed a set of principles to ensure that any adjustments (both positive and negative) are applied consistently and in line with shareholder interests (see page 78).

For the operating profit element of the 2016 annual bonus, no vesting occurs below threshold, being 95% of target. At threshold and target, 10% and 40% of the profit element of the bonus is awarded. Maximum vesting is awarded for achievement of 110% of target. Annual bonus payments increase on a straight-line basis between the threshold, target and maximum targets. For the strategic performance element of the bonus, no awards vest prior to the attainment of threshold operating profit.

For 2016, the strategic measures were:

a) increasing convenience basket growth spend by 5%;

b) to be operating 1,000 convenience stores by 31 December 2016; and

c) completing the wholesale tender required for the acquisition of the 298 Co-op convenience stores. This replaced the original objective, which continues to remain commercially sensitive.

As disclosed to all shareholders in advance of the 2016 AGM, during 2016 the annual bonus scheme rules for the Executive Directors were amended as follows: up to 31 March the maximum total bonus potential was 75% of salary; and from 1 April the maximum total bonus potential was 100% of salary. Opportunities for the financial year were calculated on a pro rata basis. The targets, and achievement against them, were as follows:

Measure	Weighting	Threshold	Target	Stretch	Achievement	Vesting (% of maximum)
Operating profit before bonus, profit on asset disposals and exceptional items[1]	80%	£22.3m	£23.4m	£25.7m	£23.1m	26.1%
Improving the average convenience basket size by 5%	20%	–	–	–	Not achieved	13.3%
Increasing the number of convenience stores to 1,000		–	–	–	Achieved	
Undertaking a wholesale supply tender for the 298 new stores		–	–	–	Achieved	
					Total	**39.4%**[2]

1 The operating profit pre-bonus target was adjusted down by £0.5m (for each of Threshold, Target and Stretch) and represents one-off costs associated with the Co-op acquisition.

2 The maximum bonus was increased from 75% to 100% of salary on 1 April 2016. The total bonus was pro-rated to account for this increase.

The operating profit threshold was achieved in 2016 and therefore the bonus will vest as to 39.4% of maximum.

The 2017 annual bonus will be based on the same structure as in 2016, with 80% based on operating profit and 20% on strategic performance measures including the onboarding of the 298 Co-op stores and delivering the first year of the Group's strategic plan. 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. The operating profit element of the 2017 annual bonus will operate using a similar framework to that used in 2016, although going forward operating profit will be calculated on an adjusted basis.

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)

Since 2015 the Company has been operating a long-term incentive plan. In 2017, it is expected that Executive Directors will be granted shares equivalent to 100% of salary under the LTIP (100% in 2016). 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 three financial years:

Cumulative earnings per share for financial years 2017/2018/2019[1]	% of the EPS element of the award which can be exercised
68.6p or above	100%
Between 60.4p and 68.6p	Straight-line vesting between 25% and 100%
Below 60.4p	0%

1 Includes the impact of the acquisition of 298 stores in 2017 on a post LTIP and bonus basis.

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 & Drug Retailers Index, measured over three 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. The Group has undertaken a fair valuation of its share-based payment transactions, specifically the LTIP and CSOP, using IFRS 2. The results of the valuation were deemed to be immaterial and therefore the IFRS 2 disclosures have been omitted.

The Committee reviewed and agreed a set of performance adjustment principles, in order for there to be a shared understanding of the process for making adjustments to performance criteria. The following were agreed:

a) The Committee would consider making an adjustment where a change is recognised as a Class 1 transaction (as defined by the UKLA Listing Rules);

b) The Committee would not make an adjustment where the change results in less than a 5% impact on EPS; and

c) Adjustments would be considered between upper and lower limits defined in (a) and (b).

The Committee intends to apply these principles in respect of outstanding LTIP awards to reflect the acquisition of the 298 Co-op stores and will disclose details of any appropriate adjustments after the end of the relevant performance period.

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. The 2015 and 2016 LTIP grants to Executive Directors are outlined below:

Executive Director	Date of grant	Number of shares	Share price	Face value (£'000)	Face value (% salary)	Vesting for minimum performance (% of maximum)	End of performance period
James Lancaster	17 August 2015[2]	200,751[1]	149.25	291	50%	25%	26 November 2017
Jonathan Miller	17 August 2015[2]	111,894	149.25	166	50%	25%	26 November 2017
	11 April 2016[3]	259,036	166.00	430	100%	25%	25 November 2018
Dave Thomas	17 August 2015[2]	93,243	149.25	138	50%	25%	26 November 2017
	11 April 2016[3]	166,265	166.00	276	100%	25%	25 November 2018
Simon Fuller	8 October 2015[4]	67,114	149.00	100	50%	25%	26 November 2017
	11 April 2016[3]	159,638	166.00	265	100%	25%	25 November 2018

1 Call Price per Award Share: £0.001.
2 2015 LTIP EPS performance conditions range is 55.9 pence to 61.5 pence.
3 2016 LTIP EPS performance conditions range is 52.5 pence to 60.1 pence.
4 Granted prior to his appointment as an Executive Director based on the same performance conditions as the Executive Director awards.

Executive Directors' pension arrangements

Prior to 1 April 2016 James Lancaster received a salary supplement in lieu of pension. For the period 1 April 2016 to 27 November 2016, this salary supplement was no longer payable in his capacity as Non-Executive Chairman. Jonathan Miller received a salary supplement in lieu of pension for the full year. Although the amount remained static during the year as a percentage of salary it reduced from 31% to 23.9% on his appointment as Chief Executive. The monetary amount shall remain fixed until it reaches 20% of his salary, at which point it will increase in accordance with the Remuneration policy. The Chief Operating Officer participated in the Group's defined contribution scheme until 31 March 2016 for which the Company contributed 15% of salary. From 1 April 2016 the Chief Operating Officer received a salary supplement in lieu of pension equivalent to 15% of salary. The Chief Financial Officer received a salary supplement in lieu of pension equivalent to 15% of salary from his date of appointment on 1 April 2016. For the period ending 26 November 2017, Executive Directors' pension benefit will be unchanged.

Non-Executive Director fees

For the 2017 financial period, the base fee for Non-Executive Directors will remain at £45,000 per annum, with an additional fee of £5,000 per annum paid to the Chairmen of the Remuneration and Audit Committees. Following the appointment of Sharon Brown as Interim Chairman on 2 October 2015, the Committee agreed a temporary additional fee of £65,000 per annum, which became payable between 2 October 2015 and 31 March 2016 (actual amount was pro-rated). James Lancaster was appointed Chairman on 1 April 2016 and his fee was set at £150,000 per annum. Georgina Harvey was appointed Senior Independent Director on 24 May 2016 and was paid an additional annual fee of £5,000 per annum (pro-rated for 2016).

The Committee reviewed the fees to be paid to Angus Porter on his appointment as Chairman on 27 April 2017. The proposed Chairman's fees were benchmarked against the same companies used to benchmark executive pay. The comparator groups were (i) companies of a similar size (FTSE companies of a similar market capitalisation and the broader FTSE small cap) and (ii) FTSE retailers excluding FTSE 100 companies. Sector pay data was size regressed to be relevant to a company of McColl's market capitalisation. The agreed fee for the new Chairman is £145,000 per annum.

James Lancaster will receive the same fee as other Non-Executive Directors from 27 April 2017.

Payments for loss of office

No Director resigned from the Company in 2016. No compensation payments were made to any Director changing their role during the year.

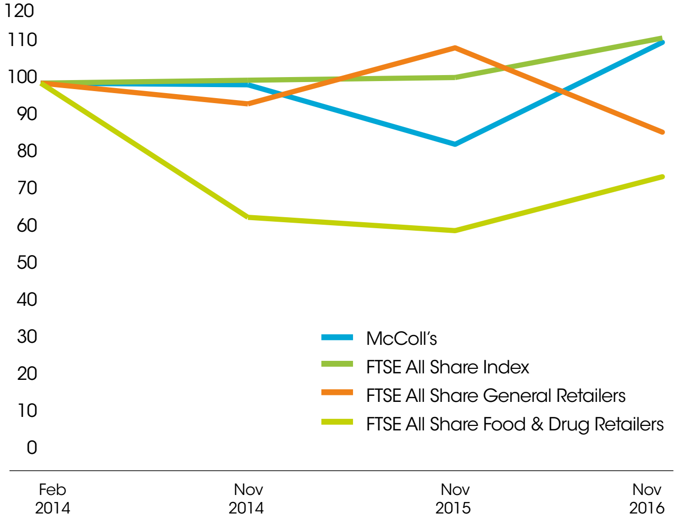
Payments to previous Directors

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

The information in this part of the annual report on remuneration is not subject to audit.

Total shareholder return

Historical Performance graph – Value of £100 invested at listing (£)



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

Chief Executive single figure of remuneration

	2013	2014	2015	**2016**
James Lancaster				
Single figure of remuneration (£'000)	834	3,199	840	**339**
Annual bonus outcome (% of max)	0%	0%	0%	**39.4%**
LTIP vesting (% of max)	n/a	n/a	n/a	**n/a**
Jonathan Miller				
Single figure of remuneration (£'000)	–	–	–	**504**
Annual bonus outcome (% of max)	–	–	–	**39.4%**
LTIP vesting (% of max)	–	–	–	**n/a**

Change in Chief Executive's remuneration

The table below sets out the percentage change in the remuneration of the Chief Executive and the average increase across all employees excluding the Board between the years 2015 and 2016.

	Chief Executive annual cash			
	2015 (James Lancaster)	**2016 (James Lancaster and Jonathan Miller[1])**	**Change**	**Average increase across all employees**
Salary (£'000)	594	485	18% decrease	4.3%
Pension benefit (£'000)	188	131	30% decrease	0%
Taxable benefits (£'000)	58	42	27% decrease	0%
Annual variable (£'000)	0	166	100% increase	0%
Total (£'000)	840	824	2% decrease	4.3%

1 The % change for the Chief Executive has been determined with reference to the aggregate 2016 remuneration for James Lancaster and Jonathan Miller for the period they were undertaking the role of Chief Executive.

Distribution statement

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

Employment remuneration

Distribution to shareholders

The Group paid an interim dividend of 3.4 pence per share and the Board has recommended a final dividend of 6.8 pence per share subject to approval by shareholders at the Annual General Meeting, representing a total payment of £11.0m for 2016.

Statement of shareholder voting

The following table shows the results of the binding vote on the remuneration policy at the 17 April 2015 Annual General Meeting and advisory vote on the 2015 Annual Report on Remuneration at the 17 April 2016 Annual General Meeting.

	For		Against		Withheld
	Number (m)	%	Number (m)	%	Number (m)
Remuneration policy	83.9	98.2	1.5	1.8	0.24
2016 Annual Report on Remuneration	80.0	99.6	0.3	0.4	4.9

Shareholder consultations

In December 2016 the Committee consulted with the Company's largest shareholders regarding the profit element of the annual bonus for 2015/16. This consultation related to the impact of the Class one transaction to acquire the 298 convenience stores from the Co-op, where £0.5m in pre-acquisition costs were incurred and charged to operating profit. The Committee used its discretion to exclude these publically disclosed costs from the 2015/16 operating profit bonus calculation. The rationale for applying this discretion focused on the fact that the costs:

a) were operational in nature and included i) the advanced recruitment of field teams (e.g. area and regional management); ii) the establishment of larger central functions (e.g. payroll, HR and operational finance such as stock counting); and iii) the setting up of logistics (including additional distribution);

b) had been incurred ahead of the stores being transferred;

c) having been expensed in the 2015/16 income statement rather than defined as exceptional items;

d) quantified and one-off in nature; and

e) were beyond management control.

Prior to the above adjustment the annual bonus outcome would have been 28.6% as a percentage of maximum. The Committee intends to use adjusted operating profit going forward for bonus purposes in a consistent manner, and has developed a set of principles to ensure that any adjustments (both positive and negative) are applied consistently and in line with shareholder interests.

Directors' shareholdings and interest in shares

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.

	Shares held	Options held						
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[1])	Shareholding requirement (% of salary/fee)	Guideline met?
Executive Directors								
Jonathan Miller[2]	11,399,500	–	370,930	–	–	4,635	100%	Yes
Dave Thomas	1,183,792	–	259,518	–	–	746	100%	Yes
Simon Fuller	0	–	226,752	–	–	0	100%	No
Non-Executive Directors								
James Lancaster[2,3]	11,399,500	–	200,751	–	–	13,660	n/a	n/a
Georgina Harvey	10,471	n/a	n/a	n/a	n/a	34	n/a	n/a
Sharon Brown	17,471	n/a	n/a	n/a	n/a	62	n/a	n/a
Angus Porter	5,814	n/a	n/a	n/a	n/a	23	n/a	n/a

1 Based on closing share price of £1.7975 on Friday 25 November 2016 (the last dealing day before the 2016 financial year-end) and salary or fees (including Committee fees) for 2017.

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 James Lancaster stepped down as Chief Executive and was appointed as Non-Executive Chairman on 1 April 2016.

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.

Approved by the Remuneration Committee and signed on its behalf

Georgina Harvey
Chairman of the Remuneration Committee

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 FRS 101. 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
- 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
- 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.

Partnering with Subway

Food-to-go is still a small, but rapidly growing category. It's been a focus for us this year and we've installed over 30 new in-store units that have helped us to deliver a 19% increase in food-to-go sales.

In addition to developing our own in-store offer we have a growing partnership with Subway. We opened our first Subway franchise in 2015, and it proved to be an instant hit. So much so, that we've opened another 12 this year. We run the franchises ourselves so that they are fully integrated into the store and they deliver a strong financial payback. Subway is also hugely popular with younger customers and it's giving them more reasons to shop at McColl's.

Highlight:

12 new

We have opened 12 new in-store Subways this year

Customer first

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 27 November 2016 and of the Group's profit for the 52-week period then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'
- 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 and 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 C1 to C7 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), including FRS 101 'Reduced Disclosure Framework'.

Summary of our audit approach

Key risks

The key risks that we identified in the current year were:

- Supplier income
- Property provisions
- Goodwill impairment
- Acquisition of Co-op stores – presentation of costs

Within this report, any new risks are identified with ⓐ and any risks which are the same as the prior year identified with ⓑ.

Materiality

The materiality that we used in the current year was £1,000,000 which was determined on the basis of adjusted pre-tax profit. Pre-tax profit has been normalised by adjusting for exceptional items (the one-off costs relating to restructuring). We believe this is an appropriate basis for materiality as it reflects recurring performance.

Scoping

The Group consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as defined in note 4 to the financial statements. We identify only one reporting component on which we perform our audit using a single audit team.

Significant changes in our approach

Following the announcement of the acquisition of the 298 Co-Op stores, we have included a new risk in the current year around the presentation of costs incurred. We have not included revenue recognition in our report this year; we continue to consider a fraud risk and related risk for supplier income.

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 and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Directors' Report report on page 50.

We are required to state whether we have anything material to add or draw attention to in relation to:

- The Directors' confirmation on page 49 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures on pages 34 to 37 that describe those risks and explain how they are being managed or mitigated
- The Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- The Directors' explanation on page 50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

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

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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

Our assessment of risks of material misstatement

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

Last year our report included revenue recognition which is not included in our report this year. The risk of misstatement in the prior year related to adjustments between the EPOS system and the financial statements which could be vulnerable to manipulation. Based on the controls in place surrounding revenue as well as the nature of the transactions included within the balance, we do not believe there is a significant risk of material misstatement associated with the revenue balance in the current year. We continue to consider a fraud risk and related risk in relation to supplier income. The presentation of expenses incurred relating to the acquisition of the Co-op stores has been included in our report this year as this is an area which has had a significant impact on our audit strategy.

Supplier income

Risk description

Supplier income is generated from a number of commercial agreements with suppliers including incentives, rebates and discounts. This represents a deduction to cost of sales which is material to the Group financial statements. There are a large number of individual arrangements which can be complex in nature. The majority of these contributions tend to be small in unit value but high in volume and span relatively short periods of time, although these can be across the financial year-end. The process can involve significant manual adjustments as well as determining whether the amounts are recorded in the correct period. Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.

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

How the scope of our audit responded to the risk

Our audit procedures included, but were not limited to:

Evaluating 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 as well as reviewing new and unusual agreements.

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 accuracy, validity and completeness through IT controls testing.

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 which 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.

Applied data interrogation tools to perform an analysis to determine if any manual adjustments were recorded within the supplier income balance.

Key observations

The results of our testing were satisfactory and we consider the disclosure given around supplier income to provide a reasonable understanding of the types of supplier income received and the impact on the Group's balance sheet and profit as at 27 November 2016.

Property provisions

Risk description

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 (£1.0m)
- Future dilapidations expenses (£1.3m)

These provisions are material and include judgements around the future cash outflows, the cash inflows from sub-let income and the discounting of these.

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

How the scope of our audit responded to the risk

For each of the property provisions:

Evaluating the design and implementation of controls in place over the provision calculations.

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.

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.

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

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

Key observations

The results of our testing were satisfactory and we note that the assumptions used in the property provision calculation are within an acceptable range and the level of property provisions booked in the year, are materially appropriate.

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

Goodwill impairment

Risk description

The goodwill value of £153m (2015: £144m) 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.

The key assumptions in the goodwill impairment model in the current period were:

- Growth rate – 0%
- WACC – 12.05% (2015: 11.87%)

See goodwill impairment accounting policy in note 2 and note 12 to the financial statements.

How the scope of our audit responded to the risk

We evaluated management's goodwill impairment calculations and have challenged their calculations by:

Evaluating the design and implementation of controls in place over the impairment calculations.

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.

Reviewing and challenging management's sensitivity analysis on the inputs applied (including discount rates and growth rates) to check whether reasonable fluctuations in these would not impact the headroom to a material extent.

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.

Considering the adequacy of the Group's disclosure in respect of its goodwill impairment testing and whether the disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions properly reflected the risks inherent in such assumptions.

Key observations

We note that cash flow forecasting, impairment modelling and property values are all inherently judgemental. Nevertheless, the results of our testing were satisfactory and note that the assumptions used in the goodwill impairment model, including the discount rate, were within an acceptable range.

Acquisition of Co-op stores – presentation of costs

Risk description

On 13 July 2016, McColl's announced the acquisition of 298 stores from the Co-op for £117m, representing a Class 1 transaction. This has been discussed within the Strategic Report. The transaction will be financed predominantly with additional debt and the balance as an equity placing.

No stores were acquired prior to year-end and therefore the acquisition accounting for the transaction has not been concluded.

Judgement is exercised by management in determining the presentation of costs incurred. We have included a new risk in the current year around the presentation of costs incurred relating to the acquisition and related financing arrangements.

In calculating the reported capitalised costs there are two risks which may result in the profit measure being misstated and therefore not being reliable to users of the financial statements:

- Items may be included in the capitalised costs which are not directly attributable to the financing arrangements distorting the reported earnings
- Items may be omitted from the capitalised costs which are directly attributable to the financing arrangements

How the scope of our audit responded to the risk

We have obtained management's report on the total expenses and associated costs incurred and the presentation of these expenses and challenged these by:

Evaluating the nature of costs incurred, either highlighted by management or identified through the course of our audit to assess whether their presentation is in line with the Group's accounting policy. The quantification and presentation of such items has been assessed by agreeing a sample of costs to source documentation which included but is not limited to invoices received from professional services firms as well as fee letters received from the financial institutions.

Reviewing management's application of the policy for consistency with previous accounting periods.

Assessing whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.

Reviewing the financing arrangements for the acquisition to assess the effective date of the financing arrangement and the subsequent impact of the treatment of the costs incurred as well as the impact of the changes to the current financing arrangements and the treatment of these changes under the relevant accounting standards.

Key observations

We are satisfied that the amounts relating to the acquisition classified as exceptional items and the related disclosure of these items in the financial statements are appropriate.

The results of our testing of costs classified to loan commitments and equity were satisfactory and we consider the disclosure given around the loan and equity balances to provide a reasonable understanding of the impact on the balance sheet as at 27 November 2016.

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

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

Our application of materiality

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

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

Group materiality

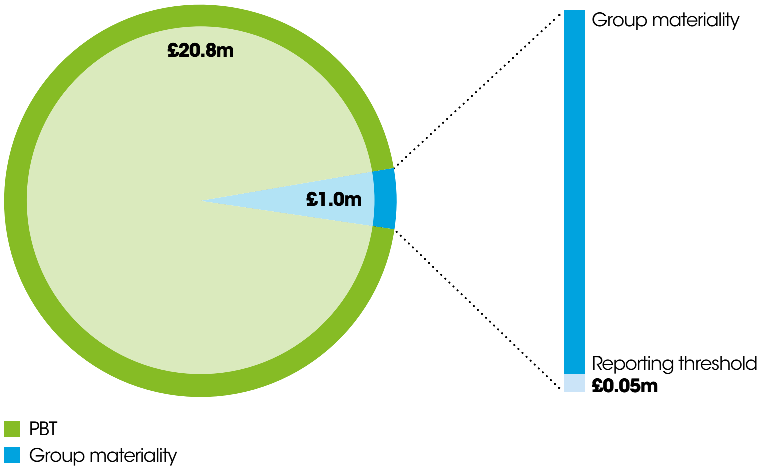
£1,000,000 (2015: £1,100,000)

Basis for determining materiality

4.8% (2015: 5.1%) of adjusted pre-tax profit. Pre-tax profit has been normalised by adjusting for exceptional items (the one-off costs relating to restructuring). See exceptional items disclosure in note 5 to the financial statements.

Rationale for the benchmark applied

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 (2015: £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.

An overview of the scope of our audit

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us or
- The parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain 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). 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
26 February 2017

Consolidated income statement
52 week period ended 27 November 2016

	Notes	52 weeks ended 27 November 2016 Before exceptional items £'000	52 weeks ended 27 November 2016 Exceptional items (note 5) £'000	52 weeks ended 27 November 2016 After exceptional items £'000	52 weeks ended 29 November 2015 Before exceptional items £'000	52 weeks ended 29 November 2015 Exceptional items (note 5) £'000	52 weeks ended 29 November 2015 After exceptional items £'000
Revenue	4	950,403	-	950,403	932,227	–	932,227
Cost of sales		(711,752)	-	(711,752)	(704,693)	–	(704,693)
Gross Profit		238,651	-	238,651	227,534	–	227,534
Administrative expenses		(239,443)	(2,186)	(241,629)	(226,882)	(625)	(227,507)
Other operating income	6b	23,147	-	23,147	23,182	–	23,182
(Profits)/losses arising on property-related items		1,109	(757)	352	437	–	437
Operating profit	6	23,464	(2,943)	20,521	24,271	(625)	23,646
Finance expense		(2,723)	(152)	(2,875)	(2,700)	–	(2,700)
Finance income		13	-	13	165		165
Net finance costs	8	(2,710)	(152)	(2,862)	(2,535)	–	(2,535)
Profit on ordinary activities before taxation		20,754	(3,095)	17,659	21,736	(625)	21,111
Tax on profit on ordinary activities	9	(3,406)	(337)	(3,743)	(5,141)	127	(5,014)
Profit on ordinary activities after taxation		17,348	(3,432)	13,916	16,595	(498)	16,097
Earnings per share	11	16.0p		12.8p	15.9p		15.4p

Consolidated statement of comprehensive income
52 week period ended 27 November 2016

	Notes	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Profit for the period		13,916	16,097
Items of other comprehensive income that will not be reclassified to profit or loss:			
Actuarial (loss)/gain recognised on pension scheme	30	(1,213)	4,000
UK deferred tax attributed to actuarial gain:			
Arising from the origination of and reversal of current and deferred tax differences		168	(720)
Arising from changes in the tax rate		-	26
UK corporation tax		117	–
Other comprehensive income for the period		(928)	3,306
Total comprehensive income for the period		12,988	19,403

Consolidated balance sheet
27 November 2016

	Notes	27 November 2016 £'000	29 November 2015 £'000
Non-current assets			
Goodwill	12	**153,058**	144,013
Other intangible assets	12	**1,293**	1,903
Property, plant and equipment	13	**66,783**	64,361
Investments	14	**18**	18
Pension scheme surplus	30	**10,946**	9,806
Total non-current assets		**232,098**	220,101
Current assets			
Inventories	16	**55,041**	51,311
Trade and other receivables	17	**34,609**	28,538
Cash and cash equivalents	18	**3,757**	14,531
Assets held for sale	13	**4,286**	5,550
Total current assets		**97,693**	99,930
Total assets		**329,791**	320,031
Current liabilities			
Trade and other payables	19	**(130,021)**	(125,371)
Provisions	23	**(1,647)**	(2,210)
Corporation tax		**(2,294)**	(2,519)
Liabilities associated with assets held for sale	13	**(5,137)**	(5,662)
Total current liabilities		**(139,099)**	(135,762)
Net current liabilities		**(41,406)**	(35,832)
Non-current liabilities			
Borrowings	21	**(35,961)**	(43,212)
Other payables	20	**(4,160)**	(3,139)
Provisions for liabilities	23	**(365)**	(2,238)
Deferred tax liabilities	24	**(4,856)**	(6,031)
Net pension liability	30	**(4,844)**	(3,684)
Total non-current liabilities		**(50,186)**	(58,304)
Total liabilities		**(189,285)**	(194,066)
Net assets		**140,506**	125,965

	Notes	27 November 2016 £'000	29 November 2015 £'000
Shareholders' equity			
Equity share capital	26	**115**	105
Share premium account	26	**12,579**	47,836
Retained earnings		**127,812**	78,024
		140,506	125,965

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the Board of Directors on 26 February 2017.

Signed on behalf of the Board of Directors.

Simon Fuller
Director

Consolidated statement of changes in equity

52 week period ended 27 November 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 30 November 2014	105	47,836	69,302	117,243
Profit for the period	–	–	16,097	16,097
Actuarial gain recognised on pension scheme	–	–	3,306	3,306
Total comprehensive income for the period	–	–	19,403	19,403
Dividends paid	–	–	(10,681)	(10,681)
Balance at 29 November 2015	105	47,836	78,024	125,965
Profit for the period	–	–	13,916	13,916
Actuarial gain recognised on pension scheme net of tax	–	–	(928)	(928)
Total comprehensive income for the period	–	–	12,988	12,988
Dividends paid	–	–	(11,036)	(11,036)
Issue of share capital	10	12,579	–	12,589
Share premium transfer[1]	–	(47,836)	47,836	–
Balance at 27 November 2016	**115**	**12,579**	**127,812**	**140,506**

1 On 18 May 2016, the Group received court approval for the special resolution, proposed and passed at the AGM, to cancel its share premium account of £47,836,000 and transfer this amount to distributable reserves. This was registered at Companies House on 23 May 2016.

Consolidated cash flow statement

52 week period ended 27 November 2016

	Notes	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Net cash provided by operating activities	28	**21,649**	43,522
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(15,920)**	(17,593)
Proceeds from sale of property, plant and equipment		**5,874**	7,940
Acquisition of businesses, net of cash acquired	15	**(15,656)**	(14,239)
Finance income		**13**	165
Net cash used in investing activities		**(25,689)**	(23,727)
Cash flows from financing activities			
Repayment of loans		**(7,500)**	(1,500)
New/(repayment of) hire purchase loans		**1,921**	(1,658)
Issue costs		**(517)**	(140)
Proceeds on issue of shares		**13,076**	–
Dividend paid	10	**(11,036)**	(10,681)
Finance expense		**(2,479)**	(2,503)
Hire purchase interest paid	8	**(199)**	(178)
Net cash used in financing activities		**(6,734)**	(16,660)
(Decrease)/increase in cash and cash equivalents		**(10,774)**	3,135
Cash and cash equivalents at beginning of period		**14,531**	11,396
Cash and cash equivalents at end of period		**3,757**	14,531

1. Basis of preparation

The Group financial statements for 2016 consolidate the financial statements of McColl's Retail Group plc (the 'Company') and all its subsidiary undertakings (together, 'the Group') drawn up to 27 November 2016. Acquisitions are accounted for under the acquisition method of accounting.

The Group financial statements have been prepared on the going concern basis and in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reported under IFRS. The Group's going concern position is set out in the Directors' Report section on page 46.

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):

- Net defined benefit pension asset or liability – actuarial basis
- Derivative financial instruments – fair value through income statement

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 27 November 2016. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to the obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired, including separately identifiable assets, is recognised as goodwill. Any discount on acquisition, i.e. where the cost of acquisition is below the fair values of the identifiable net assets acquired, is credited to the income statement in the period of acquisition.

Adoption of new and revised standards

In the current financial period, the Group has applied for the first time:

Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'

Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'

Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'

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.

New standards, interpretations and amendments not yet effective

IFRS 15 'Revenue from Contracts with Customers'

IFRS 16 'Leases'

IFRS 9 'Financial Instruments'

IFRS 15 is effective for periods beginning on or after 1 January 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. The Group believes that the adoption of IFRS 15 will not have a material impact on its consolidated results.

Notes to the Financial Statements continued

52 week period ended 27 November 2016

1. Basis of preparation continued

IFRS 16 is effective for periods beginning on or after 1 January 2019. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors are substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements.

IFRS 9 replaces IAS 39. The standard is effective from 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model based on expected credit losses for recognising provisions; and provides for simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology. The Group believes that the adoption of IFRS 9 will not have a material impact on its consolidated results.

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 Group acts as an agent.

In the opinion of the Directors, the Group engages in one principal area of activity, that of operators of convenience and newsagent stores. Turnover is derived entirely from the United Kingdom.

Cost of sales

Cost of sales consists of all direct costs to the point of sale including warehouse and transportation costs. Supplier incentives, rebates and discounts are recognised as a credit to cost of sales in the period in which the stock to which the discounts apply is sold. The accrued value at the reporting date is included in prepayments and accrued income.

Exceptional items

Exceptional items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's underlying profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The underlying profit before tax measure (profit before exceptional items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of exceptional items are set out in note 5.

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 subsidiary at the date of acquisition. Goodwill is recognised as an asset on the Group's balance sheet in the year in which it arises. Goodwill is not amortised but is tested for impairment at least annually and is stated at cost less any provision for impairment. Any impairment is recognised in the income statement and is not reversed in a subsequent period.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGU) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

See note 12 on pages 106 and 107 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, software licences and costs relating to development of computer software for internal use (to the extent that they meet the recognition criteria of IAS 38 Intangibe Assets) are capitalised and amortised on a straight-line basis over their useful economic lives of five years and are included within other intangible assets. Costs relating to development of computer software for internal use that do not meet the IAS 38 recognition criteria are expensed as incurred.

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
Land (if separately identifiable)	– nil
Short leaseholds improvements:	
– Shops	– 10 years or remaining lease term if less
– 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	– 5 years
Furniture and fittings	– 10 years

Gains and losses on disposal of any fixed assets are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

Fixed asset impairments

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. For property, plant and equipment and intangible assets excluding goodwill, the CGU is deemed to be each trading store. Any resulting impairment is charged to administrative expenses.

Non-current assets held for sale

Non-current assets are classified as assets held for sale only if available for immediate sale in their present condition, a sale is highly probable and expected to be completed within one period from the date of classification. Such assets are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated or amortised.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases/hire purchase contracts

Assets funded through finance leases or hire purchase contracts are capitalised as property, plant and equipment and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement so as to produce a constant periodic rate of interest.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement on a straight-line basis over the lease term.

Sale and leaseback

A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value. For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the income statement.

Following initial recognition, the lease treatment is consistent with those principles described above.

Notes to the Financial Statements continued

52 week period ended 27 November 2016

2. Significant accounting policies continued

Lease 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 the retail method for each category of stock by reducing the net selling price by the attributable average gross margin. Net realisable value is the price at which the stocks can be realised in the normal course of business net of selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial instruments

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally from the Group's trading operations (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the 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 loans and 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. When drawn, 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 of two categories, depending on the purpose for which the liability was acquired:

1) *Fair value through income statement*
   This category comprises only out-of-the-money derivatives (see 'Financial assets' for in the money derivatives). They are carried in the Group balance sheet at fair value with changes in fair value recognised in the income statement. The Group does not hold or issue derivative instruments for speculative purposes, but only for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading, nor has it designated any financial liabilities as being at fair value through profit or loss.

2) *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 25.

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.

Share-based payment arrangements
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the income statement.

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.

Provisions
The Group recognises provisions for liabilities of uncertain timing or amounts, including those for onerous leases, leasehold dilapidations and legal disputes. Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the best estimate of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Onerous contracts/leases
The Group compares the unavoidable costs of all leases with the expected economic benefits on a store by-store basis. Once a lease is considered onerous, a provision is calculated based on the present value of the unavoidable costs net of expected benefits.

Dilapidations
Provisions for dilapidations and similar contractual property costs are recognised on a lease-by-lease basis when the need for expenditure has been identified, being the point at which the likely expenditure can be reliably estimated.

Notes to the Financial Statements continued

52 week period ended 27 November 2016

2. Significant accounting policies continued

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 interest income on scheme assets and that actually achieved on assets, and any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognised in other comprehensive income in the period in which they arise.

Costs are recognised separately as operating and finance costs in the income statement. Operating costs comprise the current service cost, any income or expense on settlements or curtailments and past service costs 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 the net defined benefit asset or liability.

Further information on pensions is disclosed in note 30.

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 assumptions used would not have a significant effect on the Group statement of comprehensive income.

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 IAS 36. This is expanded on in note 12 on pages 106 and 107.

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 12 on pages 106 and 107.

Impairment of tangible and intangible assets

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 the higher of net present value and market valuation less costs to sell.

Details of the accounting policy on the impairment of tangible and intangible assets, excluding goodwill, are provided in note 2 on pages 96 and 97.

Pensions

The 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, net defined benefit asset or liability, life expectancies and discount rates. Details of the key assumptions are set out in note 30. 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 23.

Taxes

The Group recognises expected liabilities for corporation tax based on an estimation for the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on current tax and deferred tax provisions in the period when such determination is made. Details of the tax charge and deferred tax are set out in note 9.

4. Segmental analysis and revenue

In accordance with IFRS 8 'Operating segments', an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker and for which discrete information is available. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The principal activities of the Group are currently managed as one segment. Consequently all activities relate to this segment, being the operation of convenience and newsagent stores in the UK.

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

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Sale of goods	**950,403**	932,227
Property rental income (note 6b)	**2,985**	2,693
Other operating income (note 6b)	**20,162**	20,489
	23,147	23,182
Investment revenue (note 8)	**13**	165
Total revenue as defined in IAS 18	**973,563**	955,574

Notes to the Financial Statements continued

52 week period ended 27 November 2016

5. Exceptional items

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

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Cost of acquiring Co-op stores[1]	2,004	–
Impairment and onerous lease provisions related to assets held for sale[2]	757	–
Costs relating to closure of non-trading sites	334	–
Redundancy and restructuring costs	-	625
	3,095	625
Tax effect	337	(127)
	3,432	498

1 Cost of acquiring Co-op stores
On 13 July 2016 management entered into an agreement to purchase 298 convenience stores from the Co-op, for an aggregate consideration of £117m. The acquisition will be carried out during 2017 by Martin McColl Limited, a wholly owned subsidiary of the Group. The acquisition was approved by the Competition & Markets Authority on 20 December 2016. The exceptionalised costs relate to sunk costs which the Group has incurred during the process, such as legal fees and due diligence fees.

2 Assets held for sale
Following a review of its portfolio in 2015, the Group decided to sell 97 of its newsagents. The Group continues to focus on the strategy of developing and expanding the convenience business and identified these stores as not being part of its long-term planning. Please refer to note 13.

6. Operating profit

a) Operating profit is stated after charging/(crediting):

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Depreciation of property, plant and equipment (note 13)	13,529	12,922
Amortisation of software (note 12)	776	756
Impairment of property, plant and equipment (note 13)	415	180
Goodwill impairment (gain) (note 12)	-	(322)
Cost of inventories recognised as an expense	738,678	723,489
Write-downs of inventories recognised as an expense	8,417	7,810
Operating lease payments – property	30,191	31,206

The analysis of the auditor's remuneration is as follows:

Audit of Company	32	20
Audit of subsidiaries	182	154
Total audit fees	214	174
Audit-related assurance services (including interim review)	40	37
Total assurance services	40	37
Tax compliance services	-	59
Total services relating to taxation	-	59
Services related to corporate finance transactions not covered above[1]	290	150
Other non-audit services not covered above	24	28
Total other non-audit services	314	178
Total non-audit services	354	274
Total fees	568	448

1 Corporate finance transactions were one-off and subject to a tendering process. The 2016 fees will be capitalised into the cost of borrowing.

b) Other operating income

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Other operating income	**20,162**	20,489
Rental income	**2,985**	2,693
Total other operating income	**23,147**	23,182

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

c) Adjusted EBITDA and underlying operating profit

In order to provide shareholders with a measure of the true underlying performance of the business and to allow a more understandable assessment of its position, the Group makes adjustments to profit before tax. These adjustments are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business. Exceptional items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's underlying profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The underlying profit before tax measure (profit before exceptional items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of exceptional items are set out in note 5.

Adjusted EBITDA	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Operating profit before exceptional items	**23,464**	24,271
Depreciation and amortisation (note 28)	**14,305**	13,678
Impairment of property, plant and equipment and onerous leases	**308**	180
Profit on disposal of fixed assets	**(1,422)**	(437)
	36,655	37,692

Underlying operating profit	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Operating profit before exceptional items	**23,464**	24,271
Less profit arising on property related items	**(1,109)**	(437)
	22,355	23,834

7. Employee benefits

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Wages and salaries	**132,136**	122,144
Social security costs	**5,860**	5,461
Other pension costs	**1,008**	1,028
	139,004	128,633

The employee benefits cost excludes Directors' emoluments.

	52 weeks ended 27 November 2016	52 weeks ended 29 November 2015
Average number of employees:		
Retailing	**19,011**	18,638
Central administration	**308**	318
	19,319	18,956

Notes to the Financial Statements continued
52 week period ended 27 November 2016

8. Net finance costs

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Finance expense		
Bank loans and overdrafts	**(2,029)**	(2,192)
Hire purchase interest	**(199)**	(178)
Facility fees relating to Co-op acquisition (included in Exceptional costs)	**(152)**	–
Unwinding of the discount included in provisions	**(197)**	(19)
Amortisation of issue costs	**(279)**	(296)
Other	**(19)**	(15)
Total finance expense	**(2,875)**	(2,700)
Finance income		
Interest receivable	**13**	165
Total finance income	**13**	165
Net finance costs	**(2,862)**	(2,535)

9. Taxation

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Income statement		
Current tax:		
Current tax on profit for the period	**5,319**	4,556
Adjustments in respect of prior periods	**(283)**	10
	5,036	4,566
Deferred tax:		
Origination and reversal of temporary differences	**(955)**	(13)
Associated with pension deficit	**69**	163
Arising from change in tax rate	**(125)**	(444)
Adjustments in respect of prior periods	**(282)**	742
	(1,293)	448
Income tax expense for the period	**3,743**	5,014
Other comprehensive income		
Deferred tax in respect of actuarial valuation of retirement benefits	**(168)**	720
Corporation tax	**(117)**	–
Arising from change in tax rate	**–**	(26)
	(285)	694

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

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Profit before tax	**17,659**	21,111
Profit before tax multiplied by the blended applicable corporation tax rate for 2016 of 20.00% (2015: 20.34%)	**3,532**	4,294
Disallowed expenses and non-taxable income	**901**	412
Adjustments in respect of prior years	**(565)**	752
Arising from change in rate of tax	**(125)**	(444)
Total tax expense	**3,743**	5,014

Changes in tax rates and factors affecting the future tax charge

In July 2015, the UK Government announced its intention to reduce the corporation tax rate to 19% with effect from 1 April 2017. In March 2016, the UK Government announced its intention to reduce the corporation tax rate to 17% with effect from 1 April 2020. These changes were substantively enacted at the balance sheet date and therefore have been reflected in the deferred tax provisions.

10. Dividends

Declared and paid during the year:	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Equity dividends on ordinary shares:		
Final dividend for 2015: 6.8p (2014: 6.8p)	**7,120**	7,120
Interim for 2016: 3.4p (2015: 3.4p)	**3,916**	3,561
Dividends paid	**11,036**	10,681
Proposed for approval by shareholders at the AGM:		
Final dividend for 2016: 6.8p (2015: 6.8p)	**7,832**	7,120

The proposed final dividend is subject to approval by shareholders passing a written resolution and accordingly has not been included as a liability in these financial statements.

Notes to the Financial Statements continued
52 week period ended 27 November 2016

11. Earnings per share

	52 weeks ended 27 November 2016	52 weeks ended 29 November 2015
Basic weighted average number of shares	**108,505,494**	104,712,042
Diluted weighted average number of shares	**108,505,494**	104,712,042
Profit attributable to ordinary shareholders (£'000)	**13,916**	16,097
Basic earnings per share	**12.8p**	15.4p
Diluted earnings per share	**12.8p**	15.4p
Adjusted earnings per share:		
Profit attributable to ordinary shareholders	**13,916**	16,097
Exceptional items (note 5)	**3,095**	625
Tax effect of adjustments (note 5)	**337**	(127)
Profit after tax and before exceptional items	**17,348**	16,595
Prior year deferred tax adjustment (note 9)	**(282)**	712
Adjusted profit after tax and before exceptional items	**17,066**	17,307
Adjusted earnings per share (pre-tax adjustment)	**16.0p**	15.9p
Adjusted earnings per share (post-tax adjustment)	**15.7p**	16.5p

12. Intangible assets

	Other intangible assets £'000	Goodwill £'000	Total £'000
Cost			
At 30 November 2014	5,086	141,668	146,754
Additions	620	8,711	9,331
Fair value adjustment on goodwill	–	(1,276)	(1,276)
Disposals	–	(349)	(349)
Transferred to assets held for sale	–	(1,223)	(1,223)
At 29 November 2015	5,706	147,531	153,237
Additions	166	9,662	9,828
Transferred from assets held for sale	–	1,223	1,223
Fair value adjustment on goodwill	–	(1,410)	(1,410)
Deferred tax on fair value adjustment of land and buildings	–	286	286
At 27 November 2016	**5,872**	**157,292**	**163,164**
Accumulated amortisation and impairment			
At 30 November 2014	3,047	4,556	7,603
Movement in provision	756	–	756
Impairment of disposals	–	(322)	(322)
Transferred to assets held for sale	–	(716)	(716)
At 29 November 2015	3,803	3,518	7,321
Amortisation	776	–	776
Net transferred from assets held for sale	–	716	716
At 27 November 2016	**4,579**	**4,234**	**8,813**
Net book value			
At 29 November 2015	1,903	144,013	145,916
As of 27 November 2016	**1,293**	**153,058**	**154,351**

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:

	27 November 2016	29 November 2015	30 November 2014
CGU1	**95,865**	95,628	95,476
CGU2	**6,504**	6,500	6,525
CGU3	**50,689**	42,392	35,111
Transferred to assets held for sale	**-**	(507)	–
	153,058	144,013	137,112

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;

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

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 the discount rate and long-term growth rates. The value in use calculations use cash flows based on the detailed financial budget for 2017 covering a 12-month period. The budget has regard to historical performance and knowledge of the current market, together with management's view on the future achievable growth. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a WACC of 12.05% (2015: 11.9%).

As adjusted EBITDA has been stable over several years, management consider a long-term growth rate of zero to be a prudent basis to extrapolate cash flows. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions, management have concluded that the carrying amount of goodwill would be likely to exceed the value in use.

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52 week period ended 27 November 2016

13. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 30 November 2014	24,925	75,214	100,139
Acquisitions	4,731	936	5,667
Additions	5,699	9,970	15,669
Transfered to assets held for sale	(3,655)	–	(3,655)
Disposals	(5,285)	(1,591)	(6,876)
At 29 November 2015	26,415	84,529	110,944
Acquisitions	4,823	858	5,681
Additions	4,945	10,774	15,719
Reallocation	3,655	(3,655)	–
Net transferred from assets held for sale	–	22	22
Disposals	(5,159)	(2,122)	(7,281)
At 27 November 2016	**34,679**	**90,406**	**125,085**
Accumulated depreciation			
At 30 November 2014	6,482	30,594	37,076
Charge	3,162	9,760	12,922
Impairment losses	–	180	180
Transferred to assets held for sale	(2,277)	–	(2,277)
Disposals	(52)	(1,266)	(1,318)
At 29 November 2015	7,315	39,268	46,583
Charge	3,655	9,874	13,529
Impairment losses	–	415	415
Reallocation	2,277	(2,277)	–
Net transferred to assets held for sale	–	(466)	(466)
Disposals	(131)	(1,628)	(1,759)
At 27 November 2016	**13,116**	**45,186**	**58,302**
Net book value			
At 29 November 2015	19,100	45,261	64,361
At 27 November 2016	**21,563**	**45,220**	**66,783**

The net book value of tangible fixed assets includes an amount of £2,077,000 (2015: £3,421,000) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the period was £877,000 (2015: £1,668,000). They all relate to plant and machinery. See note 2 for details of impairment review and assumptions.

Assets held for sale

Following a review of its portfolio in 2015, the Group decided to sell 97 of its newsagents. The Group continues to focus on the strategy of developing and expanding the convenience business and identified these stores as not being part of its long-term planning. During 2016, the Group sold 20 of the properties, removed 18 from the list and added 16, leaving 75 remaining at the end of the period.

The Group has treated this disposal under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

IFRS 5 requires that the Group must not offset the gains and losses compared to fair value of the individual stores. However, on the basis that it is not practical to disclose the remaining 75 individual assets held for sale, these have been disclosed in aggregate.

	27 November 2016 £'000	29 November 2015 £'000
Assets relating to the properties for sale	**4,286**	5,550
Liabilities associated with assets held for sale	**(5,137)**	(5,662)

Analysis:		
Goodwill (note 12)	**-**	507
Tangible fixed assets	**890**	1,378
Inventory (note 16)	**2,073**	2,192
Trade and other receivables (note 17)	**1,323**	1,473
Assets of the business classified as held for sale	**4,286**	5,550
Trade and other payables (note 19)	**(4,840)**	(5,662)
Provisions	**(297)**	–
	(5,137)	(5,662)
Net liabilities of the business classified as held for sale	**(851)**	(112)

14. Investments

	27 November 2016 £'000	29 November 2015 £'000
Investments at cost	**18**	18

The following information relates to all subsidiary undertakings of the Group during the period.

All are held by the Company unless stated. All are 100% held by a subsidiary undertaking unless marked with #. All subsidiaries are registered at the same address as McColl's Retail Group plc, except for those registered in Scotland, whose registered address is Unit 11, The Avenue, Newton Mearns, Glasgow G77 6AA.

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of business
A Harris Limited	Scotland	Ordinary shares	100%	Dormant
Birrell Limited	Scotland	Ordinary shares	100%	Dormant
Bracklands Limited	England and Wales	Ordinary shares	100%	Property Co
Charnwait Management Limited	England and Wales	Ordinary shares	100%	Retail
Clark Retail Limited	Scotland	Ordinary shares	100%	Retailing
Dillons Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Farthingmist Limited	England and Wales	Ordinary shares	100%	Dormant
Forbouys Limited	England and Wales	Ordinary shares	100%	Dormant
Forbouys Services Limited	England and Wales	Ordinary shares	100%	Dormant
Hargreaves Vending Limited	England and Wales	Ordinary shares	100%	Corporate activities
ISS Limited	England and Wales	Ordinary shares	100%	Dormant
Key Food Stores Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Lavells Limited	England and Wales	Ordinary shares	100%	Dormant
Lewis Meeson Limited	England and Wales	Ordinary shares	100%	Dormant
Marshell Group Limited	England and Wales	Ordinary shares	100%	Corporate activities
Martin CTN Group Limited	England and Wales	Ordinary shares	100%	Dormant
Martin McColl Limited	England and Wales	Ordinary shares	100%	Retailing
Martin McColl Group Limited	England and Wales	Ordinary shares	100%	Dormant
Martin McColl Retail Group Limited#	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Martin Retail Group Limited	Scotland	Ordinary shares	100%	Retailing
Martin the Newsagent Limited	England and Wales	Ordinary shares	100%	Dormant
NSS Newsagents Limited	England and Wales	Ordinary shares	100%	Dormant
NSS Newsagents Retail Limited	England and Wales	Ordinary shares	100%	Dormant
Price Smasher Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
RS McColl (UK) Limited	England and Wales	Ordinary shares	100%	Dormant
Smile Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Smile Property Limited	England and Wales	Ordinary shares	100%	Dormant
Smile Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
TM Coffee Limited	England and Wales	Ordinary shares	100%	Dormant
TM Group Limited	England and Wales	Ordinary shares	100%	Dormant
TM Group Holdings Limited	England and Wales	Ordinary shares	100%	Predeccessor Holding Co
TM Pension Trustees Limited	England and Wales	Ordinary shares	100%	Dormant
TM Retail Limited	England and Wales	Ordinary shares	100%	Dormant
TM Vending Limited	England and Wales	Ordinary shares	100%	Corporate activities
Tog Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Trents Leisure Limited	England and Wales	Ordinary shares	100%	Dormant
Trimley Stores Limited	England and Wales	Ordinary shares	100%	Dormant

Notes to the Financial Statements continued

52 week period ended 27 November 2016

15. Business combinations

During the period, the Group made 58 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:

	52 weeks ended 27 November 2016 £'000	52 weeks ended 29 November 2015 £'000
Tangible fixed assets	**5,681**	5,667
Inventory	**1,758**	1,169
Goodwill	**7,931**	7,591
Deferred tax liability	**–**	(260)
Deferred tax asset	**286**	72
Cash consideration	**15,656**	14,239

16. Inventories

	27 November 2016 £'000	29 November 2015 £'000
Goods for resale	**57,114**	53,503
Transferred to assets held for sale (note 13)	**(2,073)**	(2,192)
	55,041	51,311

17. Trade and other receivables

	27 November 2016 £'000	29 November 2015 £'000
Trade receivables	**3,223**	2,971
Supplier rebates	**19,169**	17,148
Prepayments and accrued income	**5,492**	5,207
Prepayment of Co-op acquisition expenses	**2,396**	–
Other receivables	**5,652**	4,685
Transferred to assets held for sale (note 13)	**(1,323)**	(1,473)
	34,609	28,538

Ageing of past due but not impaired receivables		
Trade receivables		
31-60 days	**368**	392
61-90 days	**130**	151
Greater than 90 days	**361**	397
	859	940
Supplier rebates receivable		
31-60 days	**1,641**	1,444
61-90 days	**291**	150
Greater than 90 days	**378**	19
	2,310	1,613

18. Cash and cash equivalents

	27 November 2016 £'000	29 November 2015 £'000
Cash at bank	**3,757**	14,531

19. Trade and other payables

	27 November 2016 £'000	29 November 2015 £'000
Trade payables	**98,784**	99,206
Other taxation and social security	**5,268**	4,888
Other payables	**3,078**	2,417
Amounts due under hire purchase obligations	**1,469**	1,137
Accrued interest	**274**	193
Accruals	**22,195**	19,894
Deferred income	**2,750**	2,368
Holiday pay accrual	**1,043**	930
Transferred to assets held for sale (note 13)	**(4,840)**	(5,662)
	130,021	125,371

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers no interest is charged on the trade payables 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.

20. Non-current liabilities – other payables

	27 November 2016 £'000	29 November 2015 £'000
Other payables	**814**	1,382
Amounts due under hire purchase obligations	**3,346**	1,757
	4,160	3,139

21. Borrowings

Details of loans and credit facilities are as follows:

	27 November 2016 £'000	29 November 2015 £'000
Amounts falling due:		
In more than two years but not more than five years	**37,000**	44,500
Total borrowings	**37,000**	44,500
Less: unamortised issue costs	**(1,039)**	(1,288)
Non-current borrowings	**35,961**	43,212

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.

In August 2015 the Group completed an amended £85,000,000 revolving credit facility and a £15,000,000 accordion for the Group. This facility extended the Group's existing £85,000,000 plus £15,000,000 accordion facilities which were due to expire in July 2018 until July 2020 at margins of 1.5% above LIBOR. In July 2016, the Group completed an amended £100,000,000 revolving credit facility and £50,000,000 accordian for the Group. The current facility drawn as at 27 November 2016 is £37,000,000 (2015: £44,500,000). At the period end, the amendment to the facility has not impacted covenant requirements.

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

	27 November 2016 £'000	29 November 2015 £'000
Revolving facility available until 31 August 2020 at 1.5% above LIBOR	**37,000**	44,500
Hire purchase obligations	**3,346**	1,127
	40,346	45,627

Notes to the Financial Statements continued
52 week period ended 27 November 2016

22. Net debt

	27 November 2016 £'000	29 November 2015 £'000
Cash at bank and in hand (note 18)	**3,757**	14,531
Loans due:		
In more than two years but not more than five years	**(37,000)**	(44,500)
Total borrowings	**(37,000)**	(44,500)
Less: unamortised issue costs	**1,039**	1,288
	(35,961)	(43,212)
Amounts due under hire purchase obligations	**(4,815)**	(2,894)
	(40,776)	(46,106)
Net debt	**(37,019)**	(31,575)

23. Provisions

	Dilapidations £'000	Onerous contracts £'000	Total £'000
At 29 November 2015	1,513	2,935	4,448
Utilised during the period	(568)	(2,813)	(3,381)
Unwinding of the discount included in provisions	38	159	197
Additional provision	918	818	1,736
Released unused	(601)	(90)	(691)
Transferred to assets held for sale (note 13)	(80)	(217)	(297)
At 27 November 2016	**1,220**	**792**	**2,012**
Included in current liabilities	1,220	427	1,647
Included in non-current liabilities	–	365	365
	1,220	792	2,012

Dilapidations

The provision includes estimates for certain properties for which the extent of the dilapidation has not been established. It is expected that most of these costs will be incurred in the next five years.

Onerous contracts

A provision is recognised for the present value of the unavoidable costs of the lease net of expected benefits for all leases that have been identified as onerous.

£197,000 of the additional provision made in the period was exceptional and is described in further detail in note 5.

24. Deferred tax liability

Deferred tax movements are as follows:

	Pension deficit/ surplus £'000	Fixed assets £'000	Rolled-over capital gains £'000	Goodwill £'000	Freehold property £'000	Other temporary differences £'000	Total £'000
At 30 November 2014	262	1,354	4,616	(1,247)	–	(284)	4,701
Arising on acquisition	–	–	–	(72)	260	–	188
Charge/(credit) to income statement	163	(527)	(428)	1,410	(260)	90	448
Charge to other comprehensive income	694	–	–	–	–	–	694
At 29 November 2015	1,119	827	4,188	91	–	(194)	6,031
Prior year adjustment	(17)	(215)	(3)	(91)	–	27	(299)
Arising on transition of subsidiaries to FRS 101	–	–	(771)	–	–	–	(771)
Arising business combinations	–	–	–	286	–	–	286
Charge/(credit) to income statement	69	(476)	–	–	–	167	(240)
Credit to other comprehensive income	(151)	–	–	–	–	–	(151)
At 27 November 2016	**1,020**	**136**	**3,414**	**286**	**–**	**–**	**4,856**

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 27 November 2016 has been measured at 17% (2015: 18%) being the tax rate enacted at the balance sheet date expected to be effective for future periods.

25. 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. There have been no substantive changes in the Group's exposure to financial instrument risks or its objectives, policies and processes for managing and measuring those risks during the periods in this report unless otherwise stated.

On 13 July 2016 the Group completed and signed an amended £100,000,000 revolving credit facility and a £50,000,000 accordion facility for the Group. This facility amends the Group's existing £85,000,000 plus £15,000,000 accordion facilities which were due to expire in July 2020. The new facility was not effective until after the year end and will be in place until August 2021 at various margins above LIBOR. The current facility drawn as at 27 November 2016 is £37,000,000 (2015: £44,500,000).

On the same date, the Group completed a £100,000,000 term loan agreement for the purchase of 298 stores from Co-op. At 27 November 2016, none of this facility had been drawn.

Interest rate risk

The Group is exposed to interest rate risk from its use of interest bearing financial instruments. This is a market risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. There are no financial instruments held at level 1, 2 or 3 fair value.

Floating rate financial liabilities on which interest is paid bear interest at rates based on 1 month LIBOR. It is the Group's policy to consider the need for interest rate hedging on an ongoing basis. No interest rate hedging is currently in place.

Notes to the Financial Statements continued

52 week period ended 27 November 2016

25. Financial instruments and risk management continued

Interest rate risk profile of financial liabilities and assets

The interest rate profile of the financial liabilities of the Group is as follows:

	27 November 2016 £'000	29 November 2015 £'000
Fixed rate financial liabilities	2,705	2,628
Floating rate financial liabilities	39,109	44,766
Financial liabilities on which no interest is paid	128,938	126,584
Financial liabilities	**170,752**	173,978

The floating rate financial liabilities comprise a sterling designated working capital facility and hire purchase borrowings. The interest rate profile of the financial assets of the Group is as follows:

	27 November 2016 £'000	29 November 2015 £'000
Floating rate financial assets	–	–
Financial assets on which no interest is paid	42,678	38,641
Financial assets	**42,678**	38,641

If interest rates had been 0.5% higher during the period ended 27 November 2016, with all other variables held constant, the post-tax profit for the period would have been approximately £300,000 lower (2015: £237,000 lower) as a result of higher interest expense.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges on its debt instruments and repayments of principal. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Each period management carries out a daily cash forecast covering the next three to four periods.

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. Each period management carries out a daily cash forecast covering the next three to four periods.

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:

	27 November 2016 £'000	29 November 2015 £'000
Up to 3 months or on demand	128,526	125,486
In 3 – 12 months	1,208	852
In more than one year but not more than two years	2,047	1,289
In more than two years but not more than five years	38,971	46,351
In more than five years	–	–
	170,752	173,978

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 £37,000,000 had been drawn at 27 November 2016 (2015: £44,500,000).

Credit risk

Given the nature of the Group's operations, credit risk is not considered significant and arises mainly from cash deposits held with banks and financial institutions which have a good credit rating. Credit risk also arises from trade and other receivables which comprise amounts due from credit card institutions and rebates due from suppliers.

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 27 November 2016		At 29 November 2015	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Financial liabilities				
At amortised cost				
Trade and other short-term payables	**(128,123)**	**(128,123)**	(125,202)	(125,202)
Hire purchase borrowings	**(4,815)**	**(4,815)**	(2,894)	(2,894)
Long-term borrowings	**(37,000)**	**(37,000)**	(44,500)	(44,500)
Long-term payables	**(814)**	**(814)**	(1,382)	(1,382)
	(170,752)	**(170,752)**	(173,978)	(173,978)
Financial assets				
Other investments carried at cost	**18**	**18**	18	18
Classified as loans and receivables				
Short-term receivables	**38,903**	**38,903**	24,092	24,092
Cash and short-term deposits	**3,757**	**3,757**	14,531	14,531
	42,678	**42,678**	38,641	38,641

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:

	27 November 2016 £'000	29 November 2015 £'000
Net debt (as per note 22)	**37,019**	31,575
Total equity (as defined above)	**134,404**	120,486
Debt to capital ratio	**0.3**	0.3

26. Authorised, issued and fully paid share capital

	Number of shares	Share capital £'000	Share premium £'000
Issued ordinary shares of £0.001 at 29 November 2015	104,712,042	105	47,836
	104,712,042	105	47,836
	–	–	–
Share premium transfer to retained earnings	–	–	(47,836)
Issued ordinary shares of £0.001 at 18 July 2016	10,460,732	10	12,579
Issued ordinary shares of £0.001 at 27 November 2016	**115,172,774**	**115**	**12,579**

Voting rights

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.

Notes to the Financial Statements continued

52 week period ended 27 November 2016

27. Leases and commitments

Operating leases

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

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

	27 November 2016 £'000	29 November 2015 £'000
Land and buildings		
Within one year	**26,933**	25,633
Within one to five years	**84,231**	67,513
After five years	**99,572**	66,537
	210,736	159,683

As set out in note 4 property rental income earned during the year was £2,985,000 (2015: £2,693,000). 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:

	27 November 2016 £'000	29 November 2015 £'000
Within one year	**351**	442
Within one to five years	**654**	994
After five years	**292**	339
	1,297	1,775

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:

	27 November 2016 £'000	29 November 2015 £'000
Minimum lease payments payable		
Not later than one year	**1,041**	1,293
Later than one year and not later than five years	**1,990**	1,888
	3,031	3,181
Less future interest	**(327)**	(287)
	2,704	2,894

Capital commitments

The Group has a capital commitment of £116,000,000 (being £117,000,000 less £1,000,000 deposit) in respect of the acquisition of 298 stores from the Co-op and other capital commitments of £125,000 as at 27 November 2016 (2015: £275,000).

Other commitments

In order to manage its exposure to fluctuating energy prices, during the year the Group entered into contracts to purchase 64.4 MW of electricity at a fixed price from SSE. The contracts allow for a 10% over or underutilisation of the power contracted at the rates secured. While management acknowledge that the forward contracts in place are derivatives, they cannot be traded and are therefore treated as contracts that secure a pre-agreed price for electricity requirements to operate the stores portfolio.

28. Notes to the cash flow statement

	27 November 2016 £'000	29 November 2015 £'000
Profit for the period	**13,916**	16,097
Income and expenses not affecting operating cash flows		
Depreciation and amortisation	**14,305**	13,678
Impairment losses	**415**	180
Income tax	**3,743**	5,014
Finance expense	**2,875**	2,700
Finance income	**(13)**	(165)
Profit on disposal of fixed assets	**(352)**	(437)
	34,889	37,067
Changes in operating assets and liabilities (including assets held for sale)		
(Increase)/decrease in trade receivables	**(252)**	89
(Increase)/decrease in other receivables	**(5,669)**	15
Increase in inventory	**(1,853)**	(6,581)
(Decrease)/increase in trade payables	**(422)**	13,857
Increase in other payables	**3,629**	4,649
Decrease in pensions	**(1,025)**	(1,784)
(Decrease)/increase in provisions	**(2,504)**	280
Cash generated by operations	**26,793**	47,592
Income taxes paid	**(5,144)**	(4,070)
Net cash provided by operating activities	**21,649**	43,522

2015 benefited from the reversal of the 2014 53rd week.

Analysis of net debt

	At 29 November 2015 £'000	Cash flow £'000	Other non-cash movements £'000	At 27 November 2016 £'000
Cash and cash equivalent	14,531	(10,774)	–	**3,757**
Borrowings	(43,212)	7,500	(249)	**(35,961)**
Amounts due under the hire purchase obligations	(2,894)	(1,921)	–	**(4,815)**
	(31,575)	(5,195)	(249)	**(37,019)**

29. Contingent liabilities

At 27 November 2016, the Group has the following contingent liabilities:

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.

Costs contingent upon receipt of Competition & Markets Authority approval of the acquisition of 298 Co-op stores:

	£'000
Bank arrangement fee (to be paid on first drawdown of new term loan)	**447**
Broker fee for acquisition to be paid after CMA approval has been obtained	**1,170**
	1,617

30. Retirement benefit schemes

The Group accounts for pensions in accordance with IAS 19.

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 £1,409,000 (2015: £1,356,000).

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:

- Lower than expected investment returns
- Members living for longer than expected
- Higher than expected actual inflation
- The risk that movements in the value of the schemes' liabilities are not met by corresponding movements in the value of the schemes' assets

Notes to the Financial Statements continued

52 week period ended 27 November 2016

30. Retirement benefit schemes continued

The sensitivity analysis disclosed is intended to provide an indication on the impact on the value of the schemes' liabilities of the risks highlighted.

The ongoing funding position of the schemes are formally assessed on a triennial basis by an independent qualified actuary. The results of the valuation are used by the Group and the trustees of the schemes to agree a contribution schedule as required. Further details are set out in the valuation documentation.

The last completed triennial full actuarial valuation of the schemes was carried out at 31 March 2013. The Group expects to contribute £459,000 to the TM Group Pension Scheme and £1,074,000 to the TM Pension Plan in the period ended 26 November 2017.

A full valuation as at 31 March 2016 is currently under way to determine future contribution requirements, and is due to be completed by 30 June 2017. The figures for this financial information have been based, in accordance with IAS 19, on valuations using the projected unit method.

The disclosures are based upon the preliminary results of the valuation of the schemes carried out as at 31 March 2016, updated to 27 November 2016 by qualified independent actuaries. The main assumptions when valuing the liabilities of the schemes under IAS 19 revised are as follows:

	Group pension schemes	
	27 November 2016 %pa	29 November 2015 %pa
RPI inflation	**3.25**	3.00
CPI inflation	**2.25**	2.00
Rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase to pensions in payment:		
5% LPI	**3.15**	2.95
2.5% LPI	**2.20**	2.10
Discount rate	**2.90**	3.55

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

Demographic assumptions

		TM Group Pension Scheme		TM Pension Plan	
		27 November 2016 years	29 November 2015 years	**27 November 2016 years**	29 November 2015 years
Life expectancy of a pensioner aged 65	– male	**87.0**	86.9	**87.1**	87.0
	– female	**89.0**	88.9	**88.8**	88.7
Life expectancy at age 65 for someone aged 45	– male	**89.4**	89.3	**89.5**	89.4
	– female	**90.6**	90.5	**90.4**	90.3
Life expectancy at age 45 for someone aged 45	– male	**86.3**	86.2	**86.4**	86.3
	– female	**88.5**	88.4	**88.2**	88.1

Notes to the balance sheet

	TM Group Pension Scheme		TM Pension Plan	
	27 November 2016 £'000	29 November 2015 £'000	**27 November 2016 £'000**	29 November 2015 £'000
Fair value of scheme assets	**89,249**	83,285	**46,791**	43,701
Present value of funded scheme obligations	**(78,303)**	(73,479)	**(51,635)**	(47,385)
Net pension asset/(liability)	**10,946**	9,806	**(4,844)**	(3,684)

On its balance sheet, the Group recognises £10.9m surplus in respect of the TM Group Pension Scheme. The Group as employer is allowed to do this as it has unconditional right to any surplus once the last Group benefits have been paid.

Notes to the income statement

	TM Group Pension Scheme		TM Pension Plan	
	27 November 2016 £'000	29 November 2015 £'000	**27 November 2016 £'000**	29 November 2015 £'000
Current service cost including administration expenses	**299**	244	**383**	424
Net interest on defined benefit asset	**(357)**	(232)	**108**	171
Total included in 'staff costs'	**(58)**	12	**491**	595

Notes to the statement of comprehensive income (SCI)

	TM Group Pension Scheme		TM Pension Plan	
	27 November 2016 £'000	29 November 2015 £'000	**27 November 2016 £'000**	29 November 2015 £'000
Return on assets excluding amounts included in net interest	**7,137**	1,984	**3,462**	308
Losses due to changes in demographic assumptions	**–**	–	**–**	–
Gains due to changes in financial assumptions	**(7,349)**	222	**(5,705)**	72
Gains due to plan experience	**841**	655	**497**	759
Total recognised in SCI	**629**	2,861	**(1,746)**	1,139

Recognition of defined benefit obligation

	TM Group Pension Scheme		TM Pension Plan	
	27 November 2016 £'000	29 November 2015 £'000	**27 November 2016 £'000**	29 November 2015 £'000
Opening defined benefit obligation	**73,479**	75,572	**47,385**	48,702
Administration costs	**299**	244	**383**	424
Interest cost on defined benefit obligation	**2,510**	2,578	**1,623**	1,665
Losses/(gains) due to changes in demographic assumptions	**–**	–	**–**	–
Losses/(gains) due to changes in financial assumptions	**7,349**	(222)	**5,705**	(72)
Gains due to plan experience	**(841)**	(655)	**(497)**	(669)
Benefits paid including expenses	**(4,493)**	(4,038)	**(2,964)**	(2,665)
Closing defined benefit obligation	**78,303**	73,479	**51,635**	47,385

Reconciliation of fair value of scheme assets

	TM Group Pension Scheme		TM Pension Plan	
	27 November 2016 £'000	29 November 2015 £'000	**27 November 2016 £'000**	29 November 2015 £'000
Opening fair value of scheme assets	**83,285**	82,076	**43,701**	43,502
Interest income on scheme assets	**2,867**	2,810	**1,515**	1,494
Employer contributions	**453**	453	**1,077**	1,062
Return on assets excluding amounts included in net interest	**7,137**	1,984	**3,462**	308
Benefits paid including expenses	**(4,493)**	(4,038)	**(2,964)**	(2,665)
Closing fair value of scheme assets	**89,249**	83,285	**46,791**	43,701

Notes to the Financial Statements continued

52 week period ended 27 November 2016

30. Retirement benefit schemes continued

The Group expects to contribute £459,000 to the TM Group Pension Scheme and £1,074,000 to the TM Pension plan in the period ended 26 November 2017.

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

	TM Group Pension Scheme			
	27 November 2016 £'000	27 November 2016 %	29 November 2015 £'000	29 November 2015 %
Equity securities	15,736	18%	14,917	18%
Debt securities – Corporate	42,010	46%	43,577	52%
Debt securities – Government	20,336	23%	20,169	24%
Real estate	4,022	5%	4,035	5%
Cash and cash equivalents	7,145	8%	587	1%
	89,249	100%	83,285	100%

	TM Pension Plan			
	27 November 2016 £'000	27 November 2016 %	29 November 2015 £'000	29 November 2015 %
Equity securities	21,286	45%	19,956	46%
Debt securities – Corporate	14,610	31%	14,801	34%
Debt securities – Government	4,925	11%	4,715	11%
Real estate	4,022	9%	4,035	9%
Cash and cash equivalents	1,948	4%	194	0%
	46,791	100%	43,701	100%

The investment strategy of the schemes is driven by their liability profiles. The assets of the schemes are managed by an independent pension and investment consultant. The schemes invest in different types of bonds (including corporate and government bonds) in order to align movements in the value of their assets with movements in their liabilities arising from changes in market conditions.

Policy for recognising actuarial gains and losses

The Group recognises actuarial gains and losses immediately in the statement of comprehensive income.

Sensitivity analysis

	TM Group Pension Scheme		TM Pension Plan	
	Change in actuarial value of liabilities on 27 November 2016 000's	Change in actuarial value of liabilities on 29 November 2015 000's	Change in actuarial value of liabilities on 27 November 2016 000's	Change in actuarial value of liabilities on 29 November 2015 000's
Change in assumptions compared with 27 November 2016 and 29 November 2015 actuarial assumptions				
0.5% decrease in discount rate	5,544	5,014	4,018	3,576
1 year increase in member life expectation	3,132	2,204	2,065	1,419
0.5% decrease in inflation (including impact of pension increases)	(2,297)	(2,069)	(2,467)	(2,251)

The sensitivities disclosed are calculated using approximate methods taking into account the weighted average duration of the schemes' liabilities (13 years for the TM Group Pension Scheme and 14 years for the TM Pension Plan). This is the same approach as in previous years.

31. Related party transactions

Only the Directors are deemed to be key management personnel. All transactions between Directors and the Group are on an arm's-length basis and no period-end balances have arisen as a result of these transactions.

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 IAS 24-related party disclosures.

	27 November 2016 £'000	29 November 2015 £'000
Short-term employee benefits	2,068	1,862
Compensation for loss of office	-	259
Share-based payments	-	–
	2,068	2,121

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

32 Subsequent events

On 20 December 2016 the Group received a decision by the Competition & Markets Authority to give final and unconditional approval to its acquisition of all 298 convenience stores from the Co-op that was announced on 13 July 2016.

The Group began to integrate the stores in late January 2017 and expects all conversions to be completed by the end of August 2017.

Company balance sheet
27 November 2016

	Note	27 November 2016 £'000	29 November 2015 £'000
Non-current assets			
Investments	C3	**77**	77
Total non-current assets		**77**	77
Current assets			
Trade and other receivables	C4	**68,093**	63,374
Total current assets		**68,093**	63,374
Total assets and net assets		**68,170**	63,451
Shareholders' equity			
Equity share capital	C5	**115**	105
Share premium account	C5	**12,579**	47,836
Retained earnings		**55,476**	15,510
		68,170	63,451

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the Board of Directors on 26 February 2017
Signed on behalf of the Board of Directors.

Simon Fuller
Director

Company statement of changes in equity
27 November 2016

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 29 November 2015	105	47,836	15,510	63,451
Share premium transfer to retained earnings	–	(47,836)	47,836	–
Issue of share capital (note C5)	10	12,579	–	12,589
Profit for the period	–	–	3,166	3,166
Dividends paid	–	–	(11,036)	(11,036)
	115	**12,579**	**55,476**	**68,170**

Notes to the Company financial statements
52 week period ended 27 November 2016

C1. Basis of preparation
The Company's financial period is the period from 30 November 2015 to 27 November 2016. The parent company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 December 2014. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements. FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The prior year financial statements were restated for material adjustments on adoption of FRS 101 in the current year. For more information see note C7.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of share capital, tangible fixed assets and intangible assets, presentation of a cash flow statement and related notes, standards not yet effective, impairment of assets, disclosures in respect of the compensation of key management personnel and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of McColl's plc.

The parent company financial statements are prepared on a going concern basis as set out in note 1 of the consolidated financial statements of the Group. The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

C2. Significant accounting policies

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

Taxation
Current taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

Deferred taxation
Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all temporary differences, except to the extent where a deferred tax liability arises from the initial recognition of goodwill or from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that the Directors consider that, on the basis of all available evidence, it is probable that there will be suitable future taxable profits from which the future reversal of the underlying differences can be deducted.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

C3. Investments

Shares in subsidiaries

	27 November 2016 £'000	29 November 2015 £'000
Cost		
Investments	**77**	77

The carrying value of the investment in subsidiary undertakings has been reviewed at 27 November 2016 and no impairment charge is required. A list of all subsidiaries can be found in note 14 on page 109.

C4. Trade and other receivables

	27 November 2016 £'000	29 November 2015 £'000
Amounts owed by Group undertakings	**68,093**	63,374

C5. Authorised, issued and fully paid share capital

	Number of shares	Share capital £'000	Share premium £'000
Issued ordinary shares of £0.001 each at 29 November 2015	104,712,042	105	47,836
Share premium transfer to retained earnings	–	–	(47,836)
Issued ordinary shares of £0.001 at 18 July 2016	10,460,732	10	12,579
Issued ordinary shares of £0.001 at 27 November 2016	**115,172,774**	**115**	**12,579**

C6. Dividends paid and proposed

The Board has recommended a final dividend of 6.8 pence per share (2015: 6.8 pence), totalling £7,832,000, subject to shareholder approval at the Annual General Meeting to be held on 27 April 2017. The final dividend will be paid on 24 May 2017 to those shareholders on the register at the close of business on 5 May 2017. The payment of this dividend will not have any tax consequences for the Group. The interim dividend, declared and paid, was 3.4 pence per share (2015: 3.4 pence), totalling £3,916,000.

	27 November 2016 £'000	29 November 2015 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2015: 6.8p (2014: 6.8p)	**7,120**	7,120
Interim for 2016: 3.4p (2015: 3.4p)	**3,916**	3,560
Dividends paid	**11,036**	10,680
Proposed for approval by shareholders at the AGM:		
Final dividend for 2016: 6.8p (2015: 6.8p)	**7,832**	7,120

The proposed final dividend is subject to approval by shareholders passing a written resolution and accordingly has not been included as a liability in these financial statements.

Notes to the Company Financial Statements continued
52 week period ended 27 November 2016

C7. Explanation of transition to FRS 101 from UK GAAP
As stated in note C1, these are the Company's first financial statements prepared in accordance with FRS 101. The accounting policies set out in note C2 have been applied in preparing the financial statements for the year ended 27 November 2016, the comparative information presented in these financial statements for the year ended 29 November 2015 and in the preparation of an opening FRS 101 balance sheet at 1 December 2014 (the Company's date of transition). In preparing its opening FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from previously adopted UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following table.

		27 November 2016 £'000			29 November 2015 £'000		
	Note	UK GAAP	Effect of transition	FRS 101	UK GAAP	Effect of transition	FRS 101
Non-current assets							
Investments	C3	77	-	77	77	–	77
Total non-current assets		77	-	77	77	–	77
Current assets							
Trade and other receivables	C4	68,093	-	68,093	63,374	–	63,374
Total current assets		68,093	-	68,093	63,374	–	63,374
Total assets and net assets		68,170	-	68,170	63,451	–	63,451
Shareholders' equity							
Equity share capital	C5	115	-	115	105	–	105
Share premium account	C5	12,579	-	12,579	47,836	–	47,836
Retained earnings		55,476	-	55,476	15,510	–	15,510
		68,170	-	68,170	63,451	–	63,451

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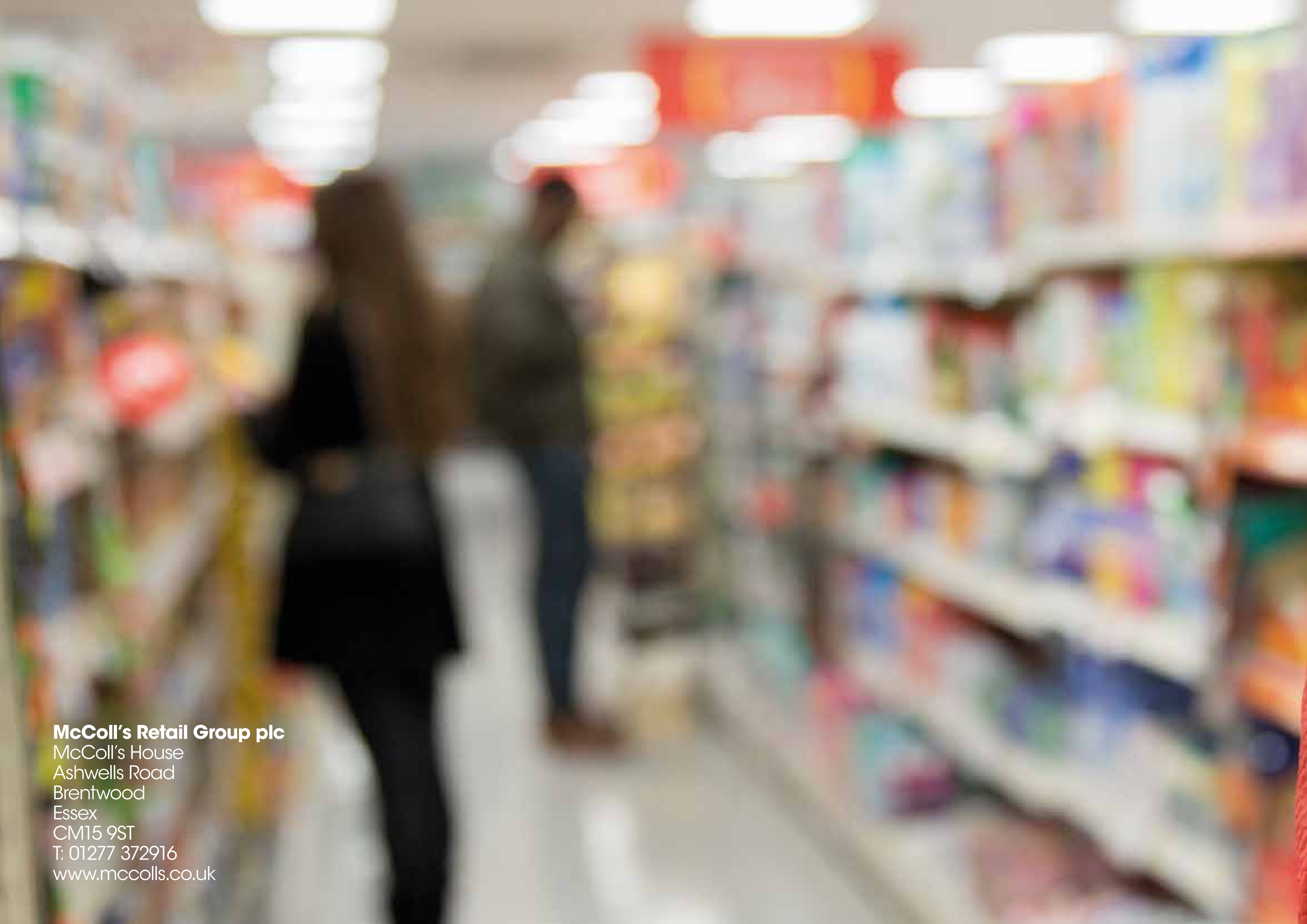

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