McColl's
RETAIL GROUP

Your favourite Neighbourhood shop

McColl's Retail Group plc
Annual Report and Accounts 2019

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Highlights

Revenue

£1.2bn

-1.8% 2018

Adjusted gross profit*

£315.7m

-2.1% 2018

Adjusted EBITDA*

£32.1m

-8.2% 2018

Adjusted profit before tax*

£7.3m

-30.2% 2018

Adjusted earnings per share*

5.6p

-16.8% 2018

Net debt*

£94.1m

-4.5% 2018

* The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 123–124. Full details of adjusted EBITDA can be found in note 6 on page 101.

"We will become 'your favourite neighbourhood shop' by making life easier."

Read more about our Customer First proposition on **Pages 8 to 15**

Our business exists to make life easier for our customers, colleagues and the communities we serve. This is our purpose, it's the reason our stores stand out in their neighbourhoods, and it's how we have built a reputation for friendliness, helpfulness, speed of service and ease of shop.

We have re-focused on our customer proposition in 2019, sharpening our strategy and reviewing our range of products and services. We continue to refresh our stores and are further developing our strong neighbourhood convenience offer to meet the changing needs of customers.

> "A year of consolidation and of strengthening the team."

Stabilising the business

Dear shareholder

Following a challenging year in 2018, we have rebuilt momentum in 2019 and focused our efforts on preparing the business to maximise the opportunities ahead.

Focus on customers, people and the fundamentals of retail

Our Chief Executive, Jonathan Miller, and his team were tested by the issues that affected our supply chain throughout 2018. The residual effects of the disruption, combined with weak consumer confidence and political uncertainty, created a challenging trading environment for McColl's as we entered 2019.

That's why this year has been a year in which our teams have worked hard to stabilise the business and deliver sound retail execution. We have renewed our focus on our customers, supported our people and concentrated hard on the fundamentals of retail, especially the areas that are most important in the convenience sector. With our distribution network now in a much better place we can continue to make progress on enhancing our offer.

The strenuous, and often meticulous, efforts we have made in 2019 are helping us develop an optimal range and promotional proposition that is beginning to bear fruit. Whilst much hard work lies ahead, I believe they will also provide a strong platform for the future growth of McColl's.

Continuing financial discipline

Good capital discipline and maintaining a flexible balance sheet are the basis on which we build our business, enabling us to explore opportunities to invest sensibly for growth, while always looking to take further action to reduce leverage.

Despite difficult conditions, the business achieved level like-for-like sales, maintained gross margin and generated reduced net debt. Our proposed test stores with optimised range, display and pricing and innovative food-to-go and last mile delivery trials, are a small part of the overall picture today, but have potential for driving sales growth, as we expand our range of products and services into new areas.

We continued to realise proceeds both from the disposal of non-core assets, and from the sale and leaseback of the remaining freeholds we acquired as part of our acquisition in 2016. This has helped us to meet our commitment to reducing net debt, while investing in strategic initiatives to drive future growth. We have also continued with our store optimisation programme, acquiring a small number of high-potential convenience stores, while closing or disposing of smaller or less efficient stores.

All of this has contributed to the strengthening of our base this year, a crucial factor in our resilience as a business and our ability to grow sustainably. Having engaged with our banking syndicate in the latter part of 2019, I am pleased to report that significant progress has been made regarding the renewal of the current debt facility, which will give us more certainty and flexibility to execute our strategic initiatives in 2020, and beyond.

Dividends

We always consider our cash allocation carefully, balancing the need to invest in our technology, people and the fabric of our stores, reduce our debt and provide returns to shareholders.

Deleveraging the balance sheet is one of our key priorities for 2020 so, in combination with a number of cash management initiatives implemented by the Executive team, the Board has taken the difficult but prudent decision to suspend the final dividend for the 2019 financial year. The Board recognises that dividend payments are an important part of the Group's returns to shareholders and will keep the dividend policy under review with the aim of reinstating the payment of dividends at an affordable and sustainable level, once our strategic change programme gathers momentum and the Group deleverages.

Organising for the future

I'd like to take this opportunity to thank all of our people for their contributions this year – from the Board, Jonathan and his team, through to all our colleagues who either serve customers on the front line, or make it easier for them to do that every day.

It's been a great team effort, and I'm also delighted to welcome two key appointments, who have not only strengthened our executive team but have been instrumental in invigorating our strategic drive. Robbie Bell joined the Board as Chief Financial Officer in January 2019, bringing his extensive experience and expertise in finance and retail to the business. Joining us in September 2019, Richard Crampton is our new Chief Commercial Officer. Richard brings extensive experience in convenience and food retail and is already heavily engaged in our evolving commercial strategy.

We have recently announced two further changes to the Board. Sharon Brown, who has been Chair of the Audit Committee for the last six years, has announced her intention to step down in the summer, and a search for her replacement is at an advanced stage.

Dave Thomas, who has provided long and valuable service to McColl's, most recently as Chief Operating Officer, has also announced his intention to retire in April. As we move forwards, we will continue to assess the suitability of the Board structure, bolstering it with the relevant skill and experience as and when necessary. I'd like to give my thanks on behalf of the Board to both Sharon and Dave for the immense contributions they have made to McColl's, and my own personal thanks for the support they have given me throughout the recent challenging times for the business.

Whilst Jonathan says more about organisational changes to his team within his review, I'd like to mention just one of those changes here. I am delighted that Karen Bird, our Colleague Director, has accepted a role which gives her additional responsibility for Operations, and I am confident that she will be able to draw on her extensive operational experience at Tesco and elsewhere to ensure we are organised for future success.

Looking forward

We approach 2020 with cautious optimism, confident in the groundwork we have laid down this year and ongoing reshaping of the business. The convenience market continues to grow, and we will compete for a greater share of that market, with the momentum borne of improved product ranges, new services and innovative store concepts.

Concerns remain over the impact of Brexit and the uncertainty for businesses and consumers that may arise during 2020 and beyond. However, the food and grocery retail sector remains resilient to economic downturn, while the long-term social and lifestyle trends we see in the UK continue to support growth in the convenience channel.

The Board remains committed to our strategy and we will maintain focus on deleveraging, as we position ourselves for growth in the coming years. We will continue to improve the business and forge ever greater links with the communities we serve, as we strive to fulfil our ambition to become everybody's favourite neighbourhood shop.

Angus Porter
Chairman

Where we operate

Serving people where they live

Our network of convenience stores and newsagents provides essential groceries and services to 1,443 neighbourhoods across the UK.

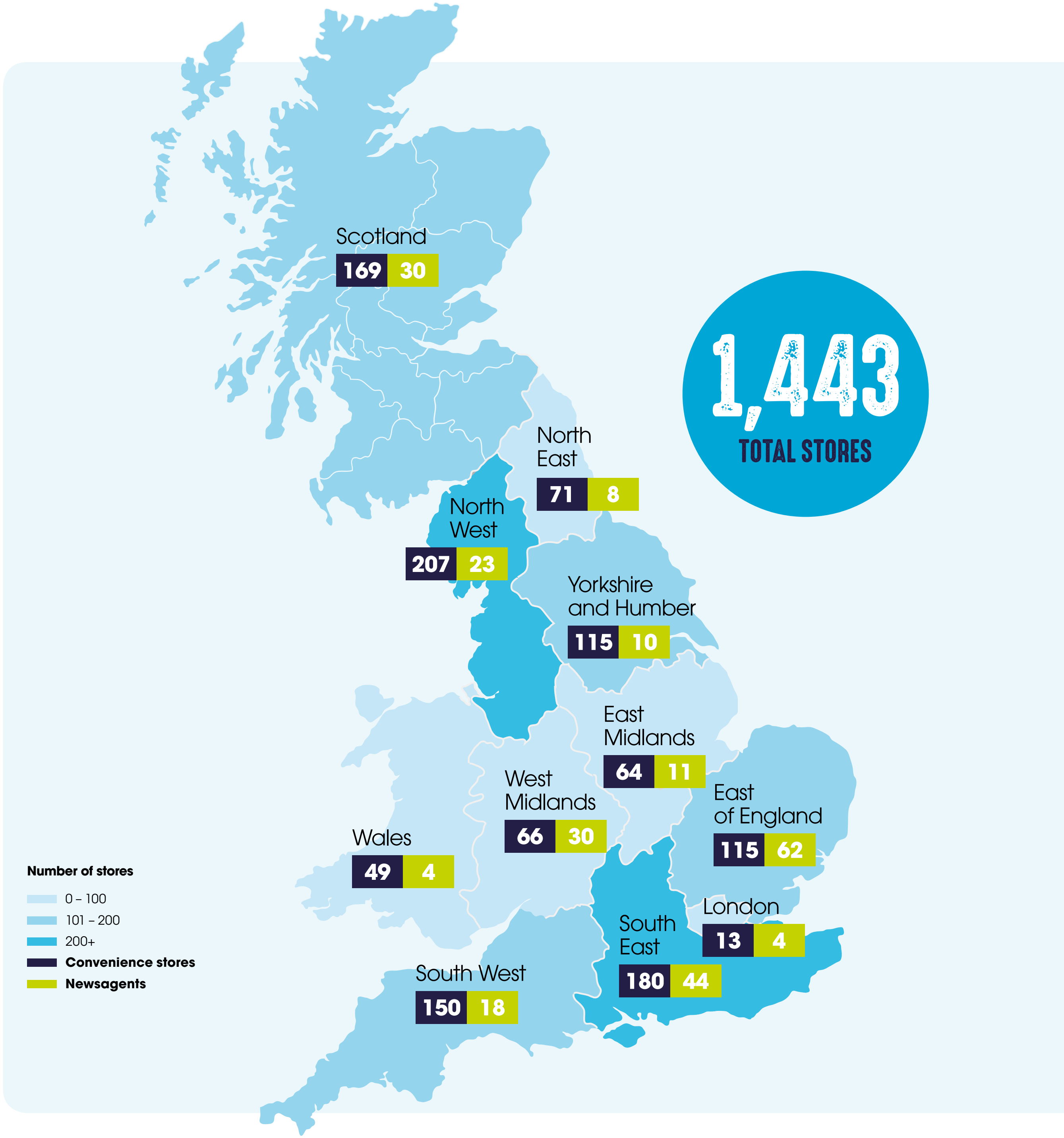
2011

47%
Convenience

2019

83%
Convenience

Convenience stores
Newsagents



Convenience stores

McColl's has a proud retail history that can be traced back to 1901 when the first RS McColl opened. However, our move into the convenience sector came just a quarter of a century ago, with the launch of the Group's first food-based stores.

Through acquisitions and the conversion of hundreds of our newsagents, we have become a leading neighbourhood retailer with 1,199 convenience stores across the UK.

Refreshing our stores

During the year we refitted 23 stores, including 10 under the Morrisons Daily fascia. We now have 99 McColl's Project Refresh stores trading and they continue to demonstrate sales uplifts.

This project has been on hold in the latter part of the year, as we re-focus on what we do best and concentrate on the market segments our stores serve. We will be trialling new concepts in 2020 that could redefine our look and feel, range of products and services, and the way we interact with customers.

Morrisons Daily

During the first half of the year, we converted ten of our stores to the Morrisons Daily fascia, with ranges that include Morrisons own-branded products. We have had a positive response from customers and as sales have been encouraging, we have plans to convert c20 more in the near term.

Newsagents

Our newsagents are branded Martin's across the UK, except in Scotland where we operate under our heritage brand, RS McColl. We are happy to continue to trade profitable newsagent stores.

244
NEWSAGENTS

What we offer

Our vision is to be your favourite neighbourhood shop

Every community is different and so are our stores. We apply consistent high standards wherever we are, but we tailor local offers to meet the needs of your neighbourhood. We provide the groceries, food-to-go, everyday essentials and useful services that make your life easier and every day better.

See our business model
Page 20

> "Whether our customers need to grab breakfast on the run, pick up an item they've forgotten or return a parcel they've bought online, we're on their doorstep, and we're here to help."

Customer focus

Our warm and friendly colleagues don't just provide excellent customer service every day, they play a prominent role in their communities and are the key to making McColl's your neighbourhood's favourite shop.

26%
OF CUSTOMERS VISIT US EVERY DAY

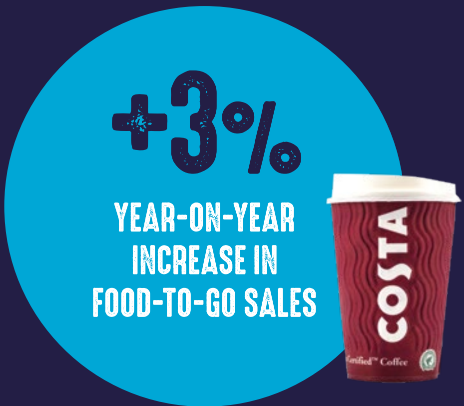
Local

We're at the heart of our customers' neighbourhoods, just minutes away or on their way to work or school. And with long opening hours, we're the convenient choice at almost any time of day.

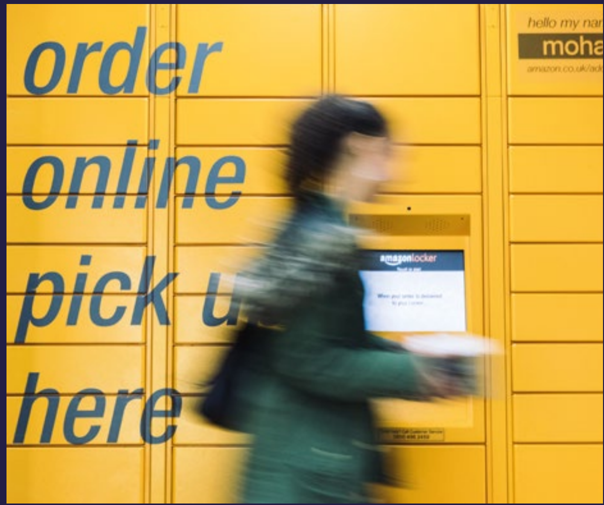
55%
OF CUSTOMERS LIVE OR WORK WITHIN 400m OF THEIR LOCAL McCOLL'S

Products

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



Everyday services



So much more than local shops, our stores are neighbourhood hubs – providing people with great products and useful services, close to where they live and available when they need them.

Communities

Our customers value the support we give to communities around our stores. Our 'Making a Difference Locally' programme has helped hundreds of local organisations and good causes.

Building foundations for success

We have stabilised the business and re-focused on retail execution in 2019. The market remains highly competitive, with challenging trading conditions, but we have made good progress while maintaining strong capital discipline, reducing net debt and making appropriate levels of investment.

Period of stabilisation

The last few years have seen different pressures on our business, with the acquisition of 298 shops in 2016, their integration in 2017, and then supply chain disruption in 2018. This meant that a period of stabilisation was required, and I am encouraged by the performance we have delivered this year, as we regain greater operational stability, in what has remained an uncertain economy.

Total revenue was slightly down primarily due to closures and store divestments as part of our continuing optimisation programme. LFL sales were level in 2019, an improvement on the decline seen in 2018, but were held back by the general retail market slowdown over the summer, as the UK experienced a prolonged period of poor weather compared to the previous year's long hot summer. We also arrested the decline in margin, and achieved strong cost control, broadly offsetting inflationary pressures, including rent, wages and general inflation.

This steady performance reflects a deliberately calm year for McColl's. A year in which we have gone back to basics, focused on good retail execution, and given the business a chance to breathe. We have taken time to look at our strategy and purpose, to understand our business better and to improve our thinking around improving and growing our convenience offer. At the same time, I am immensely proud that our store colleagues have continued to deliver first class customer service, improving on almost every metric in the annual *HIM Convenience 2019 Report*.

Your favourite neighbourhood shop

We have gone back to basics, considered our identity and differentiating factors, and concluded that our purpose is to make life easier for our customers, communities and colleagues.

Strengthening our team

To increase momentum in the business, we have made some changes to the McColl's leadership team structure. We now have a smaller executive team of four, who focus not just on delivering results but also on long-term strategic direction, and, in place of the previous Retail Board, we now have a senior leadership team of 12 people who take more responsibility for running the business and executing our strategy.

Having brought in Robbie Bell, our highly experienced Chief Financial Officer, back in January, I was delighted to also welcome Richard Crampton as our new Chief Commercial Officer in September. Richard brings extensive experience in convenience and food retail to our business, and will play a key role in paving the way for our journey in 2020 and beyond. After 23 years in the business, Dave Thomas has stood down from his role as COO and I am delighted that Karen Bird will now take on operational management for stores in addition to her responsibilities as Colleague Director.

Karen has extensive experience in senior operational roles within the retail sector and will be an invaluable leader as we navigate difficult economic conditions whilst seeking to implement operational, structural and cultural change within our business.

These senior appointments are just a small part of the new personnel coming into the business – we have also recruited new people with excellent technical experience to look at our range and space models and property portfolio. This creates a positive tension with long-term McColl's people, blending our established company experience with new ideas and energy.

Strategic review

The new leadership team has taken the opportunity during the year to fully review our strategy.
Our vision to be your favourite neighbourhood shop remains unchanged, but our mind-set more than ever needs to be focused on delivering a great customer experience.

> "We've gone back to basics, focused on good retail execution, and given the business a chance to breathe."

IMPROVING CUSTOMER SATISFACTION

Research shows that we are keeping shoppers happy in the areas that matter most, and that we are making progress year-on-year in most areas of customer satisfaction.

When it comes to staff friendliness and helpfulness, ease of shop, speed of service, and cleanliness of our stores, we remain one of the leaders in the convenience sector. We have also improved our customer satisfaction scores in these areas compared to last year, achieving scores between 9.1 and 9.4 in each of these critical areas (compared to a range of 8.7 and 9.3 last year).

This is important, as we know that our shoppers are typically most interested in the service they receive from our people, the impact we have on their community, and how clean our stores are. They are also very keen to find a good range of products, especially quality food products, that are available when they need them. We were delighted to see that our customer satisfaction scores in all these areas, as well as value for money and prices, increased significantly during the year.

We are therefore embarking on a medium-term strategic change programme, centred on the customer, and recognising the need to segment the estate to better meet the needs of the communities we serve. Our strategy is built on four key pillars; strong customer offer, easy to run stores, improving our stores and a great place to work.

Strong customer offer

Informed by better customer insight, we are segmenting our stores by location, performance, size and demographics, as we strengthen our targeting of products, promotions and services to local audiences and shopping missions. To support these changes we have recently strengthened our space, range and format team.

Our range reviews have already enhanced our product offers and are helping us respond better to customer needs. The full review of our beer and cider range by the end of April saw an increase in the number of lines and space allocated to growing categories such as craft and world beers, resulting in a significant improvement in our performance in this category. With full reviews in soft drinks, confectionery, wine and healthy snacks, and several other categories completed by the end of the year, I am delighted with the results and expect to see continued uplifts in 2020 as we tackle the remaining product categories.

As well as improving range, we will continue to develop our offer using greater customer insight to optimise our brand and value position. It's early days, but there are changes ahead on food-to-go at many stores, with growing opportunities in breakfast, coffee and hot food, and with the trial of a new format launched in our new Coventry store. Our recent trial with Uber Eats is another example of how we are evolving to meet the needs of today's customers.

DEVELOPING

OUR POST OFFICE SERVICES

With the changing face of our High Streets and local shopping areas, the neighbourhood Post Office provides an important public service to the communities we serve.

We are proud to be part of our communities, and we offer Post Office services in more than 600 of our stores, having added 20 outlets in 2019. We are the Post Office's biggest partner and we run double the number of Post Office outlets that they run themselves.

Most of our Post Office counters simply sit alongside our retail tills, but we are typically open 6am-10pm, much longer than a regular Post Office.

In some of our bigger shops, the Post Office section occupies a larger section of the store with a separate counter, though we still offer some counter services even when the main Post Office section is closed.

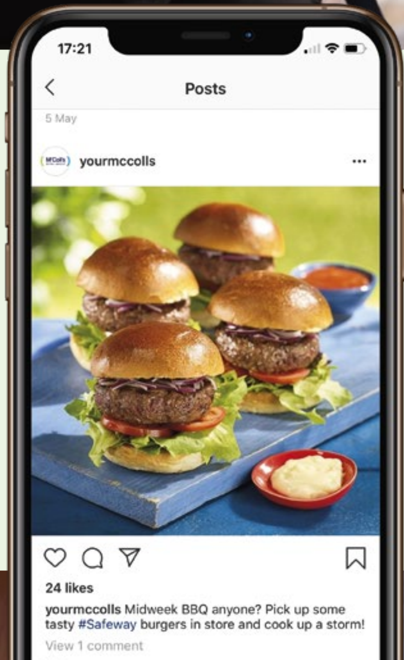
We are always working to improve the services we offer in every area of our business, exploring new formats and making system changes to improve our business model. This includes integrating the Post Office system with our own, to simplify the way we work with them. We are also trialling self-service Post Office counters, to help drive more volume, as younger people often choose this option in preference to being served at a till.

UBER EATS TRIAL – ATTRACTING A DIFFERENT DEMOGRAPHIC

Our store trial with Uber Eats has already delivered interesting insight and is driving new perceptions of what we have to offer, especially for a younger generation.

We have been trialling Uber Eats in nine stores in late 2019 and, while it is still early days, we have seen an increase in sales and a change to our typical customer base, which is normally skewed towards older customers, more used to the convenience store ethos.

Offering Uber Eats is already helping us to diversify our revenue streams, and they also provide valuable market intelligence on customers' buying habits. Getting the technology right will be the key to our success with the likes of Uber Eats, but we expect this to become a significant opportunity as we improve and expand the offer.



Easy to run stores

We made great progress during the year in establishing a more stable distribution platform and better on-shelf availability. We intend to continue to refine our operating model to make our stores easier to run and easier to shop, and have embarked on an end-to-end review of ways of working across the business but primarily focused on stores.

Increasingly, technology will be an enabler in improving our operating model so that we can use the hours we have to serve customers better. We are investing in a new Electronic Point of Sale (EPOS) system that will bring many benefits, including making self-scanning a reality at our stores in the near future. We will also be launching a new Enterprise Resource Planning (ERP) software system in 2020 to give us more visibility into performance.

In early 2020, we will be trialling new ideas on price, range, brand, layout and cost to serve, using a modified operating model in a small number of stores that we believe will be simpler to operate. We will be looking for quick wins that we can rollout immediately, as well as medium-to long-term benefits that can become part of our new store model. We will adapt our ideas as we go and use them to drive improvements across the whole estate.

Improving our stores

Building the foundations for long-term success means not only delivering on our purpose of making life easier for our customers and colleagues, but also optimising stores by continuing to improve the quality of our estate. This work will continue into next year, but we have made good progress and our colleagues have already delivered against these priorities in 2019.

We opened 10 new convenience stores this year, relocating some existing stores to better sites, and we will continue to explore opportunities to add new stores in 2020.

We have also accelerated our store optimisation programme for underperforming stores as we continue to evolve towards a smaller, convenience focused and more profitable estate, having closed or sold 120 stores during the year.

In addition, the trial stores planned in 2020, as well as testing our future operating model, will also update our thinking for our future refit programme. We still have 400-500 stores that require updating, so there remains a positive refurbishment opportunity ahead.

This year we completed 23 store refreshes in the year, including ten stores as part of a trial of the Morrisons Daily fascia. This trial is helping us with range development and is also an opportunity to explore the potential for this type of format. Sales are strong, the response from customers has been positive, and we are expanding into an additional 20 stores to further evaluate.

85,000+ DELIVERIES A DAY

Life in our communities has changed over the past few years and, while some local services have declined due to a lack of demand, there is still a vital need for traditional services many people rely on, close to where they live.

For example, we are unique in the current marketplace, delivering more than 85,000 newspapers every day and accounting for around 10% of the home newspaper delivery market.

Undoubtedly though, the biggest change has come with so many bank and building society branches disappearing from our high streets and communities. More than 3,000 branches closed between 2015 and 2019, with an average of 55 closing each month. While this has been driven by a decline in the use of physical branches, many people and small businesses still rely on local banking services.

This is a particular challenge in rural areas, and in areas with higher populations of elderly customers. The Post Office banking services we provide offer people a lifeline, allowing them to withdraw cash, check their balance and pay cash and cheques into their account.

5.6%
SALES OUT-PERFORMANCE

OUR HALLOWEEN PROMOTION OUTPERFORMED THE MARKET

Consumer interest in Halloween continues to surge in the UK, providing a great opportunity for convenience operators in particular to engage with customers and increase spend in store.

This year, we undertook a more detailed analysis of the market opportunity and this led to a very deliberate and targeted approach to our Halloween campaign. The promotion came off the back of our successful 'Big Night In' Autumn campaign and, based on our research, we targeted confectionery, multipacks and sharing bags to maximise the 'trick or treat' opportunity.

The outcome was encouraging. In terms of sales growth, we outperformed the convenience sector by 5.6%, proving that good forward planning and market analysis can make a material difference to the performance of our promotions.

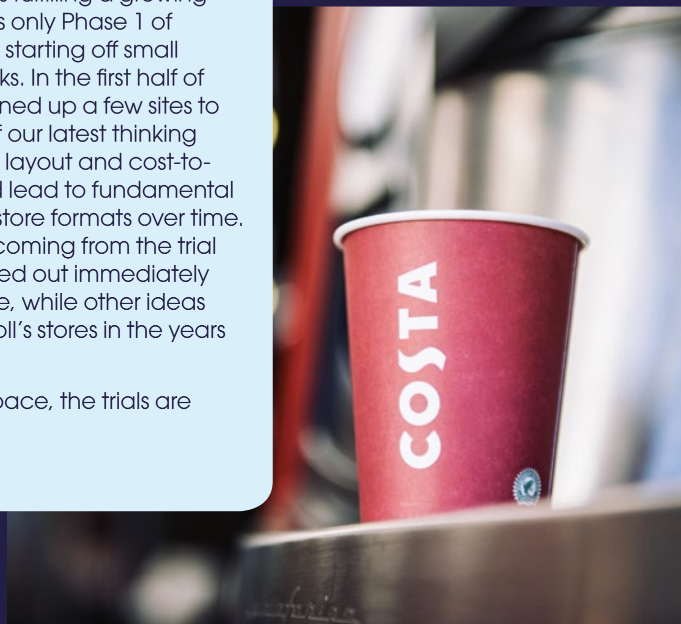
NEW STORE FORMAT TRIALS

While 2019 has been mostly about stabilising the business, we have been looking hard at potential new store formats and ideas that will drive growth in the years ahead.

In Coventry we have been trialling a 'Food-to-go' store, offering a full over the counter service for breakfast, coffee, lunch, and 'meals for tonight'. Our customers don't even have to 'go', as we have also provided seating areas in the store.

We believe this is fulfilling a growing demand, but it's only Phase 1 of our plans. We're starting off small to see what works. In the first half of 2020, we have lined up a few sites to implement all of our latest thinking on price, range, layout and cost-to-serve that could lead to fundamental changes in our store formats over time. Any quick wins coming from the trial stores will be rolled out immediately across our estate, while other ideas will shape McColl's stores in the years to come.

So, watch this space, the trials are just beginning!



Great place to work

We fundamentally believe that the route to great customer service is through our colleagues, ensuring that they enjoy working with us and are engaged with our plans for the business.

We have made fantastic progress with our plans for colleagues during the year. We have launched and embedded a new performance framework, launched our six key leadership skills, developed a model to identify and develop talent and succession pipelines, as well as progressing with our listening and responding plans, connecting with our colleagues through various forums.

I am delighted that in our most recent engagement survey 80% of respondents rated McColl's as a great place to work.

We will build on the successes of 2019 with a number of new initiatives planned, with the aim of better supporting our colleagues to do a great job, and listening and responding to ensure that we are all engaged in the future success of this great business.

Exciting times ahead

As we came into 2019, we recognised that the business needed to change – that's why we've strengthened our management structures, hired people into key roles, focused on our purpose and sharpened our strategy. With the market as competitive as ever, there will be challenges ahead, but we are well positioned and confident in our plans for long-term growth.

The convenience sector remains supportive, with lifestyle changes underpinning growth forecasts for at least the medium-term. Customers will always need top-up shops and food-for-now and later, while the convenience sector complements online ordering.

We will continue to reshape the business, developing our strong neighbourhood convenience offer to meet the changing needs of customers. I am confident that by making life easier for our customers, colleagues and their communities, and by maintaining the cash generative and profitable nature of our business, we will deliver sustainable returns for shareholders over the long-term.

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

Jonathan Miller
Chief Executive Officer

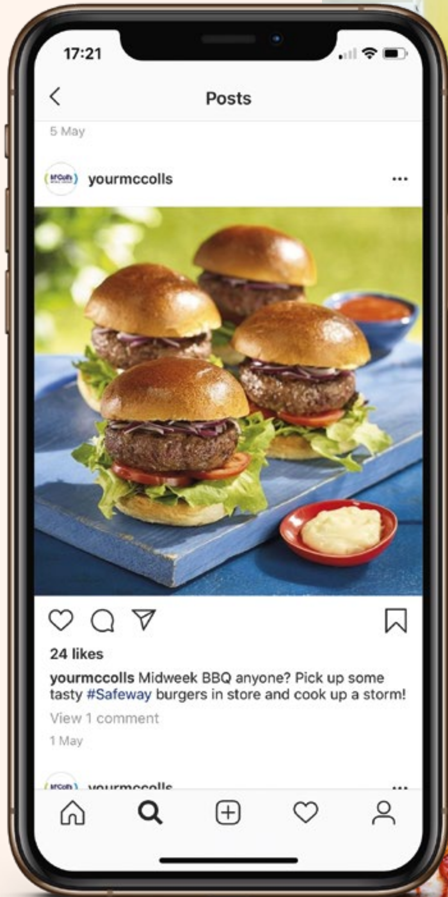
SOCIAL ENGAGEMENT WITH OUR CUSTOMERS

We refreshed our customer website in 2019 and took to Twitter, Instagram and Facebook in a big way, as part of a brand new social engagement programme.

Engaging with our customers is something we do every day, typically face-to-face in store, and our colleagues up and down the country are very good at it. 2019 saw us begin seriously to address the opportunities with our online audience and the people we could reach through social media channels, which have become central to so many of our lives.

From nothing at the start of the year, we now have 20,000 followers on Twitter, Instagram and Facebook, and our refreshed customer website now attracts more than a million customers every year. We are now actively using all these channels to promote the business – with exciting competitions and big brand promotions – and we are even using it for new product development.

1M VISITS EVERY YEAR



Macro conditions

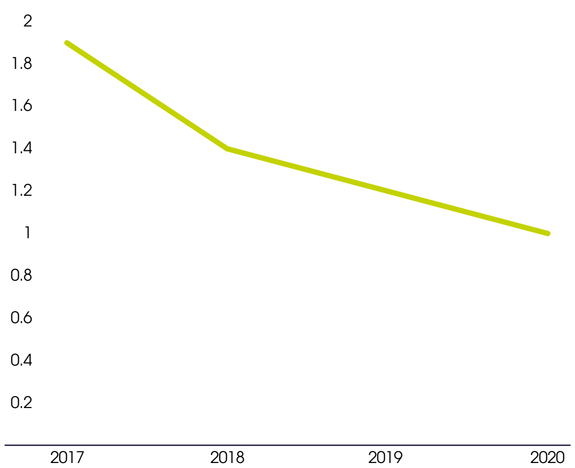
Economic outlook

UK GDP growth slowed materially in 2019 and at the time of writing was expected to be flat in Q4. Growth was dampened by slower global growth and elevated Brexit-related uncertainties.

The UK economic outlook remains uncertain, with the exit from the European Union in January and a transition period due to conclude by the end of 2020 continuing to weigh.

Growth is expected to remain modest, although overall business investment may improve as the economic and political uncertainty recedes. Higher government spending plans and short-term tax cuts promised in the 2019 General Election may also drive higher growth in the UK economy in 2020 and beyond.

GDP growth (% per annum)



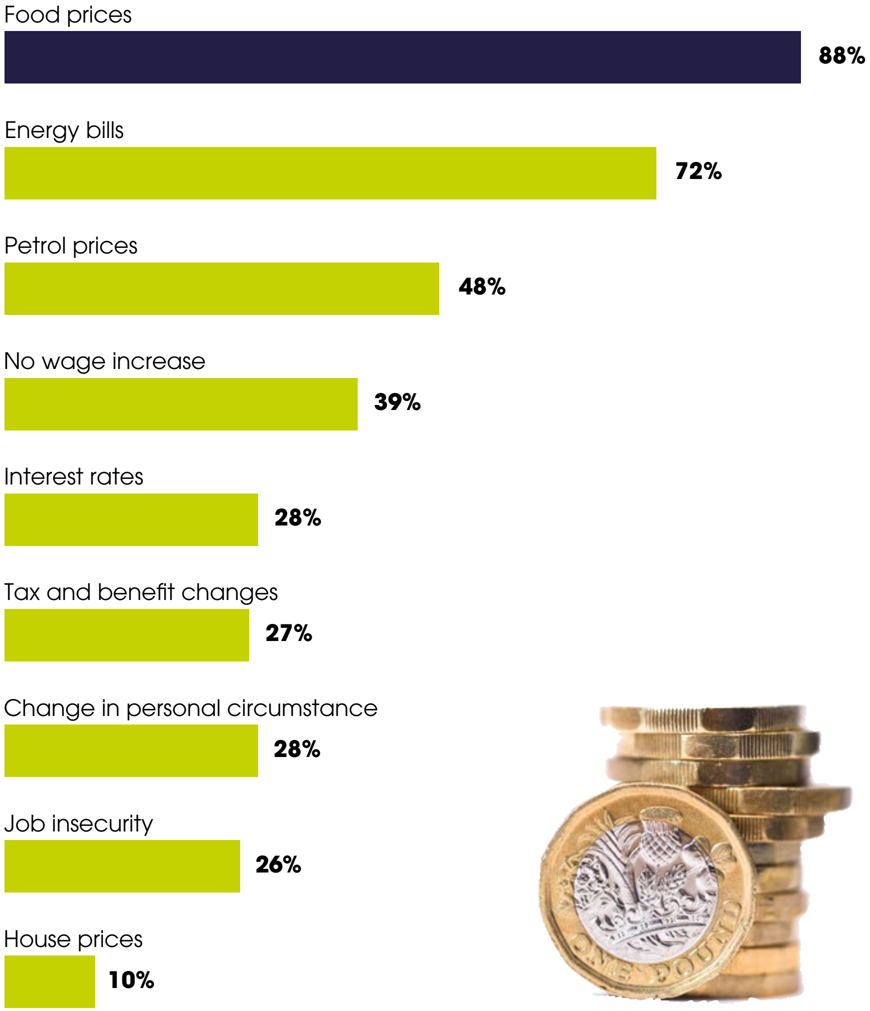
Source: ONS, PwC economic outlook report.

Consumer concerns remain a key factor

Consumer confidence remains subdued, with concerns over job security, wage rises and energy bills. While few consumers expect to be better off financially in the year ahead, almost 90% of shoppers expect food and grocery prices to increase. As a consequence, people are becoming increasingly cost conscious, but there is still an acceptable premium in the sector for convenience.

A key trend developing within convenience, possibly to offset weak consumer confidence, is the rise of 'meal occasions'. Whilst a third of shoppers visit a fast food outlet on a monthly basis, and half eat out at least once a month, 80% of shoppers are eating food cooked at home daily. This 'occasion' shopping includes meals curated for dining in at home, food ordered in for sharing, cooking from scratch and food suggestions expertly matched with a drink.

Shoppers' top personal economic concerns for the year ahead



Source: IGD Shopper Vista 2019.

Managing any Brexit risks

Despite the uncertainties that remain around the impact of Brexit, the grocery sector is renowned for withstanding economic pressures and consumers often manage their budgets by shopping little and often, locally, in stores like ours. That's why broader negative economic trends sometimes offer benefits and opportunities in the convenience market sector.

The exit from the European Union (EU) does present risks and uncertainties for many UK businesses, including grocery retailers. It is estimated that around a third of the food we eat in the UK is sourced from the EU, and our sector could be affected by a potential shortage of labour if a restriction on free movement is imposed following Brexit.

However, any impacts should be minimal during the transition period and it is expected that the UK will have a deal in place with the EU by the end of 2020. Should this not happen, import tariffs under a no-deal Brexit could be higher, increasing the cost of goods, and import delays could mean short shelf life products expire before they can reach their destination. In this case, our principal suppliers have applied for 'approved economic operator status', which means that goods will be fast tracked through customs, reducing the risk with their non-UK suppliers.

Changing shopping habits in a highly competitive sector

The grocery retail sector remains highly competitive, with challenging trading conditions. Traditional supermarkets are contracting, while discounters, online and convenience are growing, reflecting changes in the way people are choosing to shop.

Consumers are shopping across channels, with more doing their regular shop at the discounters and online and then topping up in other channels. Faced with increasing shopping choice, we are seeing a return to 'little and often' shopping habits. Shoppers are not buying any more, but they are spending their cash at a broader set of stores, across a larger number of trips.

Retail trading over summer 2019 was lower year-on-year, and there was a slowdown in the second half of the year, but we grew our market share, in part through our 'taste of summer' promotion, which focused on our fresh and frozen food categories.

"The convenience channel is growing, with increased demand for smaller and more frequent trips."

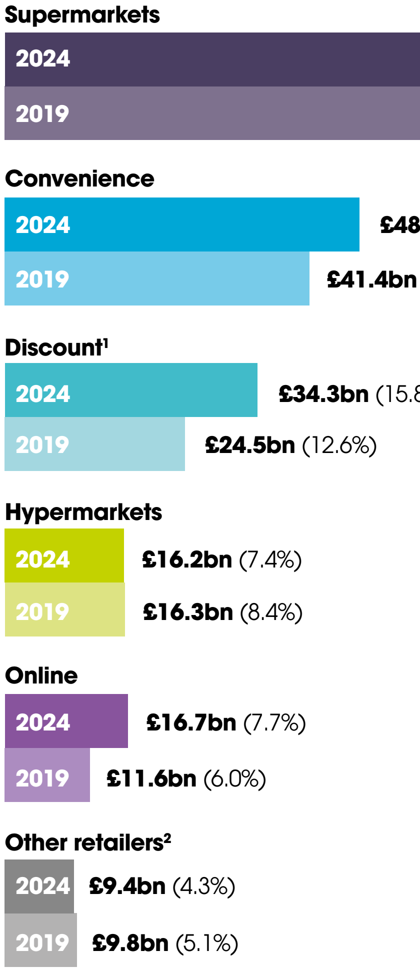
Convenience trends

Shopping little and often, locally

While the discounters have increased their product ranges to attract more customers and online is often favoured for big bulk orders, convenience shopping has been one of the fastest growing channels in the UK grocery market over the last five years. Longer life expectancy, more single person households, lengthy commutes and a greater emphasis on leisure time are all lifestyle and societal trends that have led to people choosing to shop little and often, locally.

Total convenience sales grew by 2.7% in 2019, driven across the sector by strong like-for-like performance, better fresh and chilled ranges and more competitive value. Forecasts from the Institute of Grocery Distribution (IGD) suggest that the UK convenience market is set to grow by £6.8bn in the next five years, topping £48bn by 2024. With new store openings over the period, this is expected to fuel a compound annual growth rate of 3.1%.

Channel forecasts (Channel share %)



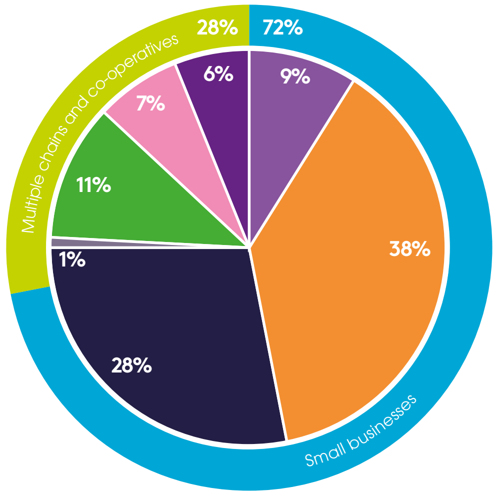
Source: IGD UK market and channel forecasts June 2019.

1 'Discount' includes all sales of Aldi, Lidl, and grocery only sales of the principal variety discounters.

2 'Other retailers' including specialist food and drink retailers, CTNs, and the food sales of mainly non-food retailers and street markets.

Convenience sector undergoing a period of consolidation

The convenience channel remains highly fragmented, with around 46,000 UK stores, almost three-quarters of which are independently owned. The number of stores has remained fairly static in recent years and this trend is expected to continue, with limited availability of new greenfield and brownfield sites. However, there are opportunities for consolidation, particularly for retailers with a flexible operating model, looking to fine-tune the store offering to a local market.



- Unaffiliated independents
- Symbol groups – Independents
- Symbol groups – Multiples
- Multiples
- Co-operatives
- Forecourts – Independents
- Forecourts – Multiples

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

McColl's addressing key trends in convenience

Technology enabling convenience
- Automated payment solutions ✓
- 'Just walk-out' technology and frictionless stores
- Delivering on-demand and the last mile ✓

Going beyond c-store retailing
- New innovative tailored formats ✓
- Targeting new missions and offering new solutions ✓
- Modular convenience stores ✓

Redefining product range
- Convenient shopper-led merchandising ✓
- Stronger frozen, prepared dishes and food for later ✓
- Non-food categories emerging ✓

Stronger health focus
- Fresh-focused store concepts ✓
- Expanding health and wellness ranges ✓
- Responding to new health trends ✓

Better minimart and local stores
- Urban local stores ✓
- Community focused initiatives ✓
- Serving wider community needs ✓

Source: IGD Shopper Vista 2019.

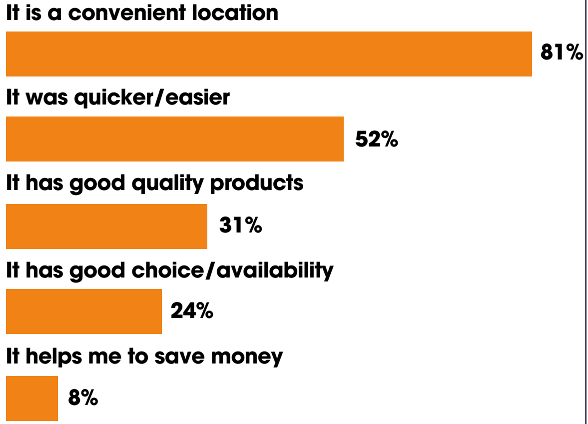
Driving top-up shopping

The traditional top-up shop is still the leading driver of visits to our stores, with 54% of shoppers saying that a top-up shop is the reason for their most recent visit to a convenience store. That's followed by a rising trend in 'food-to-go' missions with 32% of shoppers giving this is as their key reason for last visiting a convenience store (up from 27% in 2018).

Location remains a key driver of top-up shopping, but as retailers expand, develop and refine their ranges, they are making more use of shopper data. This indicates that a good choice of products and the efficient use of space that makes the store quick to shop are becoming increasingly important.

Older shoppers prefer a convenient location, while younger shoppers tend to shop in convenience stores because it's quicker and easier. And with the average shopper spending fewer than eight minutes in a convenience store, it is vital they can get what they need, as quickly as possible.

Top 5 reasons for last store trip



Source: IGD Shopper Vista 2019.

Attracting new shoppers through 'mission-based' offers

Offers like lunchtime meal deals, coffee-to-go and breakfast solutions are playing a bigger part in convenience shopping and retailers are defining 'missions' that meet local customer needs and create value for shoppers. Food-to-go and evening meal solutions are growing categories as these are two time-saving missions that are very popular with younger customers.

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

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

Source: IGD Shopper Vista 2019. Scale of circles indicates proportion of shopping missions conducted.

Our business model

Our vision is to become your favourite neighbourhood shop by delivering on our purpose of making life easier for our customers, communities and colleagues.

Our business model is underpinned by our core values:

Simple and consistent

Customer first

Caring and compassionate

Community champions

1. The resources and relationships we need

Colleagues

Our colleagues are central to our vision to become your neighbourhood's favourite shop and we do everything we can to make McColl's a great place to work.

Stores

We directly manage all of our 1,443 stores across the UK (1,199 convenience stores and 244 newsagents). We make them easy to run, easy to shop at and ensure strong retail standards.

Partners and suppliers

To run our stores efficiently we need a strong relationship with our supply partners.

Brand and reputation

McColl's has been part of communities for more than 100 years. As the business evolves, our brand and reputation help our customers understand what we can do for them.

IT systems

Our information systems are crucial to the smooth and efficient running of our business, and we continue to invest to ensure they are fit for the future.

Robust financials

We maintain strong capital discipline and a resilient balance sheet to invest in our strategic plans.

2. How we manage our supply chain

We have a long-term partnership with Morrisons. They supply c.1,180 of our convenience stores and newsagents with a range of branded products as well as an 'own label' range of fresh food and groceries under the Safeway brand.

Safeway by Morrisons Since 1899

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

Nisa

Nisa supply 263 of the convenience stores that we acquired in 2016. These stores will transition to Morrisons supply over time.

3. What makes us a leading neighbourhood retailer

4. The value this creates

Customers We provide essential services, fresh food and grocery products for millions of people.	**5m** customers every week
Colleagues We look after our colleagues so that they can look after our customers.	**>90%** enjoy working at McColl's
Social We are an integral part of our communities and support a wide range of local organisations and a national good cause.	**£1m** fundraising target for Great Ormond St Hospital Charity
Economic We invest for long-term growth, helping our suppliers and the wider economy prosper.	**£14.4m** gross capital expenditure
Shareholder returns We are committed to delivering long-term value to shareholders.	**1.3p** full year dividends
Margins We are committed to strengthening our sales mix to reduce our reliance on traditional low margin categories and drive improvements in our gross margin.	**25.9%** gross margin
Cash generation As a cash generative business, we manage our debt and invest strategically. In 2019, our net cash benefited from proceeds from sale and leaseback transactions.	**£20m** Net cash from operating activities

Solid foundations for a successful business

ENSURING OUR COLLEAGUES' AND CUSTOMERS' SAFETY

We have a duty of care to understand and address the risks within the business to ensure that, as far as is practically possible, we keep our colleagues and customers safe at all times. Where there are incidents, we examine the circumstances and learn lessons from what has occurred so that we can continually improve our approach to safety.

Our colleagues

Central to our vision to become your favourite neighbourhood shop

Many of our colleagues live locally to our stores and this helps them understand the needs of our customers. They have a strong sense of community and customers consistently rate us highly on colleague friendliness and helpfulness – for example, they scored us 9.4 out of 10 on average in the HIM! Convenience Tracking Programme 2019.

Of course, excellent customer service is a cornerstone of our success and we can only deliver this through the hard work and dedication of our colleagues. We had 18,652 people in total at the end of 2019, including more than 4,900 Home News Deliverers. Altogether, and accounting for part-time working patterns in the business, we employ the equivalent of 7,483 full-time colleagues.

We conduct an annual colleague survey and an interim 'pulse' survey, which enables colleagues to share their views on working for McColl's. The surveys also help us identify things we need to improve on. In 2019, more than 90% of our people said that they enjoy their job and over 80% would recommend McColl's as a great place to work.

Our stores

Easy to run, easy to shop and with strong retail standards

In many of our locations, McColl's is the only shop, so we fulfil an important role for local people. We like being where people live, and more than half of our customers walk to our stores. We offer them a wide range of products and services while our consistency and professionalism set us apart from the independent retailers we mostly compete with.

Our scale means we can focus on the fabric of our estate. We are moving towards more preventative solutions, rather than just reactive maintenance. For example, linking fridges up to the internet can generate real-time reports when a fault develops. It's all about making our stores easier to run, which in turn will make them easier to shop.

We are also working on stronger store segmentation – by location, performance, size, demographics and what is nearby. This is helping us define the key 'missions' for each store, identifying our hyper-local stores, our commuter-route stores and others. We can then fine tune them and optimise our range of products and services for our customers.

Our partners and suppliers

Strong relationships with our supply partners

Our distribution arrangements with Morrisons are now almost two years in. Morrisons brought huge retail experience to our business which complements our understanding of the convenience sector.

We are developing greater mutual understanding with Morrisons of their role and what we need from them. We also launched Morrisons Daily in 2019, ten stores run by us on behalf of Morrisons, which is an appealing format to customers and sales have been strong.

We have supply agreements directly with large fast moving consumer goods (FMCG) manufacturers like Mars and Coke, and a large number of the stores acquired in 2016 continue to receive their wholesale supplies from Nisa. In 2020, we will have high level meetings with all our key suppliers to share best practice and seek further improvements.

Our brand and reputation

Part of communities for more than 100 years

It all began in 1901, when the famous Scottish footballer Robert Smyth McColl opened the first RS McColl store in Glasgow. However, the Group as it exists today was founded in 1973, starting out as a vending business before moving into food retail, newsagents and convenience. Within 25 years, McColl's had become the largest independent neighbourhood retailer in the UK.

By the time the Group successfully floated on the London Stock Exchange in 2014, we had acquired a strong reputation for providing great products and value, when our customers need them – close to where they live. We have developed into a business of real scale, operating in the growing convenience grocery sector, with a clear and considered strategy for long-term success. As the business continues to evolve, we will build on our strong brand and reputation to help customers understand what we can do for them and how we can fulfil their daily shopping 'missions'.

Our IT systems

Investing to ensure we are fit for the future

Improving our operating model is a big priority for McColl's, so that we can use the hours we have to serve our customers better. We are using technology to make our model more efficient and this will lead to more profits as well as investment in further improvements across the business.

Our new EPOS platform, which will rollout in 2020, brings new process efficiencies and will enable self-scanning tills at our stores. It is designed to be much faster and much more reliable, and will make our stores easier to run. For example, when a colleague is using a till, they currently have to log on and log off, but our new tills will use fingerprint recognition.

We also plan to have a new end-to-end enterprise resource planning (ERP) software system in place in 2020. This will give us more visibility of stock, as well as better information and metrics for our commercial teams. The new ERP will be the foundation for many technology improvements over the coming years, including a more efficient store ordering system.

Progress in 2019

We have a range of key performance indicators (KPIs) by which we assess our performance. The Board monitors these KPIs on a regular basis, to ensure that our strategic objectives are being achieved. To ensure our management's focus is aligned with our shareholders, our KPIs are reflected in their remuneration through our management incentive schemes.

We keep our KPIs under review to ensure they remain appropriate and align with our strategic goals.

Financial KPIs

Revenue

£1.22bn

-1.8% vs 2018

2019 £1.22bn
2018 £1.24bn

Relevance
Growing our business efficiently is fundamental to our business model.

Performance
Total revenue was down by 1.8%, reflecting store closures and divestments as we progress our store optimisation programme.

Like-for-like sales[1]

0.0%

2018: -1.4%

2019 0.0%
-1.4% 2018

Relevance
This is an important measure of underlying performance

Performance
Despite weaker summer trading and lower consumer confidence, like-for-like sales performance was stable, after the decline in 2018.

Adjusted gross profit margin

25.9%

2018: 26.0%

2019 25.9%
2018 26.0%

Relevance
Recovering gross margin following the supply chain disruption in 2018 is a cornerstone to our recovery.

Performance
Gross margin was broadly level on last year, having improved in H2 due to self help initiatives and working closely with our suppliers.

Adjusted EBITDA[1,2]

£32.1m

-8.2% vs 2018

2019 £32.1m
2018 £35.0m

Relevance
Recovering profitability is a foundation for long term success.

Performance
Lower revenues, resulting from softer market conditions and store closures, were partly offset by improving gross margins in H2.

Adjusted earnings per share

5.6p

-16.8% vs 2018

2019 5.6 pence
2018 6.7 pence

Relevance
An important measure of the underlying earnings capacity of the business.

Performance
Adjusted earnings per share decreased to 5.6 pence reflecting the lower profit year-on-year.

Average basket size

£6.28

+4.8% vs 2018

2019 £6.28
2018 £5.99

Relevance
Illustrates how much our customers are spending with us.

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

1 The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 123–124.

2 Full details of adjusted EBITDA can be found in note 6 on page 101.

Building capital resilience

Our financial priorities in 2019 included strengthening our balance sheet, improving working capital, rebuilding gross margin, mitigating cost inflation and further optimising our estate. While there remain a number of challenges, we have demonstrated our resilience this year with a robust underlying performance.

Solid revenue performance

Full year revenue was down by 1.8% to £1.22bn (2018: £1.24bn) primarily driven by the closure or divestment of 120 under-performing newsagents and smaller convenience stores as part of our store optimisation programme.

LFL sales performance was level in the year (2018: –1.4%), with LFL growth affected in the summer months in particular as the whole sector suffered from strong year-on-year comparatives coupled with colder weather this year and lower consumer confidence. This was a relatively good performance and a recovery from 2018 levels which were impacted by the collapse of Palmer & Harvey.

Tobacco continues to perform strongly, benefitting from inflation as a result of manufacturer and duty rises. Other traditional categories such as news and confectionery, where we still over-index as a result of our heritage, continue to steadily decline and impact LFL sales.

LFL sales were supported by good growth in beers, wines and spirits, where our performance is improving following our range review in the first half of the year; soft drinks, which have been helped by some great innovation as well as inflation; and food-to-go, which remains a small category for McColl's but has great potential to grow as we continue to extend our offer.

Gross profit margin stabilised

Gross margin before adjusting items[1] was broadly level at 25.9% (2018: 26.0%). Margin improved in the second half, year on year, as we continue to make progress, both through self-help initiatives such as improved promotional investment planning, and by working together with Morrisons. As in previous years, profit delivery was weighted towards the second half of the year due to the seasonal sales mix, and further supported by year-on-year margin improvement.

In terms of overall value, adjusted gross profit fell by 2.1% to £315.7m (2018: £322.5m) reflecting the decline in total sales.

1 The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 123–124.

Adjusted gross profit[1]

£315.7m

-2.1% 2018

Net cash from operating activities

£20.0m

£61.8m 2018

Net debt[1]

£94.1m

£98.6m 2018

Net debt/adjusted EBITDA ratio[1]

2.9x

2.8x 2018

1 The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 123–124.

Summary Income Statement

£'000	**Adjusted 2019 £m**	Adjusted 2018 £m	% change	**Statutory 2019 £m**	Statutory 2018 £m	% change
Revenue	**1,218,700**	1,241,539	(1.8)%	**1,218,700**	1,241,539	(1.8)%
Cost of sales	**(902,968)**	(919,003)	(1.7)%	**(902,968)**	(920,431)	(1.9)%
Gross profit	**315,732**	**322,536**	**(2.1)%**	**315,732**	**321,108**	**(1.7)%**
Administrative expenses	**(306,684)**	(311,442)	(1.5)%	**(406,489)**	(318,560)	+27.6%
Other operating income	**6,255**	6,811	(8.2)%	**6,255**	6,811	(8.2)%
Profits/(losses) arising on property-related items	**39**	416	(90.6)%	**(5,938)**	6,525	n/a
Operating profit/(loss)	**15,342**	**18,321**	**(16.3)%**	**(90,440)**	**15,884**	**n/a**
Net finance costs	**(8,043)**	(7,859)	+2.3%	**(8,203)**	(8,017)	+2.3%
Profit/(loss) before tax	**7,299**	**10,462**	**(30.2)%**	**(98,643)**	**7,867**	**n/a**
Earnings/(loss) per share	**5.55p**	**6.67p**	**(12.1)%**	**(83.30)p**	**5.95p**	**n/a**

Good cost control mitigates cost pressures and wage inflation

Although we experienced a number of cost pressures and wage inflation was a challenge during the year, our administrative expenses fell year-on-year as a result of good cost control and the impact of our store optimisation programme. The business was focused on mitigating the National Living Wage driven inflation of around 5%, while further head-winds came from the additional rent as a consequence of our sale and lease back programme (£3m in total). Adjusted administrative expenses as a percentage of revenue remained broadly flat at 25.2% (2018: 25.1%).

With continuing cost pressures, we will keep our estate under review to ensure that we maintain a sustainably profitable network of stores. We are improving the quality of the estate through both the acquisition of high potential convenience stores and the planned closure or disposal of under-performing stores. During the year, we acquired 10 convenience stores and closed or disposed of 120 newsagents and smaller convenience stores.

We are pleased with the implementation of the store optimisation strategy so far, moving away from low margin newsagents and focusing on convenience and the more efficient newsagents.

Adjusting items

Adjusted operating profit (see note 5 for definition) decreased to £15.3m (2018: £18.3m).

After adjusting items, the Company incurred a statutory operating loss of £90.4m (2018: £15.9m profit).

In total there were £105.8m of adjusting items within the statutory operating loss for 2019.

The most significant item was a one-off, non-cash goodwill impairment charge of £98.6m. In accordance with IAS 36 we have performed an annual impairment review of goodwill, and the write-down was required following a rebasing of financial projections, based on lower (albeit improving) underlying gross margin, National Living Wage and retail cost inflation pressures.

Other small adjusting items within administrative expenses includes £0.2m of professional fees relating to a health and safety breach, £0.4m relating to an old asbestos claim and £0.6m relating to business reorganisation.

Net property-related adjusting items of £6.0m included £9.2m of costs associated with closures and impairment and a net gain of £3.3m in property profits from the final tranche of sale and leaseback transactions arising from the major acquisition in 2017. As well as releasing immediate value through this programme, the proceeds have allowed us to continue our capital investment programme including store refreshes, as well as reduce net debt.

Finance costs relating to the store closures included within adjusting items were £0.2m.

Before adjusting items, profit before tax was £7.3m (2018: £10.5m). After adjusting items, loss before tax was £98.6m (2018: profit of £7.9m).

EBITDA (adjusted)

Adjusted EBITDA decreased to £32.1m (2018: £35.0m), reflecting the softer market conditions in the second half reducing revenue for the year, despite the recovering gross margin rate in H2. The adjusted EBITDA margin of 2.6% (2018: 2.8%) has been broadly maintained due to the good cost control measures in place.

Interest and tax

Net finance costs before adjusting items increased slightly year-on-year to £8.0m (2018: £7.9m) reflecting slighter higher interest rate, partly offset by a reduction in the term loan.

The tax credit for the year was £2.7m (2018: £1.0m charge). The comparable effective tax rate in 2019 excluding the impact of non-deductible adjusting items was 12.4% (2018 26.6%). The difference between this and the current statutory rate of 19.0% in the period is due principally to goodwill impairment which had limited tax relief.

1 The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 123–124.

"We will keep our estate under review to ensure that we maintain a sustainably profitable network of stores."

CONSTANTLY INVESTING IN THE ESTATE

- We are working towards a higher quality, more efficient estate
- We continue to invest in the estate through refreshes and acquisitions
- Closed or sold 100+ underperforming newsagents and smaller convenience stores
- Efficient use of capital to maximise profit
- Removal of old and inefficient equipment

Earnings per share

Basic losses per share was 83.3 pence (2018: earnings 6.0 pence). Adjusted basic earnings per share were 5.6 pence (2018: 6.7 pence).

Balance sheet and net debt

Total shareholder funds at the end of the year were £38.7m (2018: £141.5m). The book value of non-current assets fell by £112.5m to £246.9m (2018: £359.3m), reflecting the goodwill and store asset impairment, completion of our sale and leaseback programme and divestment or closure of underperforming stores.

Current assets at the end of the period increased to £163.4m (2018: £150.3m) as a result of a net increase in stock and trade receivables, plus an increase in cash and cash equivalents of £8.5m.

As explained in note 32 of the financial statements, the management team has undertaken a review of certain balance sheet classifications. The 2018 balance sheet has been restated for errors in two areas. Firstly, £10m of the term loan has been disclosed as a current liability in line with the term loan agreement and repayment schedule. Secondly, a £2.6m accrual previously classified against the carrying value of inventory has been reclassified as a current liability. Neither reclassification has any impact on the statement of comprehensive income or total shareholder funds as reported in the prior year.

Current liabilities decreased to £229.3m (2018: £233.4m), reflecting lower trade and other payables, borrowings, tax and provisions. Non-current liabilities increased to £142.3m (2018: £134.7m) due to increased loans and borrowings, payables and provisions.

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Net debt (total borrowings less cash and cash equivalents) at the end of the year was £94.1m (2018: £98.6m). The business remains focused on working capital and cash management to reduce business leverage, with a number of initiatives currently underway. At the end of the year our net debt to EBITDA ratio was 2.9x on a rolling 12-month basis, with a two-year target to be at or below 2.0x.

Pension schemes

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

The combined accounting surplus in the two defined benefit pension schemes operated by the Group decreased to £7.9m (2018: £11.9m).

The last actuarial review of the two schemes in June 2017 concluded that the combined funding deficit was £12.6m, and the Group currently contributes approximately £2.1m per year, inclusive of fees and levies.

Cash flow and capital expenditure

We continue to invest in the business for growth, including our programme of store acquisitions and refreshes, alongside the development and extension of our services and food-to-go offer. Cash generation continues to support this investment, while continuing to reduce net debt levels.

Net cash provided by operating activities in the year was £20.0m (2018: £61.8m), with the prior year seeing a one-off cash flow benefit from the inception of improved payment terms immediately following our transition to a new wholesale supplier.

Gross capital expenditure was £14.4m (2018: £19.7m). Net capital expenditure, including property proceeds from the sale and leaseback of freehold properties, reduced to £2.9m (2018: £7.7m inflow).

Interest paid is slightly lower at £7.4m, due to a reduction in the term loan, offset by a slighter higher interest rate on last year. The interim and final dividends paid in the period totalled £2.2m (2018: £11.9m).

Banking facilities

The current banking facilities mature in July 2021, so I am pleased to report that supportive discussions with our bank syndicate to amend and extend certain of the terms therein are well advanced and we expect to announce shortly. See the Directors Report for a further explanation of going concern in relation to the facilities agreement.

Financial outlook

We will continue to develop our customer proposition to leverage our brand recognition within the growing convenience sector. This will be combined with an equal focus on cost mitigation and cash generation; with the combined strategy to produce a growing customer proposition with a healthy and robust balance sheet and debt level.

I am very much looking forward to working with Jonathan and the team to further our strategic plans in 2020 and beyond.

Robbie Bell
Chief Financial Officer

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Being a good neighbour

GREAT ORMOND STREET HOSPITAL CHARITY

£1M
FUNDING TARGET OVER 3 YEARS

OUR NEW COMPANY CHARITY GREAT ORMOND STREET HOSPITAL

We think it's important to give back to the communities that we live and work in, and one of the ways we do that is by adopting charities that make a difference to our customers' lives.

In November 2019, we began local fundraising for Great Ormond Street Hospital Charity (GOSH). Our target is to raise £1m to support parent/family accommodation at the hospital, which helps people stay close to their children when they are undergoing treatment there.

We chose GOSH because the hospital means something to people all around the country, as children from all parts of the UK go there for specialist treatment. Some of our Executive team have visited the hospital to see first-hand the great work they do there. Our Chief Executive, Jonathan Miller, has also been appointed to the Great Ormond Street Corporate Partnerships Board.

We are committed to operating responsibly and being a good neighbour to our customers and communities – that means managing our environmental impact, supporting local people and organisations, and looking after our colleagues.

Our communities matter

With everyday access to fresh food and groceries, plus a range of services such as ATMs, bill payment, Post Offices and online order collection points, our stores make a really positive impact on a local area. But our role goes way beyond being a neighbourhood retailer.

Making a difference locally

Selected stores actively support their local communities through Nisa's 'Making a Difference Locally' scheme, where a proportion of the sales we make on selected products are donated to a local charity fund. Through this scheme, we have supported more than 500 local organisations, charities and good causes, each chosen by the local store, including scout groups, schools, hospitals and local charities.

This year, we have also appointed a new campaign charity – Great Ormond Street Hospital Charity (GOSH). Fundraising began in November, and our people have already raised over £150,000. The children's hospital takes patients from all over the UK and there are parents up and down the country who have a connection to GOSH who are involved in the fundraising with our stores.

The money raised will go to refurbish McColl's House at the hospital, where parents can stay when their children are there for treatment. We have organised a variety of fundraising and awareness events.

We are our people

We want all our colleagues to feel they are a vital part of McColl's. They make us who we are as a business and build strong relationships between us and their customers. That's why engaging with our people, ensuring they have every opportunity to learn and develop, and keeping them safe and healthy at work is really important. They enjoy working for us and we listen to their views when making decisions that affect them.

Listening to our colleagues

We hold regular business briefings and senior manager meetings that give colleagues an opportunity to ask questions and give us feedback. We use these briefings, our annual retail exhibition and our colleague magazine to keep them up-to-date on our business strategy and performance, as well as the broader financial or economic factors that may affect us all.

Through our annual colleague survey and an interim 'pulse' survey, colleagues can share their views on working for McColl's, helping us identify things we need to improve on. Our new colleague forums also allow us to engage with 250 colleagues on a deeper level to understand any issues or concerns they may have and gain more insight into the data behind our colleague survey.

Supporting our people's development

We invest in our colleagues throughout their careers at McColl's, helping them develop the skills they need to do their job and to progress. Our 'onward and upward' development programme focuses on some of the key roles within the business our people could move to. We also have a process called 'talking performance' that makes it easier for us to have effective conversations and support colleagues' individual performance.

We have a good track record of promoting colleagues – 62% of Store Manager vacancies are filled internally, 48% of our Area Managers were promoted from store management and 70% of our Regional Managers were 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 in supporting local people and younger people into work. We also operate a successful apprenticeship programme, with 148 colleagues currently enrolled on the programme.

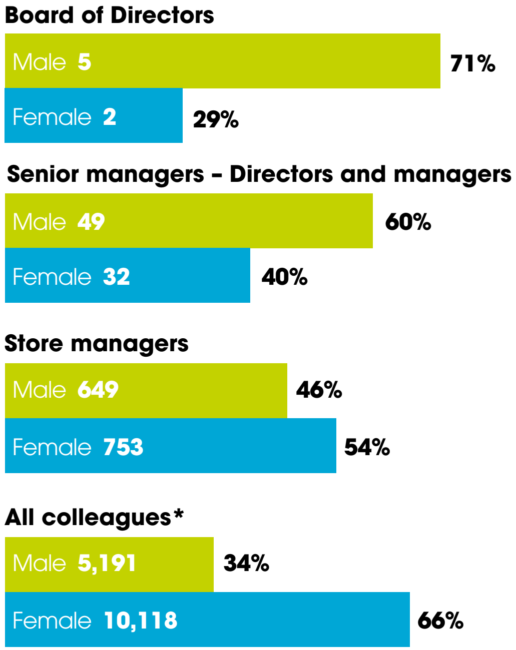
Our performance framework helps us identify individuals who have the potential to broaden their skills and move to more senior roles. Also, to ensure our leaders have the right skills to do their job, all managers are offered coaching in our six leadership skills; empathy, collaboration, results focus, leading change, developing yourself and others, and customer focus.

Rewarding and recognising our people

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

We offer a range of benefits for colleagues as well as flexible working opportunities. These range from colleague discounts in our stores to health care plans and a wide range of offers on days out and experiences. We also encourage involvement in our strategic performance through the operation of a performance-related bonus scheme for more than 100 senior employees and provide an incentive for retail colleagues through an active sales scheme that means they can earn a bonus each period.

Gender diversity (based on actual year-end headcount)



* excluding home delivery network employees under the age of 16.

> **"We have taken action to ensure talented women progress at McColl's, including a review of our flexible working policy."**

Valuing diversity and inclusion

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

If a colleague develops a disability while employed by us, we consider the matter carefully and try to accommodate their needs. If it is not possible to make reasonable adjustments to help them overcome any difficulties, we try to find an alternative solution, such as a different role.

Closing the gender pay gap

In line with current legislation, we show the difference in the average pay between men and women across the entire business, regardless of job role.

66% of our colleagues are women and we are very pleased to report that our gender pay gap, when calculated on a median rank order basis, is now 0% (2018: 2.7%), confirming that men and women are paid the same salary for fulfilling the same role at McColl's. Our gender pay gap calculated on a mean basis was 13.6% (the UK average gender pay gap is 17.3% – ONS, 2019), reflecting a higher weighting of men in supervisory/managerial roles.

We have taken action to ensure talented women progress at McColl's, including a review of our flexible working policy with the aim of providing more options for working parents and instilling an inclusive culture. Our Women at McColl's programme is designed to develop the skills and confidence in women who have the potential to move to more senior roles. There has been a significant increase over the period of females in managerial grades demonstrating that our actions have been effective.

Our leadership team and senior managers have all completed unconscious bias training.

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

Focus on health and safety

Our commitment to health and safety starts from the top and all Senior Leadership Team Directors and Senior Operations Managers have completed nationally recognised training in health and safety. It is discussed by the Board, and through our health and safety committee, we take a consistent and collaborative approach to creating a safe place for our colleagues, customers and visitors. This committee, comprising Executives and Senior Management, along with the Health and Safety Manager, manage and monitor all health and safety initiatives.

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

Of course, colleague safety remains a key focus and we continue to invest in technology that will protect our people across key locations. For example, we have worked with two partners, SoloProtect and Positive Response, to install lone working devices, and train colleagues to use them. These devices have panic alarms connected to monitoring centres with audio capability and offer an enhanced police response.

We have a partnership with Kingdom Services to provide guarding cover to some of our more vulnerable stores; and we link up with other retailers and the Police through our partnership with National Business Crime Solutions, allowing intelligence to be shared quickly and efficiently.

We also work closely with insurers, brokers and local authorities to improve our risk management. Although there are inevitably incidents and accidents across a large estate of stores like ours, by increasing proactive risk management in stores and the level of compliance across our business, we have seen a reduction in both employee and public liability claims in recent years.

Commitment to human rights

We treat people in line with internationally recognised human rights principles. While the Group does not have a specific human rights policy, we do have a number of policies in place that demonstrate the effective management of human rights issues in the business. These include our Anti-Bribery and Anti-Corruption Policy, our Anti-Harassment and Bullying Policy, our Health and Safety Policy and a Policy for Speaking up in Confidence.

We are absolutely committed to preventing modern slavery in all our activities and ensuring that our supply chain is free from slavery and trafficking. Our Modern Slavery Statement for the year 2019/20 (pursuant to section 54 of the Modern Slavery Act 2015) can be found at www.mccollsplc.co.uk/modernslaverystatement.

SATISFYING OUR COMMUNITIES' NEEDS

McColl's 'neighbourhood' ethos is at the core of our purpose to make life easier for our customers, colleagues and the communities we serve.

Our colleagues take pride in knowing our customers by name and this all adds to the way we differentiate our stores and build a competitive advantage. Around half of our customers live within 400 metres of our shops and most of our colleagues live in the surrounding area. This helps us drive customer loyalty and footfall, becoming another reason for people to come into our stores.

Beyond the products we sell, we are the 'best-in-class' for the services we offer and our list of services is endless: from click and collect and Amazon lockers; to Uber Eats and Subways; to bill payments and other Post Office services; to magazine and newspaper deliveries. There's something for everyone, and we're adding more services all the time.

That's why, when you look at the customer satisfaction surveys that are published each year, McColl's is always somewhere near the top.

Protecting the environment

Taking a responsible approach to the environment is not an add-on for our business, we aim to act in a sustainable way at all times, driving efficiency, reducing waste and improving our recycling.

Improving our energy efficiency

Our ongoing commitment to improving energy efficiency has helped us to reduce our energy consumption, despite further increases in our overall chilled and frozen space during the year. This is helped during store refits by replacing older refrigeration units with new, more efficient models that can offer up to a 20% reduction in consumption.

Some of our stores now have live energy monitors, so we can see how much energy they use in real time and actively manage them accordingly. We have also invested in our building energy management systems to give us greater control of our energy use at site level and, by understanding our most energy intensive sites, we can make targeted investments in energy-efficient technology. We continue to remove surplus and inefficient equipment and install 'last person out' switches (where all the lights can be switched off via one switch), as well as photocells that switch lighting on and off when areas aren't used.

We are working closely with trusted energy consultants and partners to reduce our energy use. These include our three-year SMART services programme with BIU, a leading energy and utility consultancy, giving us access to their experts and extensive data to identify opportunities across the estate to drive efficiency. We also continue to engage with colleagues across the business to make sure they are following the correct routines and processes to minimise energy use at source.

Managing waste

Recycling

Through our arrangements with our key wholesale supply partners we recycle plastic and cardboard used in our business. The same lorries that arrive with products leave with plastic and cardboard, so no additional miles are involved. It's an efficient way to recycle packaging, though we are looking at new ways for our stores and head office to recycle everything and are also considering brand selections that better meet environmental concerns.

Food waste

The way we manage waste is a key metric for all our Store Managers. In particular, our regular waste management routines ensure that we maintain very low levels of food waste and always seek to reuse, give away or distribute it instead.

We conduct weekly reviews of food waste that have resulted in a number of different actions, including: a move to smaller case sizes; changes to our ordering algorithms; reviews of product quality and pricing; changes to product pack sizes; reducing or even delisting of particular products; and store training to improve waste routines such as stock rotation and mark-downs.

Reducing single-use plastics

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

Climate change

We recognise the risk that climate change poses to our business and manage this by reducing carbon emissions throughout our operations.

Carbon reduction

We continue to invest in carbon reduction initiatives, including the installation of LED lighting and energy-efficient refrigeration. We achieved a 17% reduction in carbon emissions in 2019.

Our overall carbon emissions were 40,027 tonnes CO_2 (2018: 48,033 tonnes CO_2) as we reduced the size of our estate footprint. Scope 1 emissions reduced to 6,056 tonnes, with improvement in both fuel combustion and refrigerants and Scope 2 emissions, purchased electricity, reduced to 33,971. Our carbon intensity ratio, which measures the level of emissions per £100,000 of revenue, reduced to 3.3, down from 3.9 in 2018.

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

Greenhouse Gas Emissions 2018–2019

The Group is required to measure and report direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. This is the sixth GHG emissions report in line with UK mandatory reporting requirements set out by the Department for Environment, Food and Rural Affairs (DEFRA) and we have therefore expressed the report alongside the 'base year' of 2014* for comparison. The mandatory requirement is for the disclosure of the Scope 1 and 2 emissions only. Scope 1 emissions include heating (gas), vehicle fuel and fugitive emissions (refrigerant leakage). Scope 2 emissions include purchased electricity. The Group's total GHG footprint, in line with section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, is shown in the table below.

- The Group has reported on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) 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 2019 (the year in which the majority of emissions occurred). The electricity emissions are influenced favourably by a reduced emission factor for electricity in 2019, reflecting the UK's continued growth in the use of renewable energy in the overall electricity generation mix;
- The Group has engaged a consultancy firm, The Miles Consultancy (TMC), to oversee the collection of vehicle data and provide guidance on complying with appropriate regulations. Data collected has included fuel use and mileage, and business mileage has been calculated on the basis of actual fuel use recorded, and emissions calculated by applying the 2019 emission factors for diesel and petrol (bio-fuel blends);
- For electricity, gas and other fuels, consumption data has been extracted from billing information from the start of the reporting period to the date of the last bill received for each type of supply;
- The figures disclosed below for 2018-9 and the methodology used to collate the information has been reviewed by Project Rome Ltd;
- The emissions relating to the consumption of electricity in the reporting period are significantly lower than those reported in 2017-8 as a result of reduced electricity consumption (11% as a result of closure of some stores and energy efficiency projects). The reported emissions also reflect the significant (10%) reduction in the emission factor for UK electricity generation in the reporting period;
- Transport fuel data has been collated from information received from the Group's fleet management consultant TMC, and full year actual data is reported;
- Refrigerant data has been calculated by reference to individual items of equipment and then extrapolating this based on an estimated level of equipment within each property used by the Group. The methodology used utilises annual leakage rates as set out in Appendix C of the Environmental Reporting Guidelines for mandatory greenhouse gas emissions applying the Screening Methodology;
- Refrigerant emissions have reduced marginally this year as a result of disposal of some properties, and retrofiting refrigerant equipment with lower global warming potential, and
- Despite no material change in the statutory turnover of the business in the current fiscal year the Group's reduction in carbon intensity has again been positive as a result of reduced emissions across utilities, refrigeration and travel.

Data reported in 2019 includes Scope 1 and 2 emissions for the period 26 November 2018 to 24 November 2019.

	2014 (Base Year)	2015**	2016**	2017**	2018**	**2019**
	Tonnes CO_2(e)	Tonnes CO_2(e)	Tonnes CO_2(e)	Tonnes CO_2(e)	Tonnes CO_2(e)	**Tonnes CO_2(e)**
Scope 1						
Fuel combustion (natural gas, vehicle fuels and other fuels)	2,125	1,931	2,268	2,357	2,460	**1,859**
Refrigerants	2,122	2,733	2,897	4,569	4,401	**4,197**
Total	4,247	4,664	5,165	6,926	6,861	**6,056**
Scope 2						
Purchased Electricity	51,884	49,945	46,151	46,725	41,172	**33,971**
Total Scope 1 and 2 Emissions	56,131	54,609	51,316	53,651	48,033	**40,027**
Intensity – CO_2e tonnes per £100,000 of revenue	6.1	5.9	5.4	4.7	3.9	**3.3**

* 2014 data is presented as the base year.

** We have also included the 2015, 2016, 2017 and 2018 reporting numbers for trend comparison.

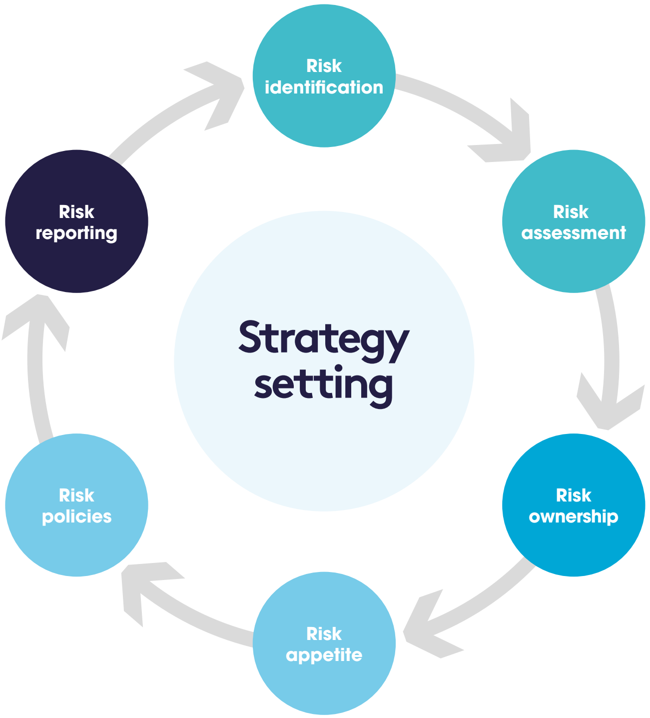
How we identify and manage risk

It is essential that we take a proactive approach to matters that could threaten the successful delivery of either our short- or long-term goals. Like all businesses, McColl's is exposed to internal and external factors which can affect its performance, positively or negatively.

Our risk framework seeks to identify such threats, quantify how likely it is they will occur, and determine how significant their impact could be. It also identifies any mitigating actions that can be applied to reduce the likelihood and impact to a level that is acceptable to the Board. The effectiveness of these actions is monitored to ensure that they deliver the intended outcomes. Our understanding of these risks also informs our strategic choices for the business.

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

Risk management framework



Risk identification and assessment

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

Risk ownership

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

Risk appetite and risk policies

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

The McColl's values, adopted in 2017, are:

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

These have been incorporated into our risk-related policies, and other policies, over the last two years.

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

Risk reporting

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

Risks, whether operational or strategic, are reported to the Group Health, Safety and Compliance Committee. The Committee, comprising the Executive team, Senior Managers from across the business, the Health & Safety Manager and the Company Secretary, brings together senior representatives from all areas to consider collectively, and from their different functional perspectives, the more significant risks faced by the business.

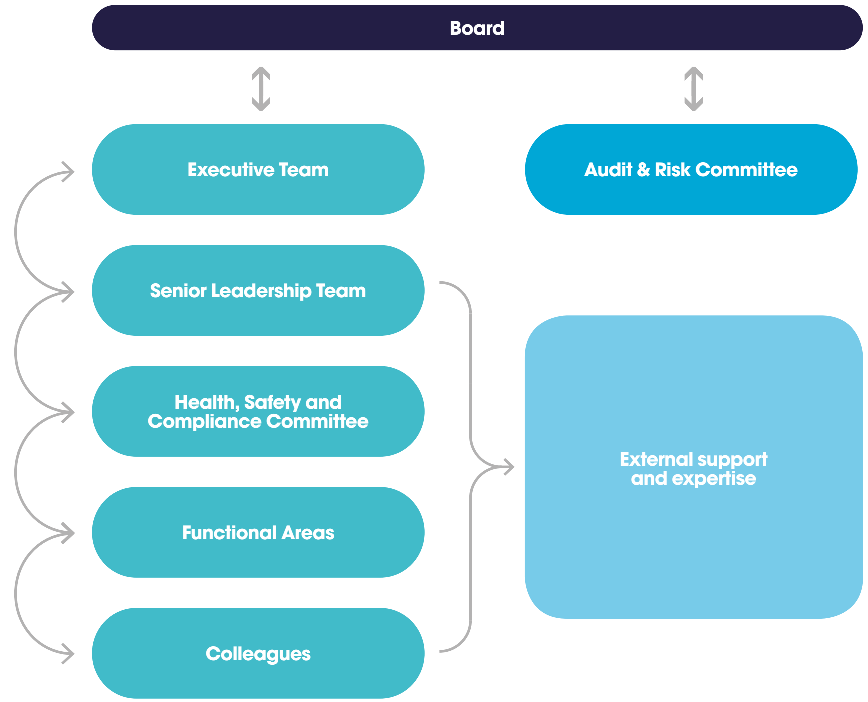
The Group Health, Safety and Compliance Committee reports, and escalates as appropriate, matters of risk to the Senior Leadership Team, which has responsibility for supporting the Executive team, led by the Chief Executive, in the delivery of the Group strategy and business objectives. The Audit & Risk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

Resources and structure

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

Risk management structure

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



The risk management processes described above are continual and risks evolve over time. At present, the Board, with the assistance of the Audit & Risk Committee, considers the following to be the principal risks facing the Group. The risks are not intended to be an exhaustive list. Information Technology, Regulation and Supply Chain Transition were previously identified as principal risks, whilst they are still considered as areas of potential risks, taking into account mitigating factors, the Board no longer categorises these areas as principal risks.

→ Maintained

↗ Increased

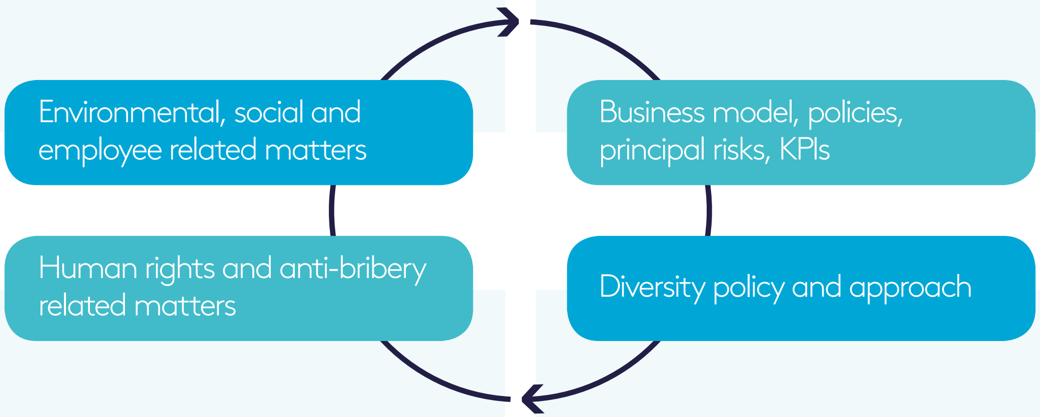
Area	**Customer proposition** →	**Competitive supply chain partner** ↗	**Operating model and cost efficiency challenges** →
Risk	Customer shopping habits are influenced by a wide range of factors and are constantly evolving. If we do not respond to their changing needs, with internal processes and resource allocated appropriately to adapt in terms of offer, price, range and availability – they are more likely to shop with a competitor, resulting in falling revenues.	We rely on a small number of key distributors and may be adversely affected by uncompetitive pricing or processes and procedures being unable to support customer innovation, range development or have agility in customer responsiveness	We have a high operational cost base, consisting primarily of wages (impacted by the National Living Wage), property rental and energy costs. Increases in these costs without a corresponding increase in revenues could adversely impact our profitability.
Mitigation	• Significant insight and tracking of customer habits, convenience channel trends and utilising supply base to understand trends and innovations • Review of promotional programmes to assess effectiveness, convenience sector trends and how best to offer customers good value • Our strong customer service standards, delivered through our store colleagues are reflected in our evolving brand strategy • We are building our presence in social media to better engage with customers • A Format, Space and Range team has been established to review customer journey segments, and how optimally to align the proposition	• We establish long-term relationships with trusted suppliers • Joint business plans are developed with our key partners • We look for opportunities to work closer with our key partners, to unlock areas of business benefit; such as 'implants' within our commercial department to collaboratively develop promotional and range strategies • We monitor the financial stability of key partners	• We continually seek to remove unnecessary complexity from our operational procedures to optimise performance; whilst engaging external review of our operating model to identify opportunities • We review options to deploy technology to further simplify and reduce cost from our operating model • 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, including a full maintenance strategy review • We minimise energy costs by combining energy efficiency initiatives and forward purchasing • We retender external contracts to ensure they remain market-competitive • We have an ongoing programme of estate optimisation to remove unprofitable and marginal stores

Availability of funding/cash	Strategic vision	Macroeconomic factors	Customer trends	Crime/colleague welfare
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.	If the Board either adopts the wrong strategy or does not implement its strategy effectively business performance and reputation may suffer.	All our revenue is generated in the UK. Any deterioration in the UK economy, for example as a consequence of Brexit, could affect consumer spending and cost of goods, which in turn would impact our sales and profitability.	We operate in a competitive environment, which is continually changing and has been subject to ongoing consolidation. Failure to maintain market share could have an adverse effect on our core business.	We need to provide and maintain a safe environment for our colleagues and customers. Failure to do so restricts the ability to recruit new colleagues and impacts negatively to the willingness of customers to frequent our stores.
• We produce daily cash forecasts covering at least the next three periods • We work with our banking syndicate, with regular communication to manage our funding and leverage position • The existing bank facilities (due to expire in July 2021) have been subject to early engagement with our lenders, and discussions are well advanced to amend and extend • There is a full working capital initiative in place, to bolster the cash position, through review of stock levels and supplier terms • The programme of estate optimisation targets a level of proceeds, from the sale of stores to further improve the cash position • The freehold Head Office has recently been subject to an approved application to convert to housing, resulting in a successful sale to release cash proceeds; a relocation to a leased Head Office is scheduled for the summer	• Our strategic development is led by an experienced Board, Executive and Senior Leadership Team • An annual strategic review takes place alongside our budget-setting process • The McColl's strategy is widely communicated and understood across the business • Business plans are developed, monitored and reviewed against strategic KPIs with a newly created Programme Management function to operationalise • Senior Management are incentivised with performance-related rewards to deliver our strategic goals	• We sell food and household essentials which are considered to be less discretionary than other competing spend areas • We offer a wide range of services, such as post office and 'last mile' internet package collection/delivery which helps sustain footfall • The majority of stores are local area, community based, with lower exposure to high street footfall • Our flexible business model allows us to respond to changes in customer behaviour, for example, by adapting our ranges • We are growing our range of own brand products through the rollout of Safeway • We are working with supply partners and manufacturers to build our Brexit contingency plans • Our supply chain partner, Morrisons, has undertaken significant planning pre-Brexit (including becoming an authorised economic operator)	• We monitor competitor activity, customer trends and feedback • Regular meetings are held with key suppliers to discuss evolving trends and options to optimise our offer • Customer awareness programmes combine both local and national initiatives, supported by digital marketing • The format and customer feel for our estate is developed through defined store trials, encapsulating latest internal and external thinking on our brand credentials • Supermarket grade product, accessed through our supply partners are deployed in store to differentiate our offer • We operate, as part of our ongoing strategic development a test and learn approach to new customer initiatives, to assess options for format development	• We monitor, on a weekly basis key incidents concerning colleague welfare • Stores are categorised by security and safety risk, with measures deployed accordingly; ranging from physical security to internal asset protection devices • The internal Risk Committee meets regularly, and specifically considers colleague safety and available options to provide heightened assurance to colleagues and deter anti-social behaviour in our stores • Latest technological advancements are considered by the Group Health, Safety & Compliance Committee to further enhance safety and security, ranging from 'staff safe' audio connectivity to 'staff cam' visual recording deterrents

EU Non-Financial reporting directive

- We operate corporate policies in these areas, which comply with or exceed legal and regulatory requirements in our markets.
- Good employee relations are a vital part of our business. We prioritise these through our policies and engagement, development and recognition programmes.
- We discuss each of these areas in the Resources and Relationships sections of this report on pages 22 and 23.

- The Group has already integrated non-financial inputs and outputs into its business model and strategic planning. This is discussed further in the business model on pages 20 and 21.
- Non-financial risks are routinely considered by the Audit & Risk Committee, and are disclosed where deemed material in the 'How we identify and manage risk' section on pages 36 to 39.
- KPIs are monitored by the Group and are described on page 24.



- We discuss our approach to Human Rights, which is not deemed a material issue for the Group.
- The Group operates anti-bribery policies which support compliance with the UK Bribery Act.
- These are discussed further on page 33.

- We discuss our approach to diversity on page 32.
- The Board places great importance on the positive benefits that diversity of experience, background and viewpoints can bring and is supportive of the objectives of the Hampton-Alexander review and other reviews on diversity.
- Policies and initiatives are operated throughout the business and these will be monitored to assess progress.

This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

Angus Porter
Non-Executive Chairman

Chairman's governance statement

> **"My fellow Directors and I remain committed to ensuring the governance and leadership of the business are effective in allowing McColl's to succeed as a grocery convenience retailer."**

As a Board we are mindful of supporting and promoting the McColl's values, taking the lead on incorporating these values into our work:

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

As reported last year, the Company will be reporting against the UK Corporate Governance Code published by the FRC in July 2018 for the financial period ending November 2020. The Board is again reporting against the 2016 Corporate Governance Code, although where practical is aligning content to recognise the new Code.

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

Approved by the Board and signed on its behalf:

Angus Porter
Non-Executive Chairman

Compliance with the UK Corporate Governance Code

Leadership and Company purpose (including shareholder relations)

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

Read more on pages 42 to 45

Division of responsibilities

We ensure we have the right combination of Executive and Non-Executive Directors without any individual or group of individuals who dominate the decision-making

Read more on pages 46 to 47

Composition, Succession and Evaluation

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

Read more on pages 48 to 51

Audit, Risk and Internal control

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

Read more on pages 52 to 56

Remuneration

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

Read more on pages 57 to 73

1 Angus Porter
Non-Executive Chairman[2, 3]

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

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

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

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

3 Robbie Bell
Chief Financial Officer

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

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

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

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

2 Jonathan Miller
Chief Executive[3]

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

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

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

Board Changes

It was announced on 27 January 2020 that, after 23 years with the Company, Dave Thomas, Chief Operating Officer, has confirmed his intention to stand down from his role and also from the Board. He will remain available in a consultative capacity until 6 April 2020.

It was announced in October 2019 that Sharon Brown will be stepping down from the Board in the summer of 2020.

As reported last year, Simon Fuller left the business on 22 February 2019 following a period of handover to his successor, Robbie Bell, who succeeded him as Chief Financial Officer on 17 January 2019.

4 Georgina Harvey

Senior Independent Director[1, 2, 3]

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

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

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

Other directorships: Georgina is also an Independent Non-Executive Director of Big Yellow Group PLC, Superdry plc and Capita plc.

6 Jens Hofma

Independent Non-Executive Director[1, 2, 3]

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

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

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

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

1 Member of the Audit & Risk Committee.

2 Member of the Remuneration Committee.

3 Member of the Nomination Committee.

5 Sharon Brown

Independent Non-Executive Director[1, 2, 3]

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

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

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

Other directorships: Sharon is a Non-Executive Director of Celtic plc, BMO Capital and Income Investment Trust plc, European Opportunities Trust PLC and The Baillie Gifford Japan Trust PLC. She is also a Non-Executive Director of a number of limited companies in the retail sector.

The Executive team, under Jonathan Miller's leadership, is ambitious in its vision, responsible in its management, cohesive in its leadership and effective in its delivery.

1 Karen Bird

Colleague & Operations Director

Current appointment: Karen was appointed Colleague and Operations Director in January 2020, having joined as Colleague Director in 2016.

Experience: Karen has extensive experience in convenience and food retail. Prior to joining McColl's she had over 20 years experience with Tesco in both HR and Operational roles, including leading significant change programmes.

2 Richard Crampton

Chief Commercial Officer

Current appointment: Richard joined as Chief Commercial Officer in September 2019.

Experience: Richard has extensive experience in convenience and food retail. He was Managing Director of the Buying Group at the Co-op from 2015 to 2019, representing the eight largest Co-ops' joint interests in grocery retail buying. Prior to this, Richard spent 7 years' at Sainsbury's where he undertook a number of commercial roles.

3 Jonathan Miller

Chief Executive

Read more on page 42

4 Robbie Bell

Chief Financial Officer

Read more on page 42

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

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

Specific consultations are undertaken from time-to-time with our major shareholders where deemed necessary. The Chairman also has direct dialogue with some of the major shareholders. The Board is conscious that the views and interests of other stakeholders in the business are important and engaging with those other stakeholders will have increased focus going forward. To enhance the Board's engagement with colleagues across the business, an employee survey is carried out annually with a six-monthly pulse survey to gauge progress.

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

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

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

Investor store visits

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

Division of responsibilities

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

The Board comprises an independent Chairman, Angus Porter, three independent Non-Executive Directors, Sharon Brown, Georgina Harvey and Jens Hofma and two Executive Directors, Jonathan Miller, Chief Executive Officer and Robbie Bell, Chief Financial Officer. The experience of the Board is detailed in the biographies on pages 42 and 43.

There is a schedule of matters reserved for the Board with other matters delegated to the three Committees of the Board, the Audit & Risk Committee, the Remuneration Committee and the Nominations Committee.

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

The Chief Executive is responsible for delivering the Group's strategy and for its operational performance. The Chief Executive is supported in carrying out their responsibilities by the Chief Financial Officer, Chief Operating Officer, Chief Commercial Officer and Colleague & Operations Director. The Chief Operating Officer retired in January 2020. The Board has no current intention to replace the role.

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

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

The schedule is periodically reviewed but the matters it covers are as listed below.

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

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

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

Until September 2019 the Group had a Retail Board comprising the Executive Directors and the most senior managers within the business. The Retail Board was collectively responsible for supporting the Chief Executive in delivering the Group's strategic objectives. However, as part of the strategy review in the summer, the structure of the management team was changed and a Senior Leadership Team was established to replace the Retail Board. The Senior Leadership Team is a wider cross-functional group of senior managers who support the Executive team with the delivery of the Company's strategy. The Senior Leadership Team is supported by other specific operational committees within the business which help ensure that strategic actions are disseminated and managed, that progress and issues are appropriately reported and escalated, and that management are accountable for the performance of their areas of responsibility.

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

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

Specific roles have been delegated to the Chairman. As reported last year, the Chairman worked closely with the Chief Executive on the appointment of the new Chief Financial Officer in January 2019. He was also involved in the recruitment of the Chief Commercial Officer in September 2019. The Chairman is currently leading the recruitment for a new Audit & Risk Committee Chair as Sharon Brown is stepping down in the summer of 2020.

The Chairman is responsible for the operation of the Board and for leading the Group's governance. This includes setting the Board agenda and leading the Board's discussions and decision-making. In addition, the Chairman's role is to actively promote a culture of openness and debate by facilitating the effective contribution of the Independent Non-Executive Directors. He is available to discuss matters with shareholders and is responsible for ensuring that the Board is kept well informed about shareholder views. The Chairman also leads the annual evaluation process to assess the effectiveness of the Board and its Committees. Further details of the Board evaluation are provided on page 49. The Chairman's performance is appraised by the Non-Executives who, led by the Senior Independent Director, meet annually in his absence to discuss this.

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

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

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

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

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

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

Separate reports by the Board's three main Committees – the Audit & Risk Committee, Remuneration Committee and Nomination Committee – are provided on pages 50 to 73.

Composition, succession and evaluation

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

Details of the experience, background and skills of individual Directors can be found on pages 42 to 43. The Board has a strong balance of skills, experience and knowledge. It was announced in October 2019 that Sharon Brown, Audit & Risk Committee Chair, will be stepping down from the Board in summer 2020. Recruitment for a successor is ongoing and will be reported in due course. It was also announced in January 2020 that Dave Thomas, Chief Operating Officer, has retired after 23 years with the business. There is currently no intention to replace his role.

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

Our Board recruitment processes are formal, rigorous and transparent

Our policy is not to set a quota or target for Board diversity, but we are fully committed to transparent and robust practices to identify the individual best suited to any vacancy. Recruitment is based on an assessment of the skills, experience, qualifications and other attributes sought and we support this principle being applied throughout the organisation. Further details of our approach to issues of diversity and, in particular, support for women within the business, can be found within the Nomination Committee report on page 50 and in relation to our wider organisation, on page 32.

In terms of Board recruitment activity during the year, as previously advised, Redgrave Partners were engaged for the recruitment of a Chief Financial Officer to replace Simon Fuller. They helped to ensure we searched a wide pool of potential candidates and assessed them against objective criteria to identify someone with the appropriate skills. Further details about this process, which was led by our Nomination Committee, are provided on page 50. Since the year-end, Nurole Limited have been engaged for the recruitment of an Audit & Risk Committee Chair to succeed Sharon Brown.

Attendance at meetings

	Board	Audit & Risk[1]	Remuneration[2]	Nomination
Angus Porter	9/9	–	5/5	2/2
Jonathan Miller	9/9	–	–	2/2
Simon Fuller[3]	2/9	–	–	–
Robbie Bell[4]	9/9	–	–	–
Dave Thomas[5]	9/9	–	–	–
Georgina Harvey	9/9	4/4	5/5	2/2
Sharon Brown	9/9	4/4	5/5	2/2
Jens Hofma	9/9	4/4	5/5	2/2

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

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

3 Simon Fuller ceased to be a Director on 22 February 2019.

4 Robbie Bell was appointed Chief Financial Officer on 17 January 2019.

5 Dave Thomas ceased to be a Director on 24 January 2020.

Our Directors are required to dedicate sufficient time to their responsibilities

The commitment of our Directors to their roles, including the time committed by our Non-Executive Directors, is a crucial factor in ensuring that our skilled Board is able to lead the business effectively and build sustainable value for our shareholders. Non-Executive Directors' letters of appointment define their duties and, taking account of these, the Nomination Committee has reviewed the time commitment required of our Non-Executive Directors. Further details regarding this can be found on pages 50 and 51.

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

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

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

This is especially important following a new appointment to the Board and, accordingly, all new Directors undergo a formal induction process that is described on page 51. However, to perform their duties as well as possible, all Directors also need ongoing development. The Board recognises this ongoing requirement and seeks to identify and address these needs through a variety of individual and group activities such as in-depth Board briefings, store and site visits and presentations by external advisers.

Arrangements are in place to provide Directors with good quality information

Directors, and in particular Non-Executive Directors who are not involved in the business on a day-to-day basis, must receive high-quality, relevant information in a timely manner so that they can make appropriate decisions for the business. Meeting agendas need to prioritise salient matters and ensure that the Board is considering the right issues at appropriate times. Reports must be thorough so that Directors arrive at meetings well briefed and ready to dedicate the valuable time the Board have together to challenging and testing rationales, risks and alternatives, for example, as opposed to seeking background information and facts that could readily have been addressed in the original papers. The Company Secretary plays a key role at McColl's in ensuring that this is the case. The Directors of any business can face difficult issues from time to time and it is important that they always feel they are able to address those issues with the appropriate knowledge and advice at their disposal. Accordingly, all Directors, having notified the Chairman in the first instance, are able to take independent professional advice at the Company's expense if they feel such advice is necessary in the furtherance of their duties. During 2019, no Director felt it necessary to take such individual advice. They also have access to the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters, and who is also available to any Director who wishes to seek their counsel.

A Board evaluation has been conducted

In 2019, we engaged Lintstock to facilitate an evaluation of the performance of the Board. Lintstock is a London-based advisory firm that specialises in Board effectiveness reviews and has no other connection with McColl's.

The first stage of the review involved Lintstock representatives engaging with the Chairman, Chief Executive, Senior Independent Director and Company Secretary to set the context for the evaluation, and to tailor survey content to the specific circumstances of McColl's. The surveys addressed core aspects of the Board's performance, with a particular focus on the following areas:

- The clarity and strength of the McColl's investment case, and the effectiveness with which the investment case is communicated externally
- The Board's understanding of the views of key stakeholders, including shareholders, customers, local communities and suppliers
- The Board's engagement with colleagues and effectiveness in monitoring the culture and values throughout McColl's
- The appropriateness of the Board's composition, including the skills represented and the level of diversity among members
- The extent to which the Board provides effective support and constructive challenge to management, and engages with the business outside meetings
- The Board's understanding of trends in the convenience sector and the competitive landscape
- The appropriateness of the Board's focus on risk and oversight of the Company's risk management processes
- The Board's oversight of talent and succession, and the Company's capacity to deliver the new strategy

The performance of the Chairman and Committees of the Board were also evaluated, and Board members were invited to assess their own individual contribution to the Board. The anonymity of all responses was guaranteed throughout the process to promote open and honest feedback.

A number of actions were identified for improvement, including greater engagement between the Non-Executive Directors and the Executive Team in between meetings, a more structured programme of accompanied store visits, to complement the visits already made individually by Directors, establishment of a regular programme of deep-dive Board discussions on key matters of strategic importance and some enhancements to Board and Committee papers.

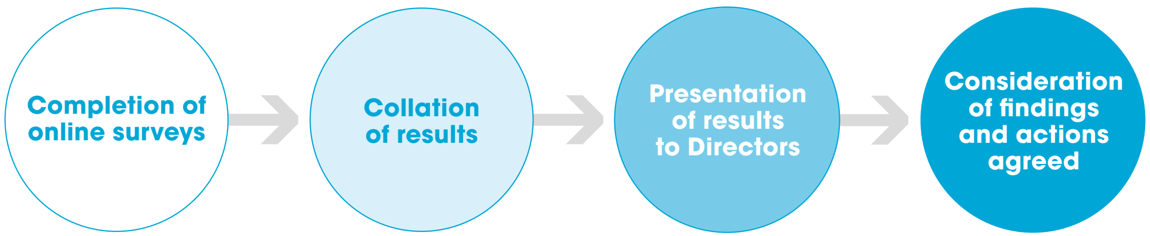
All Directors are subject to annual re-election

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

For the Annual General Meeting to be held on 3 April 2020, all current Directors have been unanimously recommended by the Board for re-election, following an assessment of individual performance. Biographical details for the Directors are provided on pages 42 and 43 and further details accompany the notice of Annual General Meeting, including the reasons the proposed re-election of each Director has been agreed by the Board.

Board evaluation process

Externally facilitated



Nomination Committee report

> **"We have strengthened the leadership team of the business in the past year."**

Angus Porter
Nomination Committee Chairman

Dear shareholder

On behalf of the Nomination Committee, I am pleased to present our report for 2019.

Committee composition and effectiveness

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

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

Attendance at scheduled Nomination Committee meetings, two of which were held during the year, is indicated below. In addition there was a sub-committee call to approve the appointment package of Robbie Bell.

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

The Nomination Committee's responsibilities and activities

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

As reported in the 2018 Annual Report, it was necessary to search for a Chief Financial Officer following the resignation of Simon Fuller in July 2018. This process was led by the Committee and Redgrave Partners were selected as the executive selection agent. Redgrave Partners are signatories to the Voluntary Code of Conduct for Executive Search Firms which sets out best practice in relation to addressing gender diversity in executive recruitment. In the latter part of 2019, it was announced that Sharon Brown would be stepping down from the Board in the summer of 2020. Nurole Limited have been selected as part of the recruitment process which remains ongoing. An announcement will be made when a successor is identified. Both agents, Redgrave and Nurole, are independent of the Company.

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

Meeting date	Key agenda items
Feb	• review of Non-Executive Directors independence • consideration of suitability of Directors for re-election at the Annual General Meeting • performance evaluation
Nov	• review of Directors' conflict of interest authorisations • review of Non-Executive Directors' time commitment • review of Nomination Committee terms of reference • agreement on future focus on succession planning and talent • review of the balance of the Board

Composition of the Board and its Committees

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

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

Performance Evaluation

As well as reviewing its terms of reference during the year, the Committee also considered its performance and reviewed the outcomes of the Board evaluation process as a whole.

Independence, interests and commitment

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

The time commitments required of Non-Executive Directors are set out in their letters of engagement and are 35-40 days per year for the Chairman and 20-25 days per year for other Non-Executive Directors. However, a review by the Nomination Committee recognised that an additional five days per annum are required to enable the Chairs of the Audit & Risk and Remuneration Committees to fully perform their roles in addition to their other duties. All Non-Executive Directors actively perform their duties.

The Committee reviewed all Directors' interests and concluded that conflicts of interest have been appropriately disclosed and authorised. Following the Committee's recommendations on these matters, the Board has confirmed that it considers all Non-Executive Directors to be independent and has proposed all Directors for re-election at the Company's Annual General Meeting to be held on 3 April 2020.

Induction and Board development

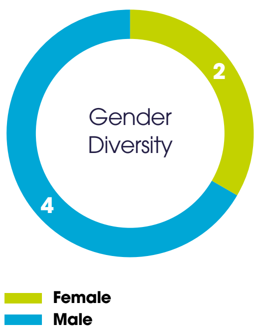
The Director induction is a formal process that involves providing background information about the business and its regulatory environment through, for example, the sharing of reports and governance documents. Face-to-face meetings are arranged with other Directors, key personnel within the business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

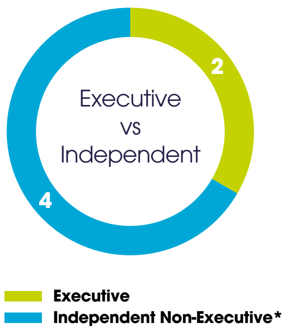
The ongoing development of Board members is also a priority and regular in-depth reviews are undertaken to ensure that the Non-Executive Directors have a full understanding of the business, its specific functional strategies and projects, changes to the regulatory environment and market developments.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

Succession planning, talent management and diversity

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

Board Diversity





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

A number of wider initiatives exist within the business to support our colleagues in achieving their aspirations and potential. Some of these initiatives are aimed at ensuring that we provide good support to women, whatever stage they are at in their life and career, to succeed in the workplace. We are particularly pleased with the progress that has been made in appointing more women to senior management positions this year.

More detail about our colleague engagement and initiatives and plans to support and develop colleagues can be found on pages 30 to 32.

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

Details of our gender pay gap are provided on page 32.

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

Angus Porter
Nomination Committee Chairman

* The Chairman was deemed independent on appointment.

Audit, Risk and Internal control

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

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

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

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

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

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

The McColl's approach to risk and risk management is described on pages 36 to 39 where a summary of our key risks and how they are mitigated is also provided. These principal risks have been agreed following robust and regular assessment. They include the risks that could threaten our business model, performance, solvency or liquidity.

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

The Board has established an Audit & Risk Committee comprising Independent Non-Executive Directors, including individuals who have experience relevant to the retail sector. This Committee is chaired by Sharon Brown, who has recent and relevant financial experience, and who has provided a separate report on behalf of the Audit & Risk Committee on pages 53 to 56.

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

> **"Following an audit tender last year, BDO LLP were appointed Auditor to the Group in April 2019. BDO LLP will be standing for appointment at the forthcoming AGM."**
>
> **Sharon Brown**
> Audit & Risk Committee Chair

Dear Shareholder

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

It has been a year of stabilisation for the business, rebuilding momentum and focusing efforts to maximise opportunities ahead (further details are contained in the Strategic Report on pages 2 to 40). The Audit & Risk Committee leads the Board's focus on matters of risk, as well as the integrity of the Group's financial reporting. As a Committee we remain mindful of the risks and pitfalls that a developing business can face and our responsibility to ensure that controls are sufficiently robust and that behaviours are appropriate. During the year the Committee has been active in ensuring its responsibilities are carefully discharged. The Committee's report which follows provides information on how we have done so.

As announced last year, we conducted an audit tender for the financial year ending November 2019. Following a formal process, the Audit & Risk Committee recommended to the Board the appointment of BDO LLP as Auditor to the Group, succeeding Deloitte LLP who had been Auditor to the Group since 2006. BDO were appointed in April 2019.

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

Sharon Brown

Sharon Brown
Audit & Risk Committee Chair

Committee composition and effectiveness

The Committee comprises Sharon Brown as Chair and the two independent Non-Executive Directors, Georgina Harvey and Jens Hofma. As part of the Board's performance evaluation, the Audit & Risk Committee also reviewed its own performance. The conclusion was that the Committee was functioning well and the suggestions identified are to be incorporated into our 2020 workplan. The Audit & Risk Committee has confirmed that the collective financial and sector experience of its members is considered to be appropriate, relevant and sufficiently recent to enable the Committee to discharge its responsibilities in full.

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

The biography of each member of the Audit & Risk Committee can be found on page 43.

Audit & Risk Committee's responsibilities

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

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

The Committee undertook a review of its terms of reference during the year but no changes were considered necessary, the terms of reference having been updated for best practice last year. A copy of the Committee's terms of reference is available on the McColl's website at www.mccollsplc.co.uk/committees.

Audit & Risk Committee's activities

Given its extensive remit, it is vital that the Audit & Risk Committee organises its time so as to cover all its responsibilities regularly. Agendas are planned, with the support of the Company Secretary, to ensure that the responsibilities set out in the Committee's terms of reference are fully discharged at the most appropriate time in the annual calendar. Planning the year ahead helps ensure that less time-critical matters can be spread evenly across meetings so that adequate time can be provided at meetings for full discussion. The way in which the Audit & Risk Committee divided its time during 2019 is summarised in the table of key agenda items.

During the year the Committee considered emerging risks and mitigations.

Meeting date	Key agenda items
Jan	• reviewed the draft Annual Report and Accounts 2018 and related matters
Feb	• considered year-end external audit outcomes • approved the Annual Report and Accounts 2018 and related matters • considered the external Auditor independence, objectivity and reappointment • facilitated an audit tender • assessed the principal risk disclosures • reviewed the performance evaluation of the Committee • approved a Group guarantee for subsidiary companies
Jul	• considered half year external audit review outcomes • approved the half year 2019 announcement and related matters • reviewed the risk register • approved the Committee terms of reference
Oct	• reviewed an early draft external 2019 audit plan • considered the approach in implementing IFRS 16 (lease accounting) • considered the risk register as background to the Board's strategy review • amended the policy on provision of non-audit services by the Auditor • approved the policy on related party transactions
Nov	• approved the year-end external 2019 audit plan • reviewed key accounting policies • reviewed financial and internal controls and risk management systems • considered the requirement for an internal audit function • reviewed incidents of compliance, fraud, whistle-blowing and bribery • approved policies on speaking up in confidence, anti-bribery and employment of former employees of the external Auditor

Making sure the Audit & Risk Committee is well informed

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

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

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

McColl's does not currently have an internal audit function. The Audit & Risk Committee reviews annually whether it would be appropriate for such an internal audit function to be established. During the year the Audit & Risk Committee received a detailed report on the existing controls within the business and, after discussion, again concluded that it was not necessary to establish an internal audit function. This decision will be reviewed again during 2020.

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

Non-audit services

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

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

The non-audit fees paid during the year related to an interim review.

Included within the audit fee total for the year is an amount of £45,000 that is deemed to be non-recurring in nature.

FRC Review

The Financial Reporting Council's Audit Quality Review team reviewed Deloitte LLP's audit for McColl's financial year to 25 November 2018. The Committee have reviewed the correspondence from the FRC, which noted that there were no significant findings arising from the FRC's review.

Auditor reappointment

As mentioned in last years report, Deloitte had been the Company's Auditor since 2006 and we had therefore made the decision to retender the audit. The Committee invited three audit firms to tender and received formal presentations from two companies. The Committee considered each audit firm's breadth of relevant experience, technical knowledge, commercial insight, independence, cultural fit and ability to deliver high-quality audits. Based on these criteria, the Committee selected BDO LLP as their preferred external Auditor and, following consultation with management, recommended their appointment to the Board. Based on the Audit & Risk Committee's recommendation, the Board are proposing that shareholders approve the appointment of BDO LLP at the AGM on 3 April 2020. The Audit & Risk Committee would like to thank Deloitte, on the Board's behalf, for their contribution to McColl's over their tenure.

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

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

Treatment of Supplier Income

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

Audit, Risk and Internal control continued
Audit & Risk Committee report continued

Impairment accounting

Given the difficult trading faced by the Group over the year, there is increased judgement in the carrying value of the Group's stores and consideration for impairment indicators. In addition, the Group holds a significant value of goodwill generated through acquisitions of businesses, individual and groups of stores. The goodwill balance is highly material. The value of stores and goodwill is supported by forecasts of future cash flows of the business. During the year an impairment charge of £98.6m in respect of goodwill and £2.7m in respect of store assets has been made, reflecting management's view of the carrying value of these assets. The forecasts used to determine this carrying value were considered by the Committee. There are inherent risks within these forecasts due to uncertainties as a result of changing industry and economic conditions.

Presentation and classification of results

In reviewing the presentation of adjusted profits, the Committee fully recognise the importance of ensuring that the rationale applied in identifying items for adjustment is clear, appropriate and consistent with the Group's accounting policies. The most significant items of adjustment are identified in note 5. The Audit & Risk Committee challenged and debated the appropriateness of each of these significant adjusting items with Management and sought an explanation of the judgement made and confirmation that a consistent Group policy, which also took account of market norms to ensure the treatment was consistent with best practice and the practice of others in our industry, was applied to the treatment of such items. The Committee was also mindful of the need for adequate disclosure. The inclusion of relevant defined terms in the glossary is helpful in this respect.

Going Concern

Long-term forecasts were revised given the continued challenging trading conditions, covering all elements of income, balance sheet and cash flow, taking a prudent view of LFL improvement and margin progression. The Committee in considering going concern assessed the sensitivity of the long-term forecast, modelling scenarios and considering mitigating actions. The Committee also considered the banking facilities available to the Group, which were due to expire in July 2021, noting that discussions with lending banks to amend and extend the facility are well advanced.

Arrangements for speaking up in confidence

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

Conclusion

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

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

Sharon Brown
Audit & Risk Committee Chair

Remuneration

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

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

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

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

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

Georgina Harvey
Remuneration Committee Chair

Dear shareholder

I am pleased to present the Directors' Remuneration Report for the financial period ended 24 November 2019. This report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2013, as amended, and the principles of the prevailing UK Corporate Governance Code.

The report is split into three sections:

- This **Annual Statement** summarising the work of the Committee, our approach to remuneration and an 'at a glance' summary of Executive Director remuneration;
- The **Directors' Remuneration Policy**, which sets out the current shareholder approved policy; and
- The **Annual Report on Remuneration**, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement the Policy in 2020.

There will be the normal advisory vote on the Directors' Remuneration Report (the Remuneration Policy was approved by shareholders at the 2018 AGM so need not be approved this year as there are no changes) at the 2020 AGM. In addition, shareholder approval will be sought for a HMRC tax-favoured Save As You Earn all-employee plan.

Pay and Performance for 2019

As explained elsewhere in this Annual Report and Accounts, 2019 was another challenging year for the business. As such, no bonus will be payable to the Executive Directors in respect of the 2019 performance year and the LTIP awards granted in 2017 will lapse in full in 2020.

Implementation of the Remuneration Policy for Executive Directors for 2020

No changes will be made to base salary, benefit or pension provision for 2020. The maximum bonus opportunity continues to be set at 100% of base salary and will be based on a combination of financial and strategic performance targets.

Reflecting the current share price, LTIP award levels will, for the second year running, be granted materially lower than the normal 150% of salary grant level. Vesting will continue to be based on challenging EPS and TSR performance targets.

Remuneration Policy review

The Committee intends to review the current policy during 2020 and in advance of the 2021 AGM given that it is nearing the end of its three year term. As part of the review, the latest developments in remuneration corporate governance (e.g. pension provision and post cessation guidelines) will be considered.

Yours sincerely,

Georgina Harvey.

Georgina Harvey
Remuneration Committee Chair

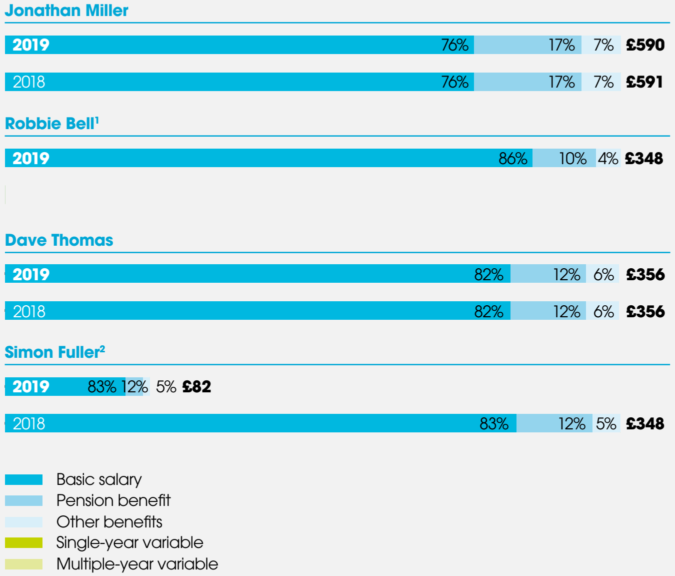
The following is a summary of the key components of Executive Directors' remuneration and their single figure total remuneration for the 52 weeks ended 24 November 2019.

Key components

	Fixed pay		
	Basic salary	**Pension benefits**	**Other benefits**
Purpose	To attract and retain talent of the right calibre and with the ability to contribute to strategy, by ensuring basic salaries are competitive in the relevant talent market.	To provide post-retirement benefits for participants in a cost-efficient manner.	To provide a competitive and balanced package of benefits.

	Variable pay	
	Annual bonus	**Long Term Incentive Plan (LTIP)**
Purpose	To incentivise focus on achievement of stretch profit targets as well as the delivery of key strategic priorities for the year.	To align the interests of Executives with shareholders in growing the value of the business over the long term.

Single figure remuneration of Executive Directors (£'000)



1 Robbie Bell was appointed a Director on 17 January 2019.

2 Simon Fuller ceased to be a Director on 22 February 2019.

These figures are described in more detail on page 68.

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

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

Summary Policy table

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

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

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

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

Performance measure selection and approach to target setting

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

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

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

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

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

a. the Committee will 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 will be considered between the upper and lower limits defined in a. and b.

Differences in remuneration policy operated for other employees

Senior management's remuneration has the same components as set out in the policy, being basic salary, annual bonus, pension, life assurance and other benefit provision. They may also be invited to participate in the LTIP or alternatively the Company's share option plan. Annual bonus arrangements have the same structure but are subject to lower salary multiples, with the potential varying with seniority.

Payout arrangements are based on specific key performance indicators relevant to each job function and for Senior Managers below Board level, part of the Bonus may be deferred.

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

Other

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

Approach to remuneration for new Director appointments

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

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

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

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

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

Service contracts and exit payment policy

Non-Executive Directors

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

Executive Directors

Jonathan Miller and Robbie Bell entered into service agreements with the Company on 1 April 2016 and 3 January 2019 respectively.

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

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

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

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

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

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

Consideration of employment conditions elsewhere in the Group

The Committee takes into account the levels of basic salary being offered to colleagues elsewhere in the Group and, when annually reviewing the salary increases and remuneration for the Executive Directors, it looks at what increases are planned for the wider employee population. During 2019, the Committee additionally received information about the Group's gender pay gap. Colleagues have not been consulted in respect of the design of the Group's Senior Executive remuneration policy although the Board has introduced an employee feedback mechanism in light of the new UK Corporate Governance Code.

Consideration of shareholder views

The Committee considers shareholder feedback carefully when reviewing remuneration. As part of its work to propose the new remuneration policy for approval at the 2018 Annual General Meeting, it took advice on current best practice and institutional shareholder guidelines. The Committee also undertook an active consultation exercise with shareholders representing approximately 65% of the shareholder base in line with the Committee's policy to consult with significant shareholders prior to making any major changes to its Executive remuneration structure. Shareholder bodies and advisors were also consulted. A similar exercise is anticipated in respect of a review of the Policy during 2020 in advance of shareholder approval at the 2021 Annual General Meeting.

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 24 November 2019 and sets out how we intend to implement our remuneration policy for the 2020 financial year. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the 2020 AGM.

Remuneration Committee composition

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

Meeting attendance during the year was as follows:

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

Remuneration Committee responsibilities

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

To assist them in their work, the Committee appointed FIT as its principal external adviser during 2018. FIT's fees for advice provided to the Remuneration Committee for the year under review were £27,000 (exc. VAT). FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

Remuneration Committee activities

During the 2019 financial year, the Committee met formally four times to consider the following remuneration matters:

Meeting date	Key agenda items
Jan	• considered Executive Directors' salary increases • considered 2018 annual bonus outturn • considered 2016 LTIP and CSOP vesting • considered 2019 LTIP award levels • considered the value of outstanding CSOP options • reviewed gender pay gap reporting
Feb	• approved 2018 annual bonus outturn • considered 2016 LTIP and CSOP vesting • deferred the decision to grant 2019 LTIP awards • considered 2019 bonus targets • approved the gender pay gap report • evaluated the Committee's performance as part of Board evaluation
Jul	• ratified the grant of LTIP and CSOP awards • approved the remuneration package of the Chief Commercial Officer • considered pay and benefits and changes over the previous 12 months • reviewed CEO pay ratio data
Nov	• approved the terms of reference • approved the policy on Directors' expenses • reviewed potential 2019 bonus outturn • reviewed progress against targets on existing LTIP and CSOP awards • considered corporate governance updates

In addition, the Committee met by telephone on 3 January 2019 to approve the remuneration package of Robbie Bell prior to his appointment as Chief Financial Officer.

Making sure the Remuneration Committee is well informed

In considering remuneration arrangements, Remuneration Committee members need sufficient information to enable them to take account of factors including the Group's strategy and attitude to risk, its financial position and prospects, competitive markets including peer group practice, and pay and conditions in place for the wider workforce. Examples of the information that may be provided to the Remuneration Committee, when making key decisions, is set out below.

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

Annual report on remuneration continued

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

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

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

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

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

Single figure for total remuneration of Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director employed by the Company for the period ended 24 November 2019 and the prior period:

	Salary		Pension Benefit[4]		Taxable Benefit[5]		Annual Bonus[6]		LTIP[7]		Total	
£'000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Jonathan Miller	**451**	451	**103**	103	**36**	37	**-**	–	**-**	–	**590**	591
Robbie Bell[1]	**298**	–	**36**	–	**14**	–	**-**	–	**-**	–	**348**	–
Former Directors												
Simon Fuller[2]	**68**	289	**10**	43	**4**	16	**-**	–	**-**	–	**82**	348
Dave Thomas[3]	**293**	293	**44**	44	**19**	19	**-**	–	**-**	–	**356**	356

1 Robbie Bell was appointed to the Board on 17 January 2019.
2 Simon Fuller ceased to be a Director on 22 February 2019.
3 Dave Thomas retired from the Board on 24 January 2020.
4 Pension benefits comprise pension contributions and/or salary supplement payments.
5 Taxable benefits for Jonathan Miller, Dave Thomas, Robbie Bell and Simon Fuller include healthcare and a car allowance.
6 Further details of the 2019 annual bonus are provided below.
7 No vesting has been assumed in respect of the 2017 LTIP awards vesting in 2020.

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the period ended 24 November 2019.

	Fee		Taxable Benefit[1]		Total	
£'000	**2019**	2018	**2019**	2018	2019	2018
Sharon Brown	**53**	53	**5**	4	**58**	57
Georgina Harvey	**58**	58	**-**	–	**58**	58
Jens Hofma	**45**	45	**1**	1	**46**	46
Angus Porter	**145**	145	**1**	2	**146**	147

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

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

Basic annual salary (audited)

Current basic salary levels for the current Executive Directors are as follows:

Executive Director	1 January 2020	1 January 2019 (or appointment if later)	% change
Jonathan Miller	£450,840	£450,840	0%
Robbie Bell[1]	£340,000	£340,000	0%

1 Robbie Bell was appointed to the Board on 17 January 2019. His salary was set c.16% higher than that of his predecessor reflecting his significant experience in consumer facing businesses (including the role of CFO then CEO of Welcome Break). When considering the salary positioning, Robbie Bell's reduced pension provision should also be noted.

Annual bonus (audited)

The Group operates an annual performance related bonus scheme for a number of Senior Managers including Executive Directors. For the 2019 financial period, annual bonuses for the Executive Directors were based 70% on operating profit, 10% on revenue targets and 20% on key strategic performance measures.

The maximum total bonus potential for 2019 was 100% of salary for Executive Directors. The targets, and achievement against them, were as follows:

Measure	Weighting (% of salary)	Threshold	Target	Stretch	Achievement	Payout (% of salary)
Adjusted operating profit*	70%	£16.4m	£19.3m	£22.4m	£15.3m	0%
Revenue and strategic performance	30%				See table below	0%
Total	100%					0%

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

Strategic performance	Weighting (% of salary)	Committee assessment	Payout (% of salary)
Achieve LFL revenue growth of at least 1%	10%	Since the threshold operating profit target was not reached, no bonus is payable against any of the strategic targets notwithstanding some progress was made	0%
Reduce Net Debt to below £85m	10%		0%
Refresh corporate strategy, including development and articulation of the investment case	10%		0%

Anticipated value of 2017 LTIP Awards (audited)

The LTIP values included in the single figure table above relate to awards granted on 17 March 2017 which vest on 17 March 2020 dependent on EPS and TSR performance measured over the three year period ended 24 November 2019.

Under the EPS performance target (70% of awards), 25% of this part of an award vests for cumulative EPS of 60.4p increasing pro-rata to 100% vesting for cumulative EPS of 68.6p. The vesting level is as follows:

Performance target	Threshold EPS	Maximum EPS	Actual EPS	Vesting % (max 100%)
Cumulative 3 Year Adjusted EPS	60.4p	68.6p	30.5p	0%

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

Performance target	Median TSR	Upper quartile TSR	Actual TSR	Vesting % (max 100 %)
v FTSE All Share General Retailers, Food & Drugs Retailers	-3%	27%	Below median	0%

As a result of EPS (70% of awards) and TSR (30% of awards) performance, the gross value of LTIP share awards expected to vest on 17 March 2020 are as follows:

Performance target	Total shares under award	Proportion to vest based on EPS (70%)	Proportion to vest based on TSR (30%)	Number of shares to vest	Value (£'000)
Jonathan Miller	237,634	0%	0%	0	0
Dave Thomas	153,225	0%	0%	0	0

Annual report on remuneration continued

LTIP awards granted in 2019

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

Executive	Date of grant	Proportion of salary[1]	Maximum shares awarded	EPS[2] (50% of awards)	TSR[2] (50% of awards)
Jonathan Miller	2 May 2019	68%	364,240	25% of this part of an award vests for three-year EPS growth of 7% per annum increasing pro-rata to 100% vesting for three-year EPS growth of 18% per annum, measured to the period ending November 2021	25% of this part of an award vests for median performance increasing pro-rata to 100% vesting for upper quartile against the constituents of the FTSE All Share General Retailers and FTSE All Share Food & Drugs Retailers, measured over the thee years from the grant date
Dave Thomas	2 May 2019	68%	237,163		
Robbie Bell	2 May 2019	125%	505,350		

1 The awards of Jonathan Miller and Dave Thomas are based on the same number of shares as granted in the previous year rather than the normal 150% of salary grant level, reflecting the Company's share price decline. The award for Robbie Bell, who was appointed Chief Financial Officer in January 2019, formed part of his recruitment package as disclosed in the Annual Report and Accounts 2018.

2 Reflecting the Board's desire to both deliver earnings growth and restore the Company's share price, EPS and TSR were weighted equally for the 2019 awards (compared to a 70:30 split between EPS:TSR for previous awards).

In addition, for the LTIP awards to become exercisable, the Committee must be satisfied that the formulaic LTIP outcome is a genuine reflection of the underlying performance of the business.

A post vesting period of 2 years will apply.

Outstanding LTIP Awards

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

Executive Director	Date of grant	Number of shares	Share price[1] (pence)	Face value (£'000)	Face value (% salary)	Vesting for threshold performance[2, 3, 4] (% of maximum)
Jonathan Miller	15 March 2017	237,634	186	442	100%	25%
	21 March 2018	196,017	230	451	100%	25%
	15 August 2018	168,223	134	225	50%	25%
	2 May 2019	364,240	84	306	68%	25%
Dave Thomas	15 March 2017	153,225	186	285	100%	25%
	21 March 2018	127,630	230	294	100%	25%
	15 August 2018	109,533	134	147	50%	25%
	2 May 2019	237,163	84	199	68%	25%
Robbie Bell	2 May 2019	505,350	84	425	125%	25%

1 Call Price per Award Share: £0.001.

2 2017 LTIP EPS performance condition range is 60.4 pence to 68.6 pence (70% of awards), TSR versus retailer comparator group (30% of awards). The performance period ended on 24 November 2019.

3 2018 LTP EPS performance condition range is 60.4 pence to 71.9 pence (70% of awards), TSR versus retailer comparator group (30% of awards). The performance period ends on 29 November 2020.

4 Details of the 2019 LTIP performance conditions/period are set out in the section above.

Directors' shareholdings and interest in shares (audited)

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

The table below sets out each Director's interests in McColl's shares and share options as at 24 November 2019.

	Options held[3]				Shares held[3]			
Director	Unvested and subject to deferral	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Owned outright	Current shareholding (% of salary/fee[1])	Shareholding requirement (% of salary/fee)	Guideline met?
Executive Directors								
Jonathan Miller[2]	–	966,114	33,568	–	11,649,500	1,098	200%	Yes
Dave Thomas	–	627,551	27,972	–	1,183,792	170	200%	No
Robbie Bell	–	505,350	–	–	–	–	200%	No
Non Executive Directors								
Georgina Harvey	n/a	n/a	n/a	n/a	10,471	8	n/a	n/a
Sharon Brown	n/a	n/a	n/a	n/a	17,471	14	n/a	n/a
Angus Porter	n/a	n/a	n/a	n/a	5,814	2	n/a	n/a
Jens Hofma	n/a	n/a	n/a	n/a	–	–	n/a	n/a

1 Based on closing share price of 42.5 pence at 22 November 2019 (the last trading day before the year-end) and prevailing salaries/fees on 24 November 2019.

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

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

Executive Directors' pension arrangements (audited)

Jonathan Miller, received a salary supplement in lieu of pension for the full year. This payment represented 22.9% of basic salary paid to him in the year. The monetary amount of his pension supplement shall remain fixed until it reaches 20% of his salary. Dave Thomas received a salary supplement in lieu of pension equivalent to 15% of his basic salary. Robbie Bell received a combination of salary supplement in lieu of pension and pension contributions equivalent, in aggregate, to 12% of his basic salary. The Committee will review pension provision for both incumbents and new joiners as part of the Remuneration Policy review in advance of the 2021 AGM.

Non-Executive Director fees (audited)

Non-Executive Director fees are as follows:

	From 1 February 2020	From 1 February 2019
Chairman	£145,000	£145,000
Base fee	£45,000	£45,000
Additional fee for Senior Independent Director	£5,000	£5,000
Additional fee for Audit & Risk Committee Chair	£8,000	£8,000
Additional fee for Remuneration Committee Chair	£8,000	£8,000

Payments for loss of office (audited)

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

Dave Thomas retired from the role of Chief Operating Officer and also from the Board on 24 January 2020. In order to ensure a smooth handover, he will remain an employee until 6 April 2020 at which point he will leave the Company. Dave will continue to receive his basic salary, benefits and pension until cessation and will then be paid the remainder of his 12 month notice period. He will receive no bonus for 2019 and will not be eligible for a 2020 bonus and his LTIPs will vest at the normal vesting dates, subject to performance and time pro-rating. Full details of the payments made will be disclosed in next year's Directors' Remuneration Report.

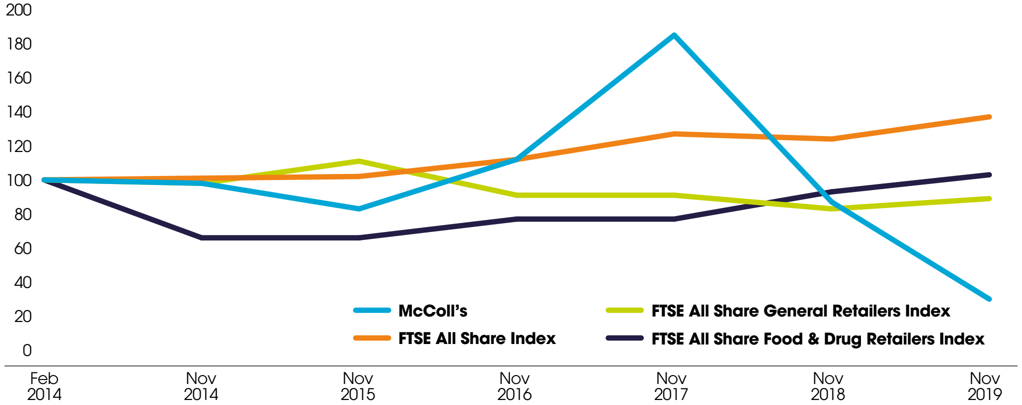
Payments to previous Directors (audited)

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

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

Total shareholder return

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



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

Chief Executive single figure of remuneration

	James Lancaster				Jonathan Miller[1]			
	2013	2014	2015	2016	2016	2017	2018	2019
Single figure of remuneration (£'000)	834	3,199	840	339	504	750	591	590
Annual bonus outcome (% of max)	0%	0%	0%	39.4%	39.4%	15.0%	0%	0%
LTIP vesting (% of max)	n/a	n/a	n/a	n/a	n/a	30.0%	0%[2]	0%

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

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

Change in Chief Executive's remuneration

The table below sets out the percentage change in the remuneration of the Chief Executive and the average increase across all employees excluding the Board between the years 2018 and 2019.

	Chief Executive annual cash (£'000)			Average change across all employees
	2018	2019	Change	
Salary (£'000)	451	451	0%	+4%
Pension benefit (£'000)	103	103	0%	+46%
Taxable benefits (£'000)	37	36	-3%	0%
Annual variable (£'000)	0	0	0%	0%

Distribution statement

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

Employment remuneration

The Group paid an interim dividend of 1.3 pence per share. The Directors are not proposing a final dividend, therefore a total payment of £2.2m for 2019.

Statement of shareholder voting

The following table shows the results of the binding vote on the remuneration policy at the 2018 Annual General Meeting and the advisory vote on the 2018 Annual Statement and Annual Report on Remuneration at the 2019 Annual General Meeting.

	For		Against		Withheld
Votes	Number	%	Number	%	Number
Annual Statement and Annual Report on Remuneration (2019 AGM)	92,971,587	98.57	1,349,540	1.43	286,563
Remuneration policy (2018 AGM)	85,683,168	86.08	13,850,649	13.92	1,668,070

Shareholder consultations

The Remuneration Committee welcomes feedback from shareholders in respect of our Remuneration Policy and its implementation. Noting that the current Policy is due to reach the end of its three year shareholder approved life in 2021, the Committee will review the Policy during 2020 and intends to consult with major shareholders and the main representative bodies on any proposed changes.

Implementation of the Remuneration Policy for 2020

The proposed implementation of the Policy for 2020 is as follows:

- There will be no changes to base salary, benefits and pension provision.
- The maximum bonus opportunity will continue to be set at 100% of base salary. 60% of the annual bonus will be determined by operating profit targets, 15% will be determined by working capital improvement targets, 10% will be determined by LFL sales growth targets and 15% will be determined by strategic performance. The targets are commercially sensitive although disclosure of the targets and performance against the targets will be set out in the 2020 Directors' Remuneration report.
- Reflecting the current share price, LTIP awards will, for the second year running, be granted at materially lower levels than the normal 150% of salary. The CEO will receive an award of 50% of salary while the CFO will receive an award of 100% of salary. Vesting will continue to be based on EPS and relative TSR, weighted equally. For EPS, 25% of this part will vest for EPS growth of 12% per annum increasing to 100% vesting for EPS growth of 25% per annum. For TSR, the normal median to upper quartile range will apply for between 25% and 100% of this part of the awards, measured against the FTSE All Share General Retailer and Food & Drug Retailers. A two year holding period will apply to any awards granted in 2020.

Approved by the Remuneration Committee and signed on its behalf:

Georgina Harvey
Chair of the Remuneration Committee

McColl's Retail Group plc (the 'Company' or 'McColl's', or 'Group'') operates more than 1,443 convenience and newsagent stores offering a wide range of products and services to neighbourhoods across the United Kingdom. Our principal activities are described in more detail in the Strategic Report on pages 2 to 40.

Governance at McColl's

Corporate governance

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

The Board's full commitment to the Code is described in the Corporate Governance report, together with the memberships, remits and activities of the Nomination, Audit & Risk and Remuneration Committees, all of which are set out on pages 50 to 73 and form part of this Directors' report.

Directors

Details of our current Directors can be found on pages 42 and 43. The following Directors served during the year.

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

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

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

3 Dave Thomas retired as Chief Operating Officer and ceased to be a Director on 24 January 2020.

Powers of Directors

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

Conflicts of interest

The Board considers and authorises potential or actual conflicts as appropriate and these decisions are kept under review by the Nomination Committee. Directors with a conflict do not participate in the discussion or vote on the matter in question. Further detail can be found in the Corporate Governance Report on page 51.

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Remuneration Report on page 72.

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. The Company also 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.

Disclosures required under Listing Rule 9.8.4

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

McColl's shareholders

Share capital

Details of the share capital from 26 November 2018 to 24 November 2019 are shown in note 25 of the financial statements. The nominal value of the total issued ordinary share shares of 0.1 pence each in the capital of the Company at the start of the year was £115,173.51 (being divided into 115,173,515 fully paid ordinary shares) and at the end of the year was £115,193.90, (being divided into 115,193,909 fully paid ordinary shares).

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

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

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

Shareholders' rights

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

Restrictions on transfers of securities

As at 24 November 2019, the ordinary shares are freely transferable with the following specific exception.

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

Substantial share holdings

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

As at the financial year-end and as of 25 February 2020, the Company has been notified of the interests detailed in the following table, each of which represented holdings of 3% or more of the ordinary shares of the Company. This information was correct at the date of notification.

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

	24 November 2019		25 February 2020	
Shareholder	Number of shares	% interest in shares	Number of shares	% interest in shares
Aberforth Partners LLP	14,534,277	12.62%	15,120,277	13.13%
Jonathan Miller[1]	11,649,500	10.11%	11,649,500	10.11%
Klarus Capital Limited	11,399,500	9.90%	11,399,500	9.90%
FIL Limited	6,713,277	5.82%	6,713,277	5.82%
Premier Miton Group plc	6,300,000	5.47%	6,300,000	5.47%
Chelverton Asset Management	5,950,000	5.17%	5,950,000	5.17%
FMR LLC	5,779,091	5.01%	5,779,091	5.01%
Laxey Partners Ltd	3,867,360	3.36%	3,867,360	3.36%
CI Investments Inc	3,600,000	3.13%	3,600,000	3.13%
Jerry Zucker Revocable Trust	3,500,000	3.04%	3,500,000	3.04%

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

Directors' interests

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

McColl's stakeholders

Colleague engagement

Further information about our colleague engagement is provided on pages 31 and 32.

Corporate responsibility and the environment

The Company's sustainability review, including information about our greenhouse gas emissions and approach to corporate responsibility, is set out on pages 34 and 35.

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

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

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

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

Financial matters

External Auditor

BDO LLP have given their independent report on the financial statements to the shareholders of the Company on pages 81 to 88.

Directors' statement of disclosure of information to Auditor

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

Post year-end events

On 21 February 2020, the Group exchanged contracts for the sale of the Group's head office building with a completion date of 31 December 2020 or earlier on three weeks' notice from the Group. The agreed selling price was £7.3m.

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 affect the Group can be found in note 27 of the Group's financial statements. Details are also available in the summary of the principal risks and uncertainties faced by the business and management's approach to identifying and managing risk which are provided on pages 36 to 39.

Future developments within the Group

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

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements.

The Directors continue to adopt the going concern basis in preparing the financial statements. The financial position of the Group, its cash flows and liquidity position are set out in the financial statements section on pages 89 to 122. Furthermore, notes 18 and 27 to the Consolidated Financial Statements include the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

At the end of the period, the Group had drawn down £129.5m (2018: £125.5m) of its facilities.

In November 2018, the Company signed an amended credit facility agreement, which provides improved headroom against the covenants. The updated facility consists of a £100m Revolving Credit Facility and an amortising £77.5m term loan (originally £100m initially being repaid at £2.5m per quarter). In addition, there is a £50m unsecured accordion facility available at the Company's option.

The Directors revised the long-term forecasts, given the continued challenging trading conditions, covering all elements of income, balance sheet and cash flow, taking a prudent view of like for like improvement and margin recovery. The Directors, taking into account these forecasts and the revised facilities available to the Group, continue to adopt the going concern basis in preparing the financial statements.

In considering going concern, the Directors have also assessed sensitivity scenarios of the long-term forecast. These could include a short-term reduction in sales, pressures on gross margin, a short-term delay in asset disposal and a higher level of cost inflation. The overall going concern scenarios the Company has modelled include assessing LFL 0.5% lower than plan, nil year-on-year gross margin growth (despite anticipated product mix), and a delay in asset disposal. Whilst in the short-term the covenant headroom is tighter, having modelled these scenarios and the mitigating actions which will aim to be implemented by the Directors, the Directors remain confident that the business is a going concern.

The Directors have made this assessment in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council in September 2014.

Viability Statement

In accordance with provision C.2.2 of the Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'going concern' provision. The Directors have assessed the viability of the Group over a five year period through to 2024 which coincides with the Group's strategic review period.

This assessment has considered the potential impact of the principal risks on the business model, future performance and liquidity over the period. 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 (with significant progress made on extending the facility), strong track record of operational cash inflow and revised long-term forecasts.

Additionally, the Directors have considered the impact of government and legislative changes primarily Brexit and concluded that whilst uncertainty exists, the business has sufficient options available to mitigate these risks. Finally it is noted that even in the event of a very severe impact on the business through continued food deflation and cost inflation, the business could review capital spend linked to expansionary projects, whilst accelerating working capital and cost saving initiatives.

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 2024.

Annual General Meeting (AGM)

Our 2020 AGM

The Board welcomes the opportunity to meet and engage with shareholders at the AGM which will be held on 3 April 2020 at 1.30pm at the registered office: McColl's House, Ashwells Road, Brentwood, Essex CM15 9ST. The Chairman of the Board and the Chairs of each of its Committees will attend the AGM to answer questions from shareholders.

All Directors will be standing for re-election at the AGM, with the exception of Dave Thomas who has retired from the Board. The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report and Accounts.

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

Appointment and retirement of Directors

Following recommendation of the Nomination Committee, all current Directors will stand for re-election at the Company's AGM in voluntary compliance with provision B.7 of the Code. This practice also exceeds the requirement of the articles for Directors to retire by rotation at every third AGM.

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

Further information on appointments to the Board is set out in the Corporate Governance Report on pages 41 to 49 and the Nomination Committee report on pages 50 and 51.

Reappointment of Auditor

BDO LLP were appointed in April 2019 following a formal audit tender process. BDO LLP have indicated their willingness to continue as the Company's Auditor. Accordingly, a resolution to reappoint BDO LLP as Auditor of the Company and the Group will be proposed at the 2020 AGM. Further details regarding the reappointment of the Auditor may be found in the Audit & Risk Committee Report on page 53.

Save As you Earn

The Board is seeking shareholders' approval of the all-employee McColls Retail Group plc Savings-Related Share Option Scheme (the 'SAYE Scheme'), which will be proposed as an ordinary resolution at the AGM. The Board considers all-employee share ownership to be a key component of the Company's overall remuneration strategy, allowing the Company to better align the interests of employees and shareholders, while at the same time helping the Company to recruit, retain and motivate employees at all levels within the Group. The SAYE Scheme offers tax advantages to participants in the UK in accordance with UK legislation. A copy of the SAYE Scheme rules will be available for inspection at the AGM.

Political donations

Further to shareholder approval at the 2019 AGM empowering the Directors to make political donations or incur political expenses, it is confirmed that no such donations were made or expenses incurred in the year ended 24 November 2019 (2018: £nil). The Company's policy is not to make political donations or incur political expenses but a resolution to renew this authority on its expiry will be put to the 2020 AGM to avoid any inadvertent breach of the regulatory requirements that might occur if a wide interpretation of political donation were to be applied to, for example, some of the Group's community support activities.

Authority to allot shares

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

Resolutions will be proposed at the 2020 AGM to renew these authorities.

Authority for the Company to purchase its own shares

A resolution was passed at the 2019 AGM authorising the Company to purchase up to approximately 10% of its ordinary shares (11,517,351 ordinary shares) at the Directors' discretion. At the date of this report, no ordinary shares have been purchased under this authority. A similar resolution will be proposed at the 2020 AGM which will, if approved, replace the existing authority and will lapse at the conclusion of the 2021 AGM.

Dis-application of pre-emption rights

At the 2019 AGM the Board noted the proportion of votes cast against Resolutions in respect of the disapplication of pre-emption rights and disapplication of pre-emption rights in relation to an acquisition or capital investment. The Board have concluded that, as the majority of shareholders are in support, renewal of the authorities in relation to the dis-application of pre-emption rights and also the disapplication of pre-emption rights in connection with an acquisition or capital investment will again be put to shareholders at the Annual General Meeting in 2020.

The Board remains committed to undertaking shareholder consultations on significant share issues whenever it is practicable to do so and to continued shareholder engagement.

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

By order of the Board

Rachel Peat
Company Secretary

25 February 2020

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group 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 they have been prepared in accordance with UK GAAP, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, 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 they have been prepared in accordance with IFRSs as adopted by the European Union, 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; and
- prepare a Director's Report, a Strategic Report and Director's Remuneration Report which comply with the requirements of the Companies Act 2006.

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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The Directors confirm to the best of their knowledge:

- The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.
- The annual report and financial statements, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 25 February 2020 and is signed on its behalf by:

Jonathan Miller
Chief Executive

25 February 2020

Robbie Bell
Chief Financial Officer

25 February 2020

Opinion

We have audited the financial statements of McColl's Retail Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 week period ended 24 November 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated and Parent Company statement of changes in equity, Consolidated statement of cash flows, Parent Company balance sheet and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 24 November 2019 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 36 to 39 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on pages 38 and 39 in the Annual Report 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 Directors' statement set out on page 77 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 78 in the Annual Report 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter in our audit
Supplier income The cost of sales accounting policy, which includes the treatment of supplier income, is outlined in note 2 to the financial statements. Supplier income is generated from commercial agreements with suppliers including incentives, rebates and discounts. This represents a deduction to cost of sales which is material to the Group financial statements. In addition, during the 52 week period ended 25 November 2018, the Group experienced supply disruption as a result of a key supplier, Palmer and Harvey, entering into administration in November 2017. McColl's had entered into a substantial wholesale supply agreement with WM Morrison Supermarkets (Morrisons) on 31 July 2017. The supply chain disruption meant that McColl's transition to the new arrangement with Morrison's was accelerated compared to the timetable originally planned. We identified a key audit matter relating to the supplier income arrangements, inclusive of arrangements specific to the transition and the wholesale agreement with Morrisons. Judgement is required in determining the period over which the reduction in cost of sales should be recognised for volume based over-rider arrangements, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to which the arrangements apply. Further, whilst a significant element of income generated from volume based over-rider arrangements has been settled at 24 November 2019, management judgement is required within the process of estimating the level of supplier income as at the balance sheet date for arrangements that either span two financial periods or where the income has not been fully settled by the period end date. In accordance with the auditing standards and in view of the judgements involved above, as well as management being in a position to be able to override controls, we have presumed a risk of fraud within this area.	Our audit procedures to address this risk included, but were not limited to: **Transition to the Morrisons wholesale agreement** • We developed an understanding of the contract terms between McColl's and Morrisons by reviewing the wholesale agreement and evaluating the accounting policies and treatment applied by management for supplier income arising from the agreement; • We recalculated the release of income deferred as at the previous balance sheet date, recognised as income in the current financial period, and recalculated the level of income deferred as at 24 November 2019. We checked the basis of deferral and agreed that this was appropriate; and • We confirmed that the classification applied to supplier income from Morrisons in the financial statements is in accordance with the relevant standards. **Accrued supplier income** • We obtained an understanding of the related controls and assessed the design and implementation of controls over commercial income. As a consequence of our conclusions, we performed a test of operating effectiveness of the relevant controls related to volume based over-riders and as well related to margin support agreements; • We performed detailed substantive testing over a sample of arrangements in the period through agreement of the arrangement to supplier contract and other correspondence, and recalculation of the amounts recognised as income and the value of income accrued at the balance sheet date; • For non-coterminous rebate agreements we examined historical forecast outturn performed by management and compared this against post-period end trading; • We checked the ability to recover the rebate receivable for the sample selected through cash received; • To address the fraud risk, we performed procedures designed to check that supplier arrangements are recorded in the correct period and reviewed manual journal postings throughout the period; and • We performed data integrity checks on the spreadsheets utilised to manage supplier arrangements and checked the completeness of supplier rebate income by reference to revenue in the period. Key observations: Following our work in respect of the Morrisons contract, we are satisfied with the timing over which contributions are recognised and consider the disclosure in note 2 to be appropriate. The results of our detailed testing in respect of accrued supplier income at the period end were satisfactory and we consider the disclosure around supplier income to provide a reasonable understanding of the types of supplier income received and the impact on the Group's balance sheet and profit as at 24 November 2019.

Key audit matter	How we addressed the matter in our audit
Impairment of goodwill and store assets The Group's accounting policies are disclosed in note 2 and goodwill is included as a key source of estimation uncertainty in note 3. As at 24 November 2019, the Group held £151.5m of goodwill, net of an impairment charge in the current financial period of £98.6m, as disclosed in note 13. The Group also hold 1,443 retail stores, which make up the majority of the carrying value of property, plant and equipment ('store assets') held on the balance sheet at 24 November 2019 (£77.1m, as disclosed in note 12). The accounting standards require that the value of goodwill is tested for impairment annually and store assets are tested for impairment where indicators of impairment are identified. Management performed a full impairment assessment for goodwill and the loss-making stores to determine if the carrying value of these assets is supported. As a result, a charge of £98.6m has been recorded in respect of impairment provisions against goodwill and £2.7m against property, plant and equipment. The key assumptions applied by the Directors in the impairment reviews are: • cash flow forecasts in the context of the going concern review, including assumptions of future growth, gross margin and store costs and • discount rates. We considered this to be a key audit matter as the value of the store assets and goodwill is supported by forecasts of future cash flows of the businesses. There is inherent uncertainty within these forecasts arising from changing industry and economic conditions and thus significant management judgement and assumption is required. There is also a risk that assets held in, and associated with, each store are not recoverable.	Our audit procedures to address this risk included, but were not limited to: • We evaluated the design and implementation of controls around the process of preparing and performing the impairment reviews of the Group's goodwill and store assets; • We evaluated and challenged management's impairment models by: – understanding the underlying reasons and events giving rise to the goodwill impairment charge in the period ended 24 November 2019; – reviewing management's workings for mechanical accuracy and compliance with relevant accounting standards; – determining an acceptable range for the discount rates applied to future cash flow and working with our internal valuation team to compare to management's rates; – checking historical financial information against budget to assess accuracy of the budgeting process and preparation of cash flow forecasts; – challenging management's assessment of the Cash Generating Units (CGUs) being assessed for impairment; – assessing the reasonableness of the assumed long-term growth rate of 0% in management's workings; and – reviewing management's sensitivity analysis on the inputs applied. • We reviewed the disclosures in the Annual Report, to assess whether they are in line with the requirements of the relevant accounting standards. Key observations: Following the completion of our work, we are satisfied that the £98.6m impairment charge against goodwill and £2.7m impairment charge against store assets is materially accurate.

Key audit matter	How we addressed the matter in our audit
Presentation and classification of results Consistent with prior periods, management has identified certain adjusting items, relating to costs or income that derive from events or transactions that do not fall within the normal activities of the Group, and are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The presentation of income and costs within adjusted measures (to derive 'adjusted profit before tax') under IFRS is judgemental, as IFRS only requires the separate presentation of material items. In the Group's reported results, significant adjustments have been made to statutory loss before tax of £98.6m to derive adjusted profit before tax of £7.3m. The Group's accounting policy for adjusting items can be found in note 2. Detail of these adjustments can be found in note 5 of the financial statements. Given their judgemental nature there is a risk that the adjusted items should be presented as underlying results. In particular, we focused on the treatment of: • property profits resulting from sale and leaseback activity completed (£3.3m); • costs associated with the unprofitable store programme (£6.6m); and • goodwill and store asset impairment charges (£101.3m in total). We have identified this key audit matter as a fraud risk as management has the opportunity to manipulate results of the business through classification of items as adjusting. In addition, we note that the calculation for one of the Group's covenants, Leverage Ratio, is based on adjusted profit measures.	We completed the following procedures during our audit: • We evaluated the design and implementation of controls in the classification of the results and presentation of these in the accounts; • We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted items, by: – challenging the nature of items being identified by management as adjusting items; – assessing the consistency of items period on period; and – evaluating adherence to relevant accounting standards requirements and latest guidance from regulators. • We tested a sample of income and expenses recognised as adjusting, based on the nature of each item; • To test for completeness we assessed unadjusted items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature and/or quantum for whether they should be included within adjusted items; and • We reviewed the appropriateness of related disclosures provided in the Annual Report to check in accordance with relevant accounting standards. Key observations: We are satisfied the adjusting items have been appropriately disclosed.

Key audit matter	How we addressed the matter in our audit
Going concern The Group's disclosure on application of the going concern principle is included in the Directors' Report on page 77 and note 2 to the financial statements. Given the key financial covenant conditions on the Group's funding facilities are linked to adjusted EBITDA, there is an increased risk that the business may fail to comply with the required covenant conditions and cease to operate as a going concern. Management has performed an analysis of future trading performance and determined the impact of this performance on future covenant requirements. Management has also prepared a downside scenario for the business plan that models changes in the forecast performance to test how resilient the business is to reasonably possible events, including an analysis of what mitigating actions may be required to rectify forecast loss of headroom.	Our audit procedures to address this risk included, but were not limited to: • We assessed the design and implementation of the controls in place related to the preparation of management's going concern assessment; • We obtained an understanding of the financing facilities, including the nature of the facilities, repayment terms, covenants and attached conditions and any amendments to the facilities; • We obtained and challenged management's documented assessment of going concern and the underlying workings to support their conclusion; • We assessed the facility and covenant headroom calculations, and performed sensitivities on management's base case and downside scenarios; • We challenged the appropriateness of management's forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy and understanding management's consideration of downside sensitivity analysis; • We considered the consistency of management's forecasts with other areas of the audit, such as the impairment financial models and the forecasts underpinning the viability statement; and • We reviewed the wording of the going concern disclosures, and assessed its consistency with management's forecasts. Key observations: We are satisfied that management has performed an appropriate assessment of the Group's ability to continue as a going concern, including the assessment of appropriate sensitivities, which are reasonably possible and may impact covenant compliance.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group was set at £750,000 and was determined with reference to the benchmark of the Group's revenue of which it represents 0.06%. We considered a number of different measures and concluded that revenue is the most stable period on period measure for determining materiality; this reflects the overall size of the business, which is largely consistent period on period.

Materiality for the Parent Company was set at £745,000 and was determined with reference to the benchmark of net assets of which it represents 1.5%. An asset based materiality was considered appropriate for the Parent Company as this is a holding company with few transactions.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Group was set at 65% of materiality at £487,500. The Parent Company performance materiality was set at £484,000, which is 65% of Parent Company materiality.

We agreed with the Audit Committee that we would report to them all audit differences in excess of £22,500. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group Audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement due to fraud.

The Group business consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as defined in note 4 to the financial statements.

The financial results of the Group are aggregated at a consolidated level without the need for consolidation adjustments to account for eliminations between Group statutory companies. Therefore we identified only one significant component, including the Parent Company audit (which we audit to a lower materiality level), on which we perform our audit using a single audit team.

The capability of the audit to detect irregularities including fraud

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, International Financial Reporting Standards (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code; those that relate to the payment of employees; and industry related such as compliance with health and safety and food hygiene legislation.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements. Our audit procedures included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management;
- Review of minutes of Board meetings throughout the period; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

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

Matters on which we are required to report by exception

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic report or the Directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Directors on 25 April 2019 to audit the financial statements for the 52 week period ended 24 November 2019. This is the first period audited by BDO LLP.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gary Harding (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Manchester
25 February 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

for the 52 week period from 26 November 2018 to 24 November 2019

	Note	Adjusted 2019 £'000	Adjusting items 2019 Note 5 £'000	Total 2019 £'000	Adjusted 2018 £'000	Adjusting items 2018 Note 5 £'000	Total 2018 £'000
Revenue	4	**1,218,700**	**-**	**1,218,700**	1,241,539	–	1,241,539
Cost of sales		**(902,968)**		**(902,968)**	(919,003)	(1,428)	(920,431)
Gross profit/(loss)		**315,732**	**-**	**315,732**	322,536	(1,428)	321,108
Administrative expenses		**(306,684)**	**(99,805)**	**(406,489)**	(311,442)	(7,118)	(318,560)
Other operating income	4	**6,255**	**-**	**6,255**	6,811	–	6,811
Profits/(losses) arising on property-related items		**39**	**(5,977)**	**(5,938)**	416	6,109	6,525
Operating profit/(loss)	6	**15,342**	**(105,782)**	**(90,440)**	18,321	(2,437)	15,884
Finance costs	8	**(8,043)**	**(160)**	**(8,203)**	(7,859)	(158)	(8,017)
Profit/(loss) before tax		**7,299**	**(105,942)**	**(98,643)**	10,462	(2,595)	7,867
Income tax (charge)/credit	9	**(902)**	**3,608**	**2,706**	(2,778)	1,762	(1,016)
Profit/(loss) for the period		**6,397**	**(102,334)**	**(95,937)**	7,684	(833)	6,851
Earnings/(losses) per share (pence)	11	**5.55p**		**(83.30)p**	6.67p		5.95p
Diluted earnings/(losses) per share (pence)	11	**5.55p**		**(83.30)p**	6.66p		5.94p

The above results were derived from continuing operations.

Consolidated statement of comprehensive income

for the 52 week period from 26 November 2018 to 24 November 2019

	Note	2019 £'000	2018 £'000
(Loss)/profit for the period		**(95,937)**	6,851
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit pension scheme	28	**(5,819)**	859
Deferred tax on defined benefit pension scheme	9	**706**	(150)
Corporation tax on defined benefit pension scheme	9	**316**	–
Total comprehensive (loss)/income for the period		**(100,734)**	7,560

The profit/(loss) and total comprehensive (loss)/income are attributable to the owners of the Parent Company.

Consolidated statement of financial position

for the 52 week period from 26 November 2018 to 24 November 2019

	Note	2019 £'000	2018 Restated* £'000
Assets			
Non-current assets			
Property, plant and equipment	12	**77,113**	92,314
Intangible assets	13	**156,898**	252,747
Deferred tax assets	24	**1,350**	97
Retirement benefit asset	28	**11,502**	14,122
Investments	14	**-**	36
Total non-current assets		**246,863**	359,316
Current assets			
Inventories	16	**86,434**	79,795
Trade and other receivables	17	**39,036**	41,984
Income tax asset		**912**	–
Cash and cash equivalents	18	**36,999**	28,547
Total current assets		**163,381**	150,326
Total assets		**410,244**	509,642
Equity and liabilities			
Current liabilities			
Trade and other payables	19	**(215,534)**	(215,986)
Loans and borrowings	20	**(11,231)**	(12,148)
Income tax liability		**-**	(673)
Provisions	23	**(2,528)**	(4,627)
Total current liabilities		**(229,293)**	(233,434)
Net current liabilities		**(65,912)**	(83,108)
Non-current liabilities			
Loans and borrowings	20	**(119,887)**	(114,989)
Other payables	19	**(10,755)**	(9,552)
Provisions	23	**(3,186)**	(1,042)
Deferred tax liabilities	24	**(4,813)**	(6,895)
Retirement benefit obligations	28	**(3,645)**	(2,250)
Total non-current liabilities		**(142,286)**	(134,728)
Total liabilities		**(371,579)**	(368,162)
Net assets		**38,665**	141,480

	Note	2019 £'000	2018 Restated* £'000
Equity			
Share capital	25	**(115)**	(115)
Share premium	25	**(12,580)**	(12,580)
Retained earnings		**(25,970)**	(128,785)
Equity attributable to owners of the Company		**(38,665)**	(141,480)

* see note 32.

These financial statements of McColl's Retail Group, registered number 08783477, were approved and authorised for issue by the Board on 25 February 2020 and signed on its behalf by:

Robbie Bell
Director

Consolidated statement of changes in equity

for the 52 week period from 26 November 2018 to 24 November 2019

	Note	**Share capital £'000**	**Share premium £'000**	**Retained earnings £'000**	**Total equity £'000**
At 26 November 2018		**115**	**12,580**	**128,785**	**141,480**
Loss for the period		**-**	**-**	**(95,937)**	**(95,937)**
Remeasurement of defined benefit pension scheme		**-**	**-**	**(4,797)**	**(4,797)**
Total comprehensive income		**-**	**-**	**(100,734)**	**(100,734)**
Contributions by and distributions to owners					
Dividends	10	**-**	**-**	**(2,188)**	**(2,188)**
Deferred tax	9	**-**	**-**	**(14)**	**(14)**
Share-based payment transactions	29	**-**	**-**	**121**	**121**
At 24 November 2019		**115**	**12,580**	**25,970**	**38,665**

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 27 November 2017		115	12,579	133,214	145,908
Profit for the period		–	–	6,851	6,851
Remeasurement of defined benefit pension scheme		–	–	709	709
Total comprehensive income		–	–	7,560	7,560
Contributions by and distributions to owners					
Dividends		–	–	(11,862)	(11,862)
New share capital subscribed		–	1	–	1
Deferred tax		–	–	(127)	(127)
At 25 November 2018		115	12,580	128,785	141,480

Consolidated statement of cash flows

for the 52 week period from 26 November 2018 to 24 November 2019

	Note	**2019 £'000**	2018 Restated* £'000
Cash flows from operating activities			
(Loss)/profit for the period		**(95,937)**	6,851
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	**16,676**	17,054
Profit on disposal of property, plant and equipment	6	**(1,497)**	(14,994)
Profit from disposals of investments		**(132)**	–
Finance costs	8	**8,203**	8,017
Share-based payment transactions	29	**121**	–
Income tax (credit)/charge	9	**(2,706)**	1,016
Impairment losses	6	**101,276**	3,297
		26,004	21,241
Increase in inventories		**(6,600)**	(737)
Decrease/(increase) in trade and other receivables		**2,948**	(1,593)
Increase in trade and other payables		**609**	48,082
Decrease in retirement benefit obligation net of actuarial changes	28	**(1,804)**	(906)
Increase in provisions	23	**45**	568
Cash generated from operations		**21,202**	66,655
Income taxes paid		**(1,205)**	(4,811)
Net cash flow from operating activities		**19,997**	61,844
Cash flows from investing activities			
Acquisition of property, plant and equipment and other intangibles		**(14,427)**	(19,672)
Proceeds from sale of property, plant and equipment		**11,499**	27,410
Acquisition of businesses, net of cash acquired	15	**(1,188)**	(4,513)
Proceeds from investments disposals		**84**	–
Net cash flows from investing activities		**(4,032)**	3,225
Cash flows from financing activities			
Interest paid		**(7,412)**	(7,928)
Proceeds from issue of ordinary shares, net of issue costs		**-**	1
Draw down/(repayment) of bank borrowing	21	**4,000**	(29,000)
Payment of finance lease creditors	21	**(1,741)**	(1,858)
Interest payment to finance lease creditor	8	**(172)**	(148)
Dividends paid	10	**(2,188)**	(11,862)
Net cash flows from financing activities		**(7,513)**	(50,795)
Net increase in cash and cash equivalents		**8,452**	14,274
Cash and cash equivalents at beginning of period		**28,547**	14,273
Cash and cash equivalents at end of period		**36,999**	28,547

* see note 32.

Notes to the financial statements

for the 52 week period from 26 November 2018 to 24 November 2019

1 General information

The Group is a public company limited by share capital, incorporated in England and Wales and domiciled in United Kingdom.

McColl's Retail Group plc
McColl's House
Ashwells Road
Brentwood
Essex
CM15 9ST
United Kingdom

Principal activity

The Group engages in one principal area of activity, as an operator of convenience and newsagent stores.

2 Accounting policies

Basis of preparation

The Group financial statements for 2019 consolidate the financial statements of McColl's Retail Group plc (the 'Company') and all its subsidiary undertakings (together, 'the Group') drawn up to 24 November 2019. Acquisitions are accounted for under the acquisition method of accounting.

The Group financial statements have been prepared on the going concern basis and in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reported under IFRS. The Group's going concern position is set out in the Directors' report section on page 77.

The consolidated financial information is presented in sterling, the Group's functional currency, and has been rounded to the nearest thousand (£'000). The prior period was also a 52 week period.

The preparation of financial information in compliance with adopted IFRS requires the use of certain critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. It also requires Group management to exercise judgement in applying the Group's accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 3.

Basis of measurement

The consolidated financial information has been prepared on a historical cost basis, except for net defined benefit pension asset or liability (refer to individual accounting policy for details).

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 24 November 2019.

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

Business combinations

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

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

Changes in accounting policy

Adoption of new IFRSs

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the period commencing 26 November 2018.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Recognition and Measurement'. The standard was published in July 2014 and is effective for the Group from the period commencing 26 November 2018.

The Group has applied the standard using the modified retrospective approach to transition. Any transition differences will be recognised as an adjustment to the opening reserves.

Management has assessed the impact of changes under the new standard. Given that the Group does not hold significant financial assets and liabilities other than borrowings, payables and receivables, operates under the 'hold to collect' business model, and the Group's trade debtors are very short term and all customers pay in cash or by credit card, the adoption of IFRS 9 has not had a material impact on the Group's accounting policies or classification and measurement of financial instruments.

The Group has applied, the simplified approach for the expected credit loss for its financial assets and there was no impact as the Group already had a procedure in place which not only wrote down receivables when they are no longer recoverable (incurred losses) but also took into consideration possible expected losses.

The Group has changed the classification of its financial assets, i.e. receivables have become financial assets at amortised cost in line with IFRS 9 and there was no impact on measurement.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The standard was published in May 2014 and is effective for the Group from the period commencing 26 November 2018. It applies to all contracts with customers, except those in the scope of other standards.

The Group has applied the standard using the modified retrospective approach to transition. However there aren't any transition differences required to be recognised as an adjustment to the opening reserves. Due to the straightforward nature of the Group's revenue streams the revenue recognition policy under IFRS 15 is the same as the accounting policy previously applied. The recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, means the adoption of IFRS 15 has not had a material impact on the timing or nature of the Group's revenue recognition. The point at which control passes is in line with when risks and rewards are transferred under IAS 18. The Group recognises revenue only when it satisfies a performance obligation by transferring control of a promised good or service to the customer.

In arriving at this conclusion management has reviewed the following revenue streams:

- Retail sales – recognised as revenue at the point of sale when customers pay for the transaction at which point control passes to customers. There are no customer incentive schemes for which customers can earn points to redeem later.
- Commissions from third parties – these commissions are based on sales or service delivery to customers and we recognise commissions as revenue at the point of sale or service delivered to customers as at that point we have earned the commission and it is normally remitted to us within a relatively short period of time.
- Other income – this includes property and rental income, both of which are recognised in the income statement on an accrual basis for the relevant period.

The Group has not restated any comparative amounts as the impact of IFRS 9 and IFRS 15 is not material.

New standards, interpretations and amendments not yet effective
The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company financial statements in future:

IFRS 16 'Leases'
The Group is adopting IFRS 16 'Leases' for the 53 weeks ending 29 November 2020 with a transition date of 25 November 2019. The standard replaces IAS 17 and establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the adoption of IFRS 16, lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the income statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Transition
The Group will apply the modified retrospective transition approach as at 25 November 2019, and comparative amounts for the prior year will not be restated on first adoption. The right-of-use assets will be measured on a lease by lease basis at either the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses) or retrospectively as if IFRS 16 had always applied. The Group will also adopt following transitional reliefs (practical expedients):

- The Group is not required to re-assess whether existing contracts contain a lease on transition instead it will apply the IFRS 16 definition of a lease to contracts entered (or changed) on or after the date of initial application (25 November 2019). For all other contracts, the Group will retain the assessment made under IAS 17/IFRIC 4.
- Apply a single discount rate to a portfolio of leases with similar characteristics.
- Apply IAS 37 onerous lease assessment recognised immediately before the date of initial application instead of an IAS 36 impairment review.
- Exclude initial indirect costs from measurement of right-of-use asset at date of initial application.
- No requirement to recognise leases when the term ends within 12 months of the date of initial application.
- Use hindsight such as in determination of lease term.

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

2 Accounting policies continued

Impact on the financial statements

Most significant lease liabilities relate to leases for shops and following an assessment of all operating leases these are the only leases that will be transitioned.

On transition the opening balances for the Consolidated statement of financial position will be adjusted for the right-of-use asset of approximately £197m (adjusted for onerous leases), with corresponding lease liabilities of approximately £211m. The indicative impact on the Consolidated income statement will reflect an increase to operating profit of approximately £7.3m as the pre-IFRS 16 rental charge is replaced by a lower depreciation charge. Profit before tax will decrease by approximately £1.6m as a result of an increase in the interest charge of approximately £8.9m. We do not expect the adoption of IFRS 16 to have a material impact on the Group's effective tax rate.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change significantly, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities (interest paid).

Adoption of IFRS 16 is expected to result in higher net debt due to IFRS 16 lease liabilities of £211m. EBITDA is expected to increase by £31m due to rent elimination of leases subject to IFRS 16. The Group's bank covenants are based on frozen accounting standards pre IFRS 16 adoption. IFRS 16 has no effect the Group's business or cash flow, however it does impact the way assets, liabilities and the income statement are presented.

Key judgements regarding incremental borrowing rates and lease terms have been applied in deriving the anticipated impact of adoption of the new standard. One of these judgements relates to the treatment of properties where the current lease term has expired but the Group remains in occupation under the protection of Landlord and Tenants Act of 1954 s25-26. For these leases either party can serve a notice of 6–12 months to terminate the lease. The Group has used judgement to evaluate that there is no significant penalty for such leases and concluded that these leases will be non-enforceable under the provisions of IFRS 16.

Alternative Performance Measures

In reporting financial information, the Directors have presented various Alternative Performance Measures (APMs) of financial performance, position or cash flows, which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). On the basis that these measures are not defined by IFRS, they may not be directly comparable with other companies' APMs, including those in the Group's industry.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional useful information on the performance of the business. These APMs are consistent with how the business performance is planned, reported and analysed between reporting periods within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets and covenant calculations.

The key APMs that the Group uses include: adjusted EBITDA, adjusted profit before tax, like-for-like sales (LFL), net debt and adjusted earnings per share. Each of the APMs, and others used by the Group, are set out in the Glossary including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant. These measures have remained consistent with the prior year.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. Treatment as adjusting items provides stakeholders with additional useful information to assess the annual trading performance of the Group.

Revenue recognition

Revenue represents the amounts receivable for goods and services sold through retail outlets in the period which fall within the Group's principal activities, stated net of value added tax. Revenue is shown net of returns. Revenue is recognised when the significant performance obligations have been completed, control of goods and services have been passed to the buyer and can be measured reliably.

Commission from the sale of lottery tickets, travel tickets, electronic phone top-ups and products sold through the Post Office in store is recognised net within turnover, when transactions deriving commissions are completed, as the Group acts as an agent.

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

Cost of sales

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

Adjusting items

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

Other operating income

Rental income and ATM commissions are recognised in the consolidated income statement when the services to which they relate are earned.

Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

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

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

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

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

Property, plant and equipment

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs incurred attributable to bringing the asset to its working condition for intended use.

Depreciation

Depreciation is provided so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned. Principal rates used for this purpose are as follows:

Asset class	Depreciation method and rate
Land and buildings:	
Freehold (including land where it is not separately identifiable)	Straight-line basis: 50 years
Long leaseholds improvements	Straight-line basis: 50 years
Land (if separately identifiable)	Nil
Short leaseholds improvements – Shops & Other	Straight-line basis: 10 years
Leasehold premiums	Straight-line basis: the unexpired portion of the lease
Furniture, fittings & equipment:	
Motor vehicles	Straight-line basis: 4 years
Computer equipment	Straight-line basis: 5 years
Furniture and fittings	Straight-line basis: 10 years

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

Fixed asset impairments

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

Intangible assets impairment

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

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

2 Accounting policies continued

Non-current assets held for sale

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

Leased assets

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

Finance leases/hire purchase contracts

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

Operating leases

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

Sale and leaseback

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

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

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Where lease incentives relate to the whole term of the contract, lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases

Where a lease has predetermined fixed rental increases, these rental increases are accounted for on a straight-line basis over the term of the lease.

Operating lease income

Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned.

Goodwill

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

See note 13 for further details of CGUs and impairment testing.

Other intangible assets

Other intangible assets includes computer software. Computer software is stated at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences and costs relating to development of computer software for internal use. The internally generated software is recognised when an approval has been agreed to develop software for internal use for which function and benefit has been identified. Expenditure incurred in relation to the development of such software to prepare it for use are pooled together in project and become the cost of the intangible asset (in line with IAS 38 Intangible Assets). The costs are capitalised and amortised on a straight-line basis over their useful economic lives of five years and are included within other intangible assets.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in transit, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

When drawn, bank overdrafts are shown within loans and borrowings in current liabilities in the Group balance sheet.

Trade receivables

Trade receivables are amounts due from customers for goods and services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value which is generally equal to the transaction price and subsequently held at amortised cost. They are amortised using the expected loss model. We use a provision matrix that recognises an expected loss based on age of the receivable as well as any specific receivable where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The movement in the provision amount is recognised in the income statement.

Inventories

Inventories consist of goods for resale and are stated at the lower of cost and net realisable value. Cost is calculated using the retail method for each category of stock by reducing the net selling price by the attributable average gross margin. Net realisable value is the price at which the stocks can be realised in the normal course of business net of selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their transaction cost.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

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

Onerous contracts/leases

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

Dilapidations

The Group provides for property dilapidations, where appropriate, based on the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to note 26 for the disclosures.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

Defined contribution pension obligation

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

Defined benefit pension obligation

The Group operates two defined benefit pension schemes in addition to several defined contribution schemes, which require contributions to be made to separately administered funds.

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- scheme liabilities calculated using the projected unit credit method discounted to its present value using yields available on high-quality corporate bonds that have maturity dates approximating to the terms of the liabilities; less
- the effect of minimum funding requirements agreed with scheme trustees.

Notes to the financial statements continued
for the 52 week period from 26 November 2018 to 24 November 2019

2 Accounting policies continued
Defined benefit pension obligation continued
A surplus is recognised where the Group has an unconditional right to the economic benefits in the form of future contribution reductions or refunds.

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

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

Finance items comprise the interest on the net defined benefit asset or liability.

Further information on pensions is disclosed in note 28.

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

For further detail please refer to note 29.

Financial instruments
Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Amortised cost

The assets within the amortised cost category were included within loans and receivables category under IAS 39.

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 (eg 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 expected credit loss. The Group operates a hold to collect model.

Impairment provisions are recognised using the expected loss model as well as any specific financial asset where there is objective evidence (such as significant financial difficulties on the part of the counter party or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For financial assets, 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 financial asset will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets comprise trade and other receivables and cash and cash equivalents in the Group balance sheet.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group classifies its financial liabilities into the below category:

1) Other financial liabilities

- Interest-bearing bank loans and overdrafts – these are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Where existing debt is refinanced with the same lender it is treated as an extinguishment of the original debt and a new financial liability if the modified terms are substantially different from the previous terms.
- Trade payables and other short-term monetary liabilities which are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 27.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates causing material adjustments in the following year's results.

Critical accounting judgements

Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Adjusting items

During the year certain items are identified and separately disclosed as adjusting items. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 5 provides information on all of the items disclosed as adjusting in the current year financial statements.

Sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Sources of estimation and uncertainty are discussed below:

Impairment

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's five year internal forecasts. The forecasts are extrapolated to perpetuity with nil growth rate. Key estimates and sensitivities for impairment of assets are disclosed in notes 12 and 13.

Supplier income

Supplier income is recognised as a credit within cost of sales. For some sources of supplier income, management is required to make estimates in determining the amount and timing of recognition of income. These estimates are based on documented evidence of agreements with suppliers.

In determining the amount of volume-related allowances recognised in any period, management estimate whether the Group will meet contractual target volumes, based on historical and forecast performance. Estimation is limited to purchases for the final month of the year which is done based on run rates of performance through the year. Once purchases are estimated the amount due is based on contractual terms based on the level of purchases.

For promotional funding relating to investment in the customer offer by a supplier, there is limited estimation required as funding is pre-agreed and collected throughout the year shortly after promotions have ended.

Supplier income first recognised in the period ended 25 November 2018 was being released over the life of the contract. The methodology applied to releasing the income over the life of the contract was updated in the year to reflect the store optimisation programme and aligning income to trading stores and therefore management's best estimate of the timing of delivery of the performance obligation. This resulted in an additional £1.1m income being recognised in the year.

Accrued income makes up 55% of the supplier rebates receivables at the balance sheet date. Whilst accrued income involves management estimation, actual results are unlikely to be materially different to the carrying amount on the balance sheet.

Pension

The liabilities of the defined benefit pension schemes operated by the Group are determined using methods relying on the actuarial estimates and assumptions, including rates of increase in pensionable salaries and pensions, net defined benefit asset or liability, life expectancies and discount rates. Details of the key assumption are set out in note 28. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions and the recognition of any surplus. Changes in the assumptions used may have a significant effect on the Group statement of comprehensive income and the Group statement of financial position.

4 Revenue and other income

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

The analysis of the Group's revenue for the period from continuing operations is as follows:

	2019 £'000	2018 £'000
Revenue		
Sale of goods	**1,218,700**	1,241,539
Other operating income		
Property rental income	**3,004**	3,249
ATM commission and other income	**3,251**	3,562
	6,255	6,811
	1,224,955	1,248,350

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for the 52 week period from 26 November 2018 to 24 November 2019

5 Adjusting items

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

	2019 £'000	2018 £'000
Cost of sales		
Supplier administration[a]	-	807
Supply chain transition[b]	-	621
Gross loss	-	1,428
Administrative expenses		
Fines and compensation[c]	**584**	1,236
Supplier administration[a]	-	935
Supply chain transition[b]	-	4,306
Defined benefit pension scheme – past service cost[d]	-	641
Business reorganisation[h]	**622**	–
Goodwill Impairment[i]	**98,599**	–
	99,805	7,118
(Profits)/losses arising on property-related items		
Sale and leaseback[e]	**(3,257)**	(11,941)
Store optimisation programme[f]	**6,557**	2,535
Fixed asset Impairment[g]	**2,677**	3,297
	5,977	(6,109)
Finance costs		
Store optimisation programme[f]	**160**	158
Tax effect on adjusting items	**(3,608)**	(1,762)
	102,334	833

a. Supplier administration
The administration of P&H, our primary supplier to c.700 newsagents and small convenience stores, on 28 November 2017 created stock availability issues in store. To address this stock availability and to minimise disruption we entered into a short-term contract with Nisa, a short-term contract with Fresh to Store, brought forward the commencement of the Morrisons contract, and introduced a new supply chain solution for tobacco, via Clipper Logistics. As such, the Group incurred additional one-off costs, which are not reflective of ongoing costs and therefore management has classified these as adjusting items. This resulted in a net cash outflow of £1.7m in 2018. There was no impact from this adjustment in the current year.

b. Supply chain transition
As a result of the integration of a new supply partner, Morrisons, material one-off costs of transitioning were incurred. These costs included £1.3m of additional payroll cost, £1.8m of marketing, £1.5m of store preparation, including costs associated with stock replacement and £0.3m of other costs. In line with the accounting policy for adjusting items, the additional costs incurred as a result of the transition are classified as adjusting items. This resulted in a net cash outflow of £4.9m in 2018. There was no impact from this adjustment in the current year.

c. Fines and compensation
On 22 December 2017 the Group was found guilty of a health and safety breach relating to contractor works at a store and subsequently a fine of £612k was issued to the Group. This was disclosed as a contingent liability in the Annual Report 2017. Following the completion of a HMRC National Minimum Wage investigation the Group was fined £227k and paid arrears due to colleagues of £397k. Each of these fines are fully paid. Management classify these fines as adjusting items due to the non-recurring nature. A total of £1,236k for these fines was recognised in 2018, In 2019 the Group recognised £234k mainly professional fees related to the health and safety fine as well as £350k for a claim for historical asbestos-related illness. The cash flow impact for the Group in 2019 was £234k.

d. Past service cost
Management has classified the amount for Guaranteed Minimum Pension (GMP) equalisation as an adjusting item due to its non-recurring nature. In October 2018, the High Court ruled that Lloyds Banking Group will need to equalise pension benefits for the effect of unequal GMP between men and women, which dates back to 1990. The impact of the GMP calculation on our pensions was prepared following the C2 model. There was no cash impact from this adjustment. There was no impact from this adjustment in the current year.

e. Sale and leaseback
During the year the Group undertook a number of sale and leaseback transactions on its freehold property. In line with the accounting policy for adjusting items, management concluded that the profits relating to the sale and leaseback of property were significant and therefore not in line with ordinary business and should therefore be treated as adjusting. This resulted in a net cash inflow of £8.6m (2018: £26.7m).

f. Store optimisation programme
Management has undertaken an ongoing review of poor performing stores and have made the decision to close a material number of stores which are not economically viable to continue trading or strategically aligned. The majority of these stores are either near lease expiry or lease break date. The closure programme consists of stores which have either closed in 2019 or will close in 2020. Management has adjusted onerous lease provisions, impairment, and other costs in relation to the closures. Provisions are discounted to their present value at the reporting date, giving rise to a finance cost as the discount is unwound. Any other closures costs which cannot be reliably estimated at present, may also be adjusting in 2020. Management has classified these as adjusting due to the one-off nature of the closure programme. This resulted in a net cash outflow of £580k (2018: £861k).

g. Impairment
Management has assessed the value in use cash flow of each branch against the carrying value of its assets, and as a result of the impairment review an impairment charge was recognised in the year. Further information can be found in note 12. There was no cash impact from this adjustment.

h. Business reorganisation
During the period the Group has been reviewing its operations, and has been focusing on improving productivity and efficiency. This has in turn led to material costs associated with restructuring, predominantly the cost of redundancies, resulting in a net cash outflow in the period of £622k.

i. Goodwill impairment
Management has assessed goodwill impairment at the end of the year according to IAS 36. In assessing impairment management has used value in use as it was higher than the market value of the business. The value in use cash flows were lower than the aggregate of the Group's total assets and therefore indicating impairment which resulted in goodwill being impaired. Further information can be found in note 13. There was no cash flow impact in the year from this adjustment.

6 Operating profit

Arrived at after charging/(crediting)

	Note	2019 £'000	2018 Restated* £'000
Depreciation and amortisation expense	12/13	**16,676**	17,054
Write-down of inventory recognised as an expense		**17,587**	16,471
Operating lease expense – property		**36,961**	35,868
Profit on disposal of property, plant and equipment		**(1,497)**	(14,994)
Impairment	12/13	**101,276**	3,297
Cost of inventories recognised as an expense		**928,260**	951,073

* restated profit on disposal of property, plant and equipment to be only proceeds less net book value.

The analysis of the Auditors' remuneration is as follows:

	2019 £'000	2018 £'000
Audit fees		
Audit of Group	**245**	283
Other services		
Audit related assurance services (including interim review)	**30**	43
	275	326

Included within the audit fee total for the year is an amount of £45,000 that is deemed to be non-recurring in nature.

Adjusted EBITDA and operating profit excluding property-related items

In order to provide shareholders with a measure of the underlying performance of the business which is more aligned with the way that management monitor and manage the business, the Group makes adjustments to profit before tax. Adjusting items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The Group also adjust for share-based payments as a non cash item. The adjusted profit before tax measure (profit before adjusting items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of adjusting items are set out in note 5.

	Note	2019 £'000	2018 £'000
Adjusted EBITDA excluding property-related items and share-based payments			
Operating profit before adjusting items		**15,342**	18,321
Depreciation and amortisation		**16,676**	17,054
Profits arising on property-related items		**(39)**	(416)
Share-based payments		**121**	–
		32,100	34,959
Adjusted operating profit excluding property-related items			
Operating profit before adjusting items		**15,342**	18,321
Less: Profits arising on property-related items		**(39)**	(416)
		15,303	17,905

7 Employee costs

The aggregate payroll costs were as follows:

	2019 £'000	2018 Restated* £'000
Wages and salaries	**171,250**	175,664
Social security costs	**16,555**	17,142
Pension costs, defined contribution scheme	**3,032**	1,589
Share-based payment expenses	**121**	–
	190,958	194,395

* Management has restated 2018 costs correcting an error. Note 7 now includes all payroll costs of the Group.

The average number of persons employed by the Group (including Directors) during the period, analysed by category was as follows:

	2019	2018
Retailing	**18,857**	20,507
Central administration	**457**	507
	19,314	21,014

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

8 Finance income and costs

	2019 £'000	2018 £'000
Finance Income	**-**	–
Finance costs		
Interest on bank overdrafts and borrowings	**(7,341)**	(7,289)
Interest on obligations under finance leases and hire purchase contracts	**(172)**	(148)
Amortisation of loan issue costs	**(496)**	(415)
Other finance costs	**(194)**	(165)
Total finance costs	**(8,203)**	(8,017)

9 Income tax

	2019 £'000	2018 £'000
Income statement		
Current tax:		
Current tax on profit for the period	**507**	2,858
Adjustments in respect of prior periods	**(570)**	(7)
	(63)	2,851
Deferred tax:		
Origination and reversal of temporary differences	**(2,473)**	(2,123)
Arising from change in tax rate	**260**	234
Adjustments in respect of prior periods	**(430)**	54
	(2,643)	(1,835)
Income tax (credit)/charge for the period	**(2,706)**	1,016
Equity items		
Share-based payment	**14**	92
Fixed assets	**-**	35
	14	127
Other comprehensive income		
Deferred tax in respect of actuarial valuation of retirement benefits	**(706)**	150
Corporation tax in respect of actuarial valuation of retirement benefits	**(316)**	–
Total	**(1,022)**	150

The differences are reconciled below:

	2019 £'000	2018 £'000
(Loss)/profit before tax	**(98,643)**	7,867
Tax on profit calculated at standard rate for 2019 of 19.00% (2018: 19.00%)	**(18,742)**	1,495
Fixed Assets	**(10)**	–
Expenses not deductible	**407**	817
Goodwill impairment	**16,755**	–
Deferred tax on share options	**31**	55
Adjustments in respect of prior years	**(1,000)**	47
Arising from change in rate of tax	**260**	234
Exempt amounts	**721**	605
Disposal of business combination assets	**(1,128)**	(2,237)
Total tax (credit)/charge	**(2,706)**	1,016

Changes to the UK corporation tax rates were enacted as part of Finance Bill 2015 on 18 November 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A subsequent change to reduce the UK corporation tax rate to 17% from 1 April 2020 was enacted as part of Finance Bill 2016 on 6 September 2016.

The tax credit for the 52 week period was £2,706,000, (2018: £1,016,000 charge) representing a rate of 2.7% (2018: 12.9%). The comparable effective rate of tax in 2019 excluding the impact of non-deductible adjusting items was 12.4% (2018: 26.6%). The difference between the current and statutory rate of 19.0% in the period is due principally to goodwill impairment which had limited tax relief.

Amounts recognised in other comprehensive income

	2019			2018		
	Before tax £'000	Tax benefit £'000	Net of tax £'000	Before tax £'000	Tax (expense) £'000	Net of tax £'000
Remeasurements of post-employment benefit obligations	**(5,819)**	**1,022**	**(4,797)**	859	(150)	709

10 Dividends

	2019 £'000	2018 £'000
Interim 2019 dividend of 1.3p (2018: 3.4p) per ordinary share	**1,497**	3,916
Final 2018 dividend of 0.6p (2017: 6.9p) per ordinary share	**691**	7,946
	2,188	11,862

The Directors are not proposing a final 2019 dividend (2018: 0.6 pence).

11 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the period attributable to shareholders by the weighted average number of shares.

	2019	2018
Basic weighted average number of shares	**115,177,335**	115,173,145
Diluted weighted average number of shares	**115,296,380**	115,331,969
(Loss)/profit attributable to ordinary shareholders (£'000)	**(95,937)**	6,851
Basic (losses)/earnings per share	**(83.30)p**	5.95p
Anti diluting (losses)/diluted earnings per share	**(83.30)p**	5.94p
Adjusted earnings per share:		
(Loss)/profit attributable to ordinary shareholders (£'000)	**(95,937)**	6,851
Adjusting items (note 5) (£'000)	**105,942**	2,595
Tax effect of adjustments (£'000)	**(3,608)**	(1,762)
Profit after tax and before adjusting items (£'000)	**6,397**	7,684
Basic adjusted earnings per share	**5.55p**	6.67p
Diluted adjusted earnings per share	**5.55p**	6.66p

The difference between the basic and diluted average number of shares represents the dilutive effect of share options in existence. As 2019 has an overall loss the shares are not diluting.

The diluted weighted average number of ordinary shares is calculated using the following:

	2019	2018 As restated*
Ordinary shares in issue at the start of the period	**115,173,515**	115,172,774
Effects of shares issued during the period	**3,820**	371
Weighted average shares in issue during the year	**115,177,335**	115,173,145
Effect of shares to be issued for the Long term incentive plan (LTIP)	**119,045**	158,824
Weighted average number of ordinary shares at the end of the period	**115,296,380**	115,331,969

* Effect of shares issued during the period are now weighted and the effect of shares to be issued for LTIPs revised.

12 Property, plant and equipment

	Land and buildings £'000	Furniture, fittings and equipment £'000	Total £'000
Cost or valuation			
At 27 November 2017	68,003	110,151	178,154
Additions	5,849	13,968	19,817
Acquired through business combinations	726	1,314	2,040
Disposals	(15,473)	1,429	(14,044)
Transfers to software	(1,133)	–	(1,133)
At 25 November 2018	57,972	126,862	184,834
At 26 November 2018	57,972	126,862	184,834
Additions	3,238	9,482	12,720
Acquired through business combinations	430	95	525
Disposals	(8,448)	(4,689)	(13,137)
Transfers to software	(290)	–	(290)
At 24 November 2019	**52,902**	**131,750**	**184,652**
Depreciation			
At 27 November 2017	17,077	57,512	74,589
Charge for period	4,678	11,678	16,356
Eliminated on disposal	(349)	(1,279)	(1,628)
Impairment	–	3,297	3,297
Transfers to software	(94)	–	(94)
At 25 November 2018	21,312	71,208	92,520
At 26 November 2018	21,312	71,208	92,520
Charge for the period	4,590	11,237	15,827
Eliminated on disposal	(320)	(2,815)	(3,135)
Impairment	1,816	861	2,677
Transfers to software	(350)	–	(350)
At 24 November 2019	**27,048**	**80,491**	**107,539**
Carrying amount			
At 24 November 2019	**25,854**	**51,259**	**77,113**
At 25 November 2018	36,660	55,654	92,314

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12 Property, plant and equipment continued

During the year the Group disposed of property in sale and leaseback transactions, the net book value of these properties at disposal was £5,320,000 (2018: £13,855,000).

Included within fixtures and fittings is £4,196,000 of finance lease assets (2018: £4,655,000).

For impairment testing the Group classes each branch as a CGU (cash generating unit). Each CGU was tested for impairment at the period end date. Management recognise an impairment where the recoverable amount of the CGU does not exceed its carrying value at the balance sheet date. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a five-year period, which has been approved by management. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a pre-tax weighted average cost of capital (WACC) of 11.5% (2018: 11.75%). Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis.

Further detail of our considerations and sensitivities are included within the going concern assessment set out in the Directors' report section on page 77.

The annual impairment testing resulted in an impairment charge of £2,677,000 (2018: £3,297,000) against branch assets.

13 Intangible assets

	Goodwill £'000	Other intangible assets £'000	Total £'000
Cost or valuation			
At 27 November 2017	251,551	6,801	258,352
Additions	2,029	1,478	3,507
Transfer from PPE	–	1,133	1,133
At 25 November 2018	253,580	9,412	262,992
At 26 November 2018	253,580	9,412	262,992
Additions	745	2,933	3,678
Disposals	–	(21)	(21)
Transfers from PPE	–	290	290
At 24 November 2019	**254,325**	**12,614**	**266,939**
Amortisation			
At 27 November 2017	4,234	5,219	9,453
Amortisation charge	–	698	698
Transfer from PPE	–	94	94
At 25 November 2018	4,234	6,011	10,245
At 26 November 2018	4,234	6,011	10,245
Amortisation charge	–	849	849
Amortisation eliminated on disposals	–	(2)	(2)
Impairment	98,599	–	98,599
Transfers from PPE	–	350	350
At 24 November 2019	**102,833**	**7,208**	**110,041**
Carrying amount			
At 24 November 2019	**151,492**	**5,406**	**156,898**
At 25 November 2018	249,346	3,401	252,747

Amortisation expenses of £849,000 (2018: £698,000) are included in administrative expenses.

Goodwill acquired in a business combination is not amortised, but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Management recognise an impairment where the carrying amount is more than the recoverable amount of the CGU. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the CGU. For the purposes of goodwill, in line with the accounting policy, the business manages and makes decisions as one group of CGUs and therefore impairment is assessed on that single group. Management has used value in use of the CGU as the recoverable amount as it was higher than total enterprise value. The value in use was calculated as a discounted cash flow model and management has determined the values assigned to each of the key assumptions.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a 5-year period, which has been approved by the Board. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a pre-tax weighted average cost of capital (WACC) of 11.5% (2018: 11.75%). Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis.

Budget and forecast EBITDA is taken as the starting position for cash flows and any benefit from future new business and the associated expenditure to acquire the new business is excluded.

The budget and long term forecasts will have taken into consideration future business environment and will include assumptions on growth of revenue and increase in costs such as minimum wage increases. Revenue growth has been assumed at an average of 1% annual growth for the five-year period. Wage inflation is assumed at around 3% per annum whilst general cost inflation is assumed at an average annual growth rate of 2%. In comparison to 2018 assumptions a reduction of annual margin improvement and a downgrade on the outlook for sales growth has been assumed. It is this lower expectation of sales and margin improvement which has materially reduced the recoverable amount.

The recoverable amount per value in use calculations was £228.6m versus the CGUs carrying amount of £327.2m resulting in an impairment charge of £98.6m (2018: nil) included in administrative expenses in the income statement.

Sensitivity analysis

Change in discount rate

The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions including a 0.5 percentage point change in WACC, which would change the impairment by £10m.

Budgeted cash flows

Management has conducted sensitivity analysis on the CGUs value in use by reducing the anticipated future cash flows. A reduction of 0.5% in LFL sales would increase the impairment by £12m.

14 Investments

	2019 £'000	2018 £'000
Investments at cost	**-**	36

The investments related to shares held in an entity outside the Group which have been disposed.

Group subsidiaries

Details of the Group subsidiaries as at 24 November 2019 are shown on page 106.

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

Notes to the financial statements continued

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14 Investments continued

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2019	Proportion of ownership interest and voting rights held 2018
Bracklands Limited	Property Company	Scotland	100%	100%
Charnwait Management Limited	Retailing	England and Wales	100%	100%
Clark Retail Limited	Retailing	Scotland	100%	100%
Dillons Stores Limited	Retailing	England and Wales	100%	100%
Forbuoys Limited	Dormant	England and Wales	100%	100%
Key Food Stores Limited	Intermediate Holding Co	England and Wales	100%	100%
Lavells Limited	Dormant	England and Wales	100%	100%
Lewis Meeson Limited	Dormant	England and Wales	100%	100%
Marshell Group Limited	Corporate activities	England and Wales	100%	100%
Martin McColl Limited	Retailing	England and Wales	100%	100%
Martin McColl Retail Limited*	Intermediate Holding Co	England and Wales	100%	100%
Martin Retail Group Limited	Retailing	Scotland	100%	100%
Martin the Newsagent Limited	Dormant	England and Wales	100%	100%
NSS Newsagents Retail Limited	Dormant	England and Wales	100%	100%
Price Smasher Limited	Intermediate Holding Co	England and Wales	100%	100%
Smile Holdings Limited	Intermediate Holding Co	England and Wales	100%	100%
Smile Property Limited	Dormant	England and Wales	100%	100%
Smile Stores Limited	Retailing	England and Wales	100%	100%
Thistledove Limited	Intermediate Holding Co	England and Wales	100%	100%
TM Group Holdings Limited	Predecessor Holding Co	England and Wales	100%	100%
TM Pension Trustees Limited	Dormant	England and Wales	100%	100%
TM Vending Limited	Corporate Activities	England and Wales	100%	100%
Tog Limited	Intermediate Holding Co	England and Wales	100%	100%

* indicates direct investment of the Company.

From the above table the following subsidiaries take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 24 November 2019: Bracklands Limited, Charnwait Management Limited, Clark Retail Limited, Dillons Stores Limited, Martin McColl Limited, Martin McColl Retail Limited, Martin Retail Group Limited, Smile Stores Limited, Thistledove Limited, TM Group Holdings Limited, TM Vending Limited. All the subsidiaries are included in the Group's consolidated financial statements for the period.

The Parent Company guarantee the debts and liabilities of these UK subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

15 Business Combinations

During the period, the Group made 3 trade and asset acquisitions, none of which were individually considered material to the Group. The trade goodwill acquired represents the established reputation of the business and is not expected to be deductible for tax purposes. The cash consideration for these acquisitions and the assets acquired are summarised as follows:

	2019 £'000	2018 £'000
Tangible fixed assets	**525**	2,040
Inventory	**39**	444
Goodwill	**745**	2,029
Dilapidations and off-profile stock provision	**(121)**	–
Cash consideration	**1,188**	4,513

16 Inventories

	2019 £'000	2018 Restated* £'000
Finished goods and goods for resale	**86,434**	79,795

* see note 32.

Included in inventories is a stock provision of £2.1m (2018: £2.3m).

17 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**2,730**	3,269
Supplier rebates	**22,301**	25,002
Prepayments	**7,338**	8,384
Other receivables	**6,667**	5,329
Total current trade and other receivables	**39,036**	41,984

The table below presents the balance and movements in the provision for impairment of trade and other receivables.

	2019 £'000	2018 £'000
At the beginning of the year	**357**	213
IFRS 9 adjustment	**-**	–
Increase in allowance charged to Group income statement	**171**	144
At the end of the year	**528**	357

Ageing of past due but not impaired receivables

	2019 £'000	2018 £'000
31 to 60 days	**387**	262
61 to 90 days	**101**	103
Greater than 90 days	**324**	360
	812	725

Supplier rebates receivable ageing

	2019 £'000	2018 £'000
31 to 60 days	**1,312**	482
61 to 90 days	**161**	97
Greater than 90 days	**2,245**	535
	3,718	1,114

18 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	**36,999**	28,547

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

19 Trade and other payables

Current	2019 £'000	2018 Restated* £'000
Trade payables	**175,059**	166,759
Accrued expenses	**26,005**	30,814
Holiday pay accrual	**1,186**	1,272
Social security and other taxes	**6,976**	9,868
Other payables	**1,462**	2,107
Accrued interest	**299**	335
Deferred rebates & lease premiums	**4,547**	4,831
	215,534	215,986

Non-current	2019 £'000	2018 Restated* £'000
Deferred rebates & lease premiums	**10,755**	9,552
	10,755	9,552

* see note 32.

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 Loans and borrowings

Current	2019 £'000	2018 Restated* £'000
Bank borrowings	**10,000**	10,000
Finance lease liabilities	**1,231**	2,148
	11,231	12,148

Non-current	2019 £'000	2018 Restated* £'000
Bank borrowings	**119,500**	115,500
Unamortised issue costs	**(962)**	(1,458)
Finance lease liabilities	**1,349**	947
	119,887	114,989

* see note 32.

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

The current facility drawn as at 24 November 2019 is £129,500,000 (2018: £125,500,000).

In November 2018, the Group amended some of the terms of the existing facility. The Group has an amortising £77,500,000 term loan and a £100,000,000 revolving credit facility with a £50,000,000 accordion.

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

	2019 £'000	2018 Restated* £'000
Term loan and revolving credit facility available until July 2021	**119,500**	115,500
Finance lease liabilities	**1,349**	947
	120,849	116,447

21 Net debt

	Note	2019 £'000	2018 £'000
Cash at bank and in hand	18	**36,999**	28,547
		36,999	28,547
Term Loan and revolving credit facility available until July 2021		**(129,500)**	(125,500)
Less: unamortised issue costs		**962**	1,458
		(128,538)	(124,042)
Amounts due under hire purchase obligations		**(2,580)**	(3,095)
Net debt		**(94,119)**	(98,590)

Analysis of net debt

	2018 £'000	Cash flow £'000	Non cash movements: Amortisation of issue costs £'000	Non cash movements: Finance lease additions £'000	Non cash movements: Non current to Current movement £'000	2019 £'000
Bank borrowings						
Current	(10,000)	10,000	–	–	(10,000)	**(10,000)**
Non current	(114,042)	(14,000)	(496)	–	10,000	**(118,538)**
Sub total	(124,042)	(4,000)	(496)	–	–	**(128,538)**
Finance lease liabilities						
Current	(2,148)	1,741	–	(319)	(505)	**(1,231)**
Non current	(947)	–	–	(907)	505	**(1,349)**
Sub total	(3,095)	1,741	–	(1,226)	–	**(2,580)**
Arising from financing activities	(127,137)	(2,259)	(496)	(1,226)	–	**(131,118)**
Cash at bank and in hand	28,547	8,452	–	–	–	**36,999**
Net Debt	(98,590)	6,193	(496)	(1,226)	–	**(94,119)**

In the period interest was charged as follows current bank borrowings £615k (2018: £531k)), non current bank borrowings £5,901k (2018: £5,812k), current finance leases £92k (2018: £92k) and non current finance leases £80k (2018: £56k).

	2017 £'000	Cash flow £'000	Non cash movements: Amortisation of issue costs £'000	Non cash movements: Finance lease additions £'000	Non cash movements: Non current to Current movement £'000	2018 £'000
Bank borrowings						
Current	(10,000)	10,000	–	–	(10,000)	(10,000)
Non current	(142,968)	19,000	(74)	–	10,000	(114,042)
Sub total	(152,968)	29,000	(74)	–	–	(124,042)
Finance lease liabilities						
Current	(1,799)	1,858	–	(996)	(1,211)	(2,148)
Non current	(1,754)	–	–	(404)	1,211	(947)
Sub total	(3,553)	1,858	–	(1,400)	–	(3,095)
Arising from financing activities	(156,520)	30,858	(74)	(1,401)	–	(127,137)
Cash at bank and in hand	14,273	14,274	–	–	–	28,547
Net Debt	(142,247)	45,132	(74)	(1,401)	–	(98,590)

22 Leases and commitments

Group operating leases

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

The total future value of minimum lease payments is as follows:

Land and buildings	2019 £'000	2018 £'000
Within one year	**32,840**	32,096
In two to five years	**98,208**	99,971
In over five years	**151,900**	119,655
	282,948	251,722

As set out in note 4 property rental income earned during the year was £3,004,000 (2018: £3,249,000). The majority of the properties held have committed tenants for the next three to 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.

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

22 Leases and commitments continued

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2019 £'000	2018 £'000
Within one year	**538**	283
Within one to five years	**1,453**	549
After five years	**613**	382
	2,604	1,214

Finance leases

The Group acquires the majority of its motor vehicles and LED lighting under contract purchase agreements and such assets are generally classified as finance leases.

Future lease payments are due as follows:

	2019 £'000	2018 £'000
Amounts due within one year	**1,336**	2,349
Amounts due within one to five years	**1,429**	1,073
	2,765	3,422
Less future interest	**(185)**	(327)
	2,580	3,095

23 Provisions

	Dilapidations £'000	Onerous contracts £'000	Total £'000
At 26 November 2018	4,074	1,595	5,669
Movement in provisions	(799)	2,135	1,336
Utilised during the period	(157)	(1,294)	(1,451)
Unwinding of the discount included in provisions	–	160	160
At 24 November 2019	**3,118**	**2,596**	**5,714**
Non-current liabilities	2,078	1,108	3,186
Current liabilities	1,040	1,488	2,528

Dilapidations

The provision includes estimates for certain properties for which the extent of the dilapidation has not been established and include estimates of the cost at the end of the lease. The provision is built up over the lease term expensing to the income statement.

Onerous contracts

A provision is recognised for the present value of the unavoidable costs of the lease net of expected benefits for all leases that have been identified as onerous. The onerous lease provisions are recognised for a period of up to two years.

24 Deferred tax

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 and fixed assets where the gains have been rolled into replacement assets.

Deferred tax at 24 November 2019 has been measured at 17% (2018: 17%) being the tax rate enacted at the balance sheet date expected to be effective for future periods.

The Group only recognises deferred tax assets where it is probable it will be recoverable and the temporary differences do not expire.

Deferred tax assets and liabilities

2019	Asset £'000	Liability £'000	Net deferred tax £'000
Pension benefit obligations	–	(1,336)	(1,336)
Fixed assets	1,264	–	1,264
Goodwill	–	(3,477)	(3,477)
Other items	86	–	86
	1,350	(4,813)	(3,463)

2018	Asset £'000	Liability £'000	Net deferred tax £'000
Pension benefit obligations	–	(2,018)	(2,018)
Fixed assets	–	(957)	(957)
Goodwill	–	(3,920)	(3,920)
Other items	97	–	97
	97	(6,895)	(6,798)

24 Deferred tax continued

Deferred tax movement during the period:

	At 26 November 2018 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	**At 24 November 2019 £'000**
Pension benefit obligations	(2,018)	(24)	706	–	**(1,336)**
Fixed Assets	(957)	2,221	–	–	**1,264**
Goodwill	(3,920)	443	–	–	**(3,477)**
Other items	97	3	–	(14)	**86**
Net tax (liabilities)/assets	(6,798)	2,643	706	(14)	**(3,463)**

Deferred tax movement during the prior period:

	At 27 November 2017 £'000	Recognised in income – As restated £'000	Recognised in other comprehensive income £'000	Recognised in equity – As restated £'000	At 25 November – As restated 2018 £'000
Pension benefit obligations	(1,744)	(124)	(150)	–	(2,018)
Fixed Assets	(3,174)	2,252	–	(35)	(957)
Goodwill	(3,610)	(310)	–	–	(3,920)
Other items	172	17	–	(92)	97
Net tax (liabilities)/assets	(8,356)	1,835	(150)	(127)	(6,798)

25 Share capital

	Number of shares	Share capital £'000	Share premium £'000
At 26 November 2018	115,173,515	115	12,580
Shares issued during the period	20,394	–	–
At 24 November 2019	115,193,909	115	12,580

The Group issued 20,394 ordinary shares at 0.1 pence per share equal to the nominal value of £20 as part of exercising LTIP share options.

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 52 weeks ending 24 November 2019 or 52 weeks ending 25 November 2018.

The shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held. Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.

26 Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

At 24 November 2019, the Group had no material contingent liabilities (2018: nil).

27 Financial instruments and risk management

Interest rate risk

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

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

Interest rate risk profile of financial liabilities and assets

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

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

	2019 £'000	2018 Restated[1] £'000
Fixed rated financial liabilities	**(2,580)**	(3,095)
Floating rate financial liabilities	**(129,500)**	(125,500)
Financial liabilities on which no interest is paid	**(219,313)**	(215,670)
Financial liabilities	**(351,393)**	(344,265)

1 Management has restated 2018 to correct for two items; i) removing £9.8m of social security payables out of financial instruments and ii) adjusting for the impact of reclassification of £2.6m from inventory to accruals in current liabilities as disclosed in note 32.

Notes to the financial statements continued
for the 52 week period from 26 November 2018 to 24 November 2019

27 Financial instruments and risk management continued
The interest rate profile of the financial assets of the Group is as follows:

	2019 £'000	2018 Restated £'000
Financial assets on which no interest is paid	**68,697**	62,183

* Restated to remove prepayments included in error.

If interest rates had been 0.5% higher during the period ended 24 November 2019, with all other variables held constant, the post-tax profit for the period would have been approximately £660,000 lower (2018: £475,000 lower) as a result of higher interest expense.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges on its debt instruments and repayments of principal. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Management carries out daily cash forecasts covering a period of at least three periods. In addition management considers liquidity as part of the annual budgeting and long term planning process.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and credit facilities to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

Maturity of financial liabilities
The maturity profile of the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date, was as follows:

	2019 £'000	2018 Restated[1] £'000
Up to 3 months or on demand	**207,933**	204,365
In 3–12 months	**11,855**	13,774
In more than one year but not more than two years	**124,173**	20,611
In more than two years but not more than five years	**6,579**	105,515
In more than five years	**853**	–
	351,393	344,265

The disclosures above are the contractual undiscounted cash flows and exclude unamortised finance costs.

1 Management has restated 2018 to correct for two items; i) removing £9.8m of social security payables out of financial instruments and ii) adjusting for the impact of reclassification of £2.6m from inventory to accruals in current liabilities as disclosed in note 32.

Borrowing facilities
The Group had certain borrowing facilities available to it for general working capital requirements of which £52,000,000 has been drawn at 24 November 2019 (2018: £38,000,000).

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

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

	24 November 2019		25 November 2018 As restated[1]	
Financial liabilities	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Trade and other short-term payables	**(208,558)**	**(208,558)**	(206,118)	(206,118)
Hire purchase borrowings	**(2,580)**	**(2,580)**	(3,095)	(3,095)
Long-term borrowings	**(129,500)**	**(129,500)**	(125,500)	(125,500)
Long-term payables	**(10,755)**	**(10,755)**	(9,552)	(9,552)
	(351,393)	**(351,393)**	(344,265)	(344,265)
Financial assets				
investments carried at cost	**-**	**-**	36	36
Short-term receivables	**31,698**	**31,698**	33,600	33,600
Cash and short-term deposits	**36,999**	**36,999**	28,547	28,547
	68,697	**68,697**	62,183	62,183

The long-term rating for all financial institution counter parties ranges from AAA to Baa1 per Moody's rating scale.

Capital disclosures
The Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern and to provide an adequate return to shareholders. Capital comprises the Group's equity i.e. share capital including share premium and retained earnings, excluding pension asset and liability.

27 Financial instruments and risk management continued

The Group's net debt to capital ratio is as follows:

	2019 £'000	2018 £'000
Net debt	**94,119**	98,590
Total equity (as defined above)	**30,808**	129,608
Debt to capital ratio	**3.05**	0.76

28 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 £3,032,000 (2018: £1,649,000).

The two defined benefit pension schemes are subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The schemes are operated under trust and, as such, the trustees of the schemes are responsible for operating the schemes and they have a statutory responsibility to act in accordance with the Trust Deed and Rules, in the best interest of the beneficiaries of the schemes, and UK legislation (including Trust Law).

The nature of the schemes exposes the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

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

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

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

The last completed triennial full actuarial valuation of the schemes was carried out at 31 March 2016. Deficit repair contributions were agreed at £944,000 per annum from 1 April 2017, £1,150,000 per annum from 1 April 2018, and £1,400,000 per annum from 1 April 2019 to November 2025, index-linked, and subject to review at future valuations. Additional contributions were agreed towards the costs of running the schemes.

The figures for this financial information have been based, in accordance with IAS 19, on valuations using the projected unit method.

The disclosures are based upon the preliminary valuation of the schemes which were carried out as at 31 March 2016, updated to 24 November 2019 by qualified independent actuaries.

The main assumptions when valuing the assets and liabilities of the schemes under IAS 19 revised are as follows:

	Group pension schemes	
	2019 %pa	2018 %pa
RPI inflation	**2.95**	3.20
CPI inflation	**2.05**	2.20
Rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase to pensions in payment:		
5% LPI	**2.90**	3.10
2.5% LPI	**2.10**	2.20
Discount rate	**2.00**	2.90

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

	TM Group Pension Scheme		TM Pension Plan	
Demographic assumptions	2019 years	2018 years	2019 years	2018 years
Life expectancy of a pensioner aged 65 – male	**86.8**	86.9	**87.0**	87.0
Life expectancy of a pensioner aged 65 – female	**88.6**	88.9	**88.6**	88.9
Life expectancy at age 65 for someone aged 45 – male	**88.2**	88.3	**88.2**	88.3
Life expectancy at age 65 for someone aged 45 – female	**90.2**	90.5	**90.1**	90.4

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28 Retirement benefit schemes continued

Notes to the balance sheet	TM Group Pension Scheme 2019 £'000	TM Group Pension Scheme 2018 £'000	TM Pension Plan 2019 £'000	TM Pension Plan 2018 As restated[2] £'000
Fair value of scheme assets	**89,068**	83,313	**50,642**	46,988
Present value of funded scheme obligations	**(77,566)**	(69,191)	**(54,287)**	(49,238)
Net pension asset/(liability)	**11,502**	14,122	**(3,645)**	(2,250)

On its balance sheet, the Group recognises £11,502,000 surplus in respect of the TM Group Pension Scheme. Under IAS 19, the Group as employer is allowed to do this as it has unconditional right to any surplus once the last Group benefits have been paid.

Notes to the income statement	TM Group Pension Scheme 2019 £'000	TM Group Pension Scheme 2018 £'000	TM Pension Plan 2019 £'000	TM Pension Plan 2018 As restated[2] £'000
Total service cost	**207**	451	**226**	688
Net interest	**(410)**	(353)	**48**	69
Total included in 'staff costs'	**(203)**	98	**274**	757

Notes to the statement of comprehensive income (SCI)	TM Group Pension Scheme 2019 £'000	TM Group Pension Scheme 2018 £'000	TM Pension Plan 2019 £'000	TM Pension Plan 2018 £'000
Return on assets excluding amounts included in net interest	**7,035**	(1,985)	**3,393**	(207)
Gains due to changes in demographic assumptions	**847**	422	**589**	306
(Losses)/gains due to changes in financial assumptions	**(7,462)**	2,461	**(5,398)**	1,763
Losses due to plan experience	**(3,562)**	(580)	**(1,261)**	(1,299)
Total recognised in SCI	**(3,142)**	318	**(2,677)**	563

2 Management has restated 2018 to correct for a revision down of past service cost (including curtailment) and therefore total service cost by £61k and a reduction of gains due to changes in financial assumptions by £2k. The net result of these two adjustments was a reduction of £59k of the present value of funded scheme obligations.

Recognition of defined benefit obligation	TM Group Pension Scheme 2019 £'000	TM Group Pension Scheme 2018 £'000	TM Pension Plan 2019 £'000	TM Pension Plan 2018 As restated[2] £'000
Opening defined benefit obligation	**69,191**	75,489	**49,297**	51,456
Service costs (admin costs)	**207**	273	**226**	225
Past service cost (including curtailment)	**–**	178	**–**	463
Interest cost on defined benefit obligation	**1,954**	1,862	**1,393**	1,324
Gains due to changes in demographic assumptions	**(847)**	(422)	**(589)**	(306)
Losses/(gains) due to changes in financial assumptions	**7,462**	(2,461)	**5,398**	(1,763)
Losses due to plan experience	**3,562**	580	**1,261**	1,299
Benefits paid including expenses	**(3,963)**	(6,308)	**(2,699)**	(3,460)
Closing defined benefit obligation	**77,566**	69,191	**54,287**	49,238

Recognition of defined benefit obligation	TM Group Pension Scheme 2019 £'000	TM Group Pension Scheme 2018 £'000	TM Pension Plan 2019 £'000	TM Pension Plan 2018 £'000
Opening fair value of scheme assets	**83,313**	89,098	**46,988**	48,104
Interest income on scheme assets	**2,364**	2,215	**1,345**	1,255
Employer contributions	**319**	293	**1,615**	1,296
Return on assets excluding amounts included in net interest	**7,035**	(1,985)	**3,393**	(207)
Benefits paid including expenses	**(3,963)**	(6,308)	**(2,699)**	(3,460)
Closing fair value of scheme assets	**89,068**	83,313	**50,642**	46,988

The Group expects to contribute £328,000 to the TM Group Pension Scheme and £1,747,000 to the TM Pension plan in the period ended 29 November 2020.

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

	TM Group Pension Scheme 2019 £'000	2019 %	2018 £'000	2018 %
Derivatives (unquoted)	**1,209**	**1**	(893)	(1)
Overseas bonds (quoted)	**34,598**	**39**	34,583	42
Government bonds (quoted)	**33,033**	**37**	25,715	31
Real estate (quoted)	**4,265**	**5**	4,392	5
Cash and cash equivalents (quoted)	**1,268**	**1**	1,671	2
Overseas bonds (unquoted)	**14,695**	**17**	17,845	21
	89,068	**100**	83,313	100

28 Retirement benefit schemes continued

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

	TM Group Pension Scheme			
	2019 £'000	**2019 %**	2018 £'000	2018 %
Derivatives (unquoted)	**1,608**	**3**	(102)	0
Overseas bonds (unquoted)	**4,898**	**10**	5,948	13
Government bonds (quoted)	**16,792**	**33**	10,766	23
Property (quoted)	**4,265**	**8**	4,392	9
Cash and cash equivalents (quoted)	**1,675**	**3**	843	2
Infrastructure (unquoted)	**7,762**	**15**	7,941	17
Overseas bonds (quoted)	**13,642**	**28**	17,200	36
	50,642	**100**	46,988	100

The investment strategy of the schemes is driven by their liability profiles. In particular:

- The weighted average duration of the schemes' liabilities is 13 years for the TM Group Pension Scheme and 15 years for the TM Pension Plan.
- Approximately 30% of the liabilities of the TM Group Pension Scheme and 40% of the liabilities of the TM Pension Plan are in respect of deferred members, with the remaining liabilities in respect of pensioner members.
- Annual benefit payments are expected to peak in 2025 for the TM Group Pension Scheme, and in 2027 for the TM Pension Plan.

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

Policy for recognising actuarial gains and losses

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

Sensitivity analysis

	TM Group Pension Scheme		TM Pension Plan	
Change in assumptions compared with 24 November 2019 and 25 November 2018 actuarial assumptions	**Change in actuarial value of liabilities on 2019 £'000**	Change in actuarial value of liabilities on 2018 £'000	**Change in actuarial value of liabilities on 2019 £'000**	Change in actuarial value of liabilities on 2018 £'000
0.5% decrease in discount rate	**5,295**	4,637	**4,117**	3,728
1 year increase in member life expectation	**3,103**	2,768	**2,171**	1,972
0.5% decrease in inflation (including impact of pension increases)	**2,138**	2,020	**2,566**	2,542

The sensitivities disclosed are calculated using approximate methods taking into account the weighted average duration of the schemes' liabilities (13 years for the TM Group Pension Scheme and 15 years for the TM Pension Plan). This is the same approach as in previous years.

29 Share-based payments

The Group makes equity-settled share awards to Executive Directors and employees under two different share option plans, a Long Term Incentive Plan (LTIP) and a Company Share Options Plan (CSOP). Further details of the plans and amounts recognised in respect of these are provided below.

Long-term incentive plan (LTIP)

Scheme details and movements

The plan provides for annual awards of performance shares to eligible participants. Vesting is based on 3-year performance. Executive Directors' vested shares will be subject to an additional 2-year holding period before being released to participants. Options are exercisable at a price of £0.001. The Remuneration Committee has discretion to reduce any un-vested 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.

Notes to the financial statements continued

for the 52 week period from 26 November 2018 to 24 November 2019

29 Share-based payments continued

Awards will vest on achievement of financial performance measures, measured over a three-year performance period, to include both earnings per share (EPS) and total shareholder return (TSR). EPS will receive a weighting in the LTIP of at least 50%. For all grants to 2018 the weightings on EPS and TSR were 70% and 30% respectively. In 2019 the weighting was 50% each. 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.

The movements in the number of share options during the period were as follows:

	2019 Number	2018 Number
Outstanding, start of period	**2,309,644**	1,988,210
Granted during the period	**1,523,813**	952,929
Forfeited during the period	**(332,238)**	(631,495)
Exercised during the period	**(16,570)**	–
Outstanding, end of period	**3,484,649**	2,309,644

The movements in the weighted average exercise price of share options during the period were as follows:

	2019 £	2018 £
Outstanding, start of period	**1.79**	1.70
Granted during the period	**0.85**	2.02
Forfeited during the period	**1.44**	1.87
Exercised during the period	**1.48**	–
Outstanding, end of period	**1.41**	1.79

16,570 share options were exercised during the period by a member of the senior leadership team, when the market share price at the date of exercise was 63p.

Outstanding share options

Details of share options outstanding at the end of the period are as follows:

	2019	2018
Weighted average exercise price (£)	**1.41**	1.79
Number of share options outstanding	**3,484,649**	2,309,644
Expected weighted average remaining life (years)	**1.33**	1.26

The contractual weighted average remaining life is 1.33 years.

The exercise price range is £0.85 to £1.79.

Fair value of options granted

The weighted average fair value per TSR unit (excluding dividends) of options granted during the period at measurement date was £0.63.

The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below. The dates of grant of the options were 2 May 2019 (2018: 1 March and 15 August).

	2 May 2019	15 August 2018	1 March 2018
Share price at date of grant (£)	**0.85**	1.34	2.30
Expected volatility (%)	**42.10**	39.00	35.00
Vesting period in years	**3.00**	3.00	3.00
Expected dividends, expressed as a dividend yield (%)	**-**	7.86	4.43
Risk free interest rate (%)	**0.76**	0.68	0.93
Number of employees subject to option grant	**8**	2	10
Number of shares covered by option	**1,523,813**	277,776	675,153

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Risk free rate is the yield to maturity on the date of grant on zero-coupon UK government bond with a term commensurate with the remaining performance period at date of grant.

McColl's embedded performance is based on TSR performance banked over the period from the start of the averaging period to the date of grant.

Comparators embedded performance is based on the TSR performance banked by each LTIP comparator over the period from the start of the averaging period to the date of grant.

29 Share-based payments continued

Correlation is based on an historical analysis of the average TSR correlation observed across the LTIP comparator group as measured fortnightly over a historic period commensurate with the remaining performance period at date of grant.

The fair value of services received during the period were the tenure of employment.

IFRS 2 requires that TSR-vesting shares under McColl's LTIP awards be expensed based on fair value, taking into account the probability of achieving the market-based vesting condition (relative TSR). The probability of achieving the vesting condition is influenced by the performance already delivered between the start of the share price averaging period and the date of grant. McColl's has used a Monte-Carlo simulation model to determine the grant-date fair value of performance shares for the TSR element of the scheme. Each Monte-Carlo iteration calculates the future value of a performance share by projecting forward a future TSR scenario for each of its TSR comparators. Valuations are based on the average of 10,000 iterations of the Monte-Carlo model.

Charge/credit arising from share-based payments

The total charge for the year for equity settled share-based payments was £86,000 (2018: £29,000), which includes a reduction of £58,000 which relates to the reversal of prior years charge.

The carrying value of the liability arising from share-based payments was £508,000 (2018: £422,000).

Company share option plan (CSOP)

Scheme details and movements

The scheme began operation in August 2015. The scheme meets the criteria of an equity-settled share-based payment as the entity receives goods or services as consideration for its own equity instruments (including shares or share options). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For CSOPs granted during the year performance conditions are 100% TSR based, with targets which are consistent with the LTIP performance conditions. For CSOPs granted prior to 2018 performance conditions are 100% dependent on reaching an EPS growth target, with targets which are consistent with LTIP performance conditions. These are detailed in the remuneration report on page 69. EPS is a non-market based vesting condition and therefore fair value is determined based upon the probability of achieving the target.

The movements in the number of CSOP share options during the period were as follows:

	2019 Number	2018 Number
Outstanding, start of period	**531,578**	439,335
Granted during the period	**362,629**	157,568
Forfeited during the period	**(201,804)**	(65,325)
Outstanding, end of period	**692,403**	531,578

The movements in the weighted average exercise price of CSOP share options during the period were as follows:

	2019	2018
Outstanding, start of period	**1.86**	1.68
Granted during the period	**0.85**	2.30
Forfeited during the period	**1.59**	1.68
Outstanding, end of period	**1.41**	1.86

Outstanding share options

Details of share options outstanding at the end of the period are as follows:

	2019	2018
Weighted average exercise price (£)	**1.41**	1.86
Number of share options outstanding	**692,403**	531,598
Expected weighted average remaining life (years)	**4.33**	4.43

The contractual weighted average remaining life is 4.33 years.

The exercise price range is £0.85 to £1.86.

Notes to the financial statements continued
for the 52 week period from 26 November 2018 to 24 November 2019

29 Share-based payments continued

Fair value of options granted

The weighted average fair value per TSR unit of options granted during the period at measurement date was 20 pence. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below. The date of grant of the options granted in the period was 2 May 2019. CSOP shares issued prior to 2018 did not have a TSR performance measure.

	2019	2018
Share price at date of grant	**0.85**	2.30
Expected volatility	**42.10**	35.00
Vesting period in years	**3.00**	3.00
Expected life of option in practice in years	**3.00**	3.00
Expected dividends, expressed as a dividend yield	**4.71**	4.43
Risk-free interest rate	**0.94**	0.93
Number of employees subject to option grant	**46**	47
Number of shares covered by option	**362,629**	157,568

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Charge/(credit) arising from share-based payments

The total charge for the year for CSOP equity settled share-based payments was £35,000 (2018: £(29,000)).

The carrying value of the liability arising from share-based payments was £49,000 (2018: £14,000).

30 Related party transactions

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

	2019 £'000	2018 £'000
Salaries and other short term employee benefits	**1,935**	1,917
Share-based payments	**86**	29
	2,021	1,946

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

31 Subsequent events

Management has evaluated subsequent events through 25 February 2020, which is the date the consolidated financial statements were available to be issued.

On 21 February 2020, the Group exchanged contracts for the sale of the Group's head office building with a completion date of 31 December 2020 or earlier on three weeks' notice from the Group. The agreed selling price was £7.3m.

32 Prior Year Restatements

1. At 25 November 2018 the total value of the term loan was disclosed as a non-current liability. The element of the term loan that was due within the next 12 months (£10m) is now included within current liabilities, which is consistent with the payment schedule within the term loan agreement. Management has corrected the error within the 2018 statement of financial position by reclassifying £10m as a current liability.
2. Management has reviewed the accounting for the purchase of inventory across the product portfolio. As at 25 November 2018 an accrual of £2.6m was incorrectly classified against the carrying value of inventory. Management has corrected the error within the 2018 statement of financial position by reclassifying £2.6m as a current liability within accruals.

Neither of the above has any impact on the statement of comprehensive income or total shareholder funds previously reported. The consolidated statement of cash flows has been restated to take into account the £2.6m reclassification above, with the appropriate amendment made to the disclosure of 'increase in inventories' (reduced by £2.6m) and 'increase in trade and other payables' (increased by £2.6m) in the statement, both of which net to a £nil impact to previously reported cash generated from operations. The consolidated statement of cash flows has been further restated to remove £1.4m from cash flows from acquisition of property, plant and equipment within net cash flows from investment activities, which was financed by finance leases (with the corresponding increase of £1.4m made to payment of finance lease creditors, within net cash flows from financing activities). There has been no change to the total net increase in cash and cash equivalents previously reported.

Company balance sheet
24 November 2019

	Note	24 November 2019 £'000	25 November 2018 £'000
Non-current assets			
Investments	C4	**77**	77
Total non-current assets		**77**	77
Current assets			
Trade and other receivables	C5	**49,622**	49,088
Total current assets and net current assets		**49,622**	49,088
Total assets		**49,699**	49,165
Shareholders' equity			
Equity share capital	C6	**115**	115
Share premium account	C6	**12,580**	12,580
Retained earnings[1]		**37,004**	36,470
		49,699	49,165

1 Profit for the year was £2,722,000 (2018: £1,583,000).

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the Board of Directors on 25 February 2020.

Signed on behalf of the Board of Directors

Robbie Bell
Director

Company statement of changes in equity
24 November 2019

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 26 November 2018	115	12,580	36,470	49,165
Profit for the period	–	–	2,722	2,722
Dividends paid	–	–	(2,188)	(2,188)
As at 24 November 2019	115	12,580	37,004	49,699

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
As at 27 November 2017	115	12,579	46,750	59,444
Shares issued	–	1	–	1
Profit for the period	–	–	1,583	1,583
Dividends paid	–	–	(11,863)	(11,863)
As at 25 November 2018	115	12,580	36,470	49,165

Notes to the Company financial statements

for the 52 week period ended 24 November 2019

C1. Basis of preparation

The Company's financial period is the period from 26 November 2018 to 24 November 2019.

The Parent Company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

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

For financial assets under IFRS 9, amounts owed to/by Group undertakings are initially recorded at fair value, which is generally the proceeds received. They are subsequently carried at amortised cost.

Provision for impairment of amounts owed by Group undertakings have been assessed based on lifetime expected credit losses. No credit loss is expected on outstanding intercompany balances, and therefore no provision has been recognised in the 52 weeks ended 24 November 2019 (2018: £nil).

The Parent Company financial statements are prepared on a going concern basis as set out in note 2 of the consolidated financial statements of the Group. The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an Income statement or a Statement of comprehensive income for the Company alone.

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

C2. Significant accounting policies

Investments

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

Taxation

Current taxation

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

Deferred taxation

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

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

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

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

C3. Staff costs including Directors' remuneration

The average number of employees (all Executive Directors of the Company) during the financial year was three (2018: three).

The Schedule 5 requirements of SI 2008/410 for Executive Directors' remuneration are included within the Remuneration report on pages 57 to 73.

C4. Investments

Shares in subsidiaries

	24 November 2019 £'000	25 November 2018 £'000
Cost		
Investments	**77**	77

The carrying value of the investment in subsidiary undertakings has been reviewed at 24 November 2019 and no impairment charge is required.

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

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

The following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 24 November 2019. All the following subsidiaries are included in the Group's consolidated financial statements for the period.

The Group will guarantee the debts and liabilities of the below subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of business
All held by the Company unless stated				
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
Forbuoys 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 McColl Limited	England and Wales	Ordinary shares	100%	Retailing
Martin Mccoll Retail Limited*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Martin Retail Group Limited	Scotland	Ordinary shares	100%	Retailing
Martin the Newsagent Limited	England and Wales	Ordinary shares	100%	Dormant
NSS Newsagents Retail Limited	England and Wales	Ordinary shares	100%	Dormant
Price Smashers Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Smile Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Smile Property Limited	England and Wales	Ordinary shares	100%	Dormant
Smile Stores Limited	England and Wales	Ordinary shares	100%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co
TM Group Holdings Limited	England and Wales	Ordinary shares	100%	Predecessor Holding Co
TM Pension Trustees Limited	England and Wales	Ordinary shares	100%	Dormant
TM Vending Limited	England and Wales	Ordinary shares	100%	Corporate Activities
Tog Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Co

* Indicates direct investment of the Company.

Notes to the Company financial statements
for the 52 week period ended 24 November 2019

C5. Trade and other receivables

	24 November 2019 £'000	25 November 2018 £'000
Amounts owed by Group undertakings	**49,622**	49,088

C6. Authorised, issued and fully paid share capital

	Number of shares	**Share capital £'000**	Share premium £'000
As at 26 November 2018	115,173,515	**115**	12,580
Issued during the period	20,394	**-**	–
As at 24 November 2019	115,193,909	**115**	12,580

The Board has authorised the allotment of shares equal to the nominal value of £20, the details of which are in the Group's accounts note 25.

All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 52 weeks ending 24 November 2019 or 52 weeks ending 25 November 2018.

The shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held. Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.

C7. Dividends paid and proposed

The Board is not recommending a final 2019 dividend (2018: 0.6p), subject to shareholder approval at the Annual General meeting to be held on 3 April 2020.

	24 November 2019 £'000	25 November 2018 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final 2018 dividend of 0.6p (2017: 6.9p)	**691**	7,947
Interim for 2019: 1.3p (2018: 3.4p)	**1,497**	3,916
Dividends paid	**2,188**	11,863
Proposed for approval by shareholders at the AGM:		
Final dividend for 2019: nil (2018: 0.6p)	**-**	691

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

Glossary of terms

Introduction

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs) of financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to IFRS measures and are not intended to be a substitute for IFRS measurements.

Purpose

The Directors believe that these APMs provide additional useful information on the underlying performance and position of McColl's.

APMs are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding McColl's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this period are as follows:

Like-for-like sales (LFL): This is a widely used indicator of a retailer's current trading performance and is a measure of growth in sales from stores that have been open for at least a year.

Sales from stores that have traded throughout the whole of the current and prior periods, and including VAT but excluding sales of fuel, lottery, mobile top-up, gift cards and travel tickets.

Adjusted EBITDA excluding property-related items and share-based payments: This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses, share-based payments and other adjusting items.

Property gains and losses: Are incomes and costs that arise from events and transactions in relation to the Group's property and not from the principal activity of the Group, i.e. that of an operator of convenience and newsagent stores.

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

Adjusted operating profit: Operating profit before the impact of adjusting items as explained above.

Adjusted earnings per share: Earnings per share before the impact of adjusting items.

Glossary of terms continued

APM	Closest equivalent IFRS measure	Note reference for reconciliation		Definition and purpose
Income statement				
Revenue measures				
Sales mix	No direct equivalent	Not applicable		The relative proportion or ratio of products sold compared to the same period in the prior year.
Like-for-like (LFL)	IFRS Revenue	Revenue YE18	£1,242m	Like-for-like is a measure of growth in Group sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year). It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures. It's reported on an 'including VAT' basis, which aligns with the sales measurement by the field and stores teams, whose focus is on the retail performance.
		Add VAT	£153m	
		Excl. non store rev.	£(170)m	
		Excl. acq/closures	£(62)m	
		LFL Sales 2018	**£1,163m**	
		Revenue 2019	£1,219m	
		Add VAT	£150m	
		Excl. non store rev.	£(171)m	
		Excl. acq/closures	£(35)m	
		LFL Sales 2019	**£1,163m**	
		LFL%	**0.0%**	
Profit measures				
Adjusted EBITDA	Operating Profit	Note 6		This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses, share-based payments and other adjusting items, in order to provide shareholders with a measure of true underlying performance of the business.
Basic adjusted earnings per share (EPS)	Basic earnings per share	Note 11		This relates to profit after tax before adjusting items divided by the basic weighted average number of shares, in order to provide shareholders with a measure of true underlying performance of the business.
Diluted adjusted earnings per share	Diluted earnings per share	Note 11		The difference between basic and diluted metric is the impact of the dilutive effect of share options and warrants in existence.
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	Note 21		Net debt comprises bank and other borrowings, finance lease payables, and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.

Other

Capital expenditure (Capex): The additions to property, plant and equipment and intangible assets.

Grocery lines: This includes ambient, fresh, frozen and household groceries, and food-to-go, but excludes impulse categories (including confectionery, crisps and snacks, soft drinks and ice cream), general merchandise, news and magazines, and services.

Quarter: The 'first quarter' refers to the 13-week period from 26 November 2018 to 24 February 2019, 'second quarter' refers to the 13-week period from 25 February 2019 to 26 May 2019, 'third quarter' refers to the 13-week period from 27 May 2019 to 25 August 2019 and 'fourth quarter' refers to the 13-week period from 26 August to 24 November 2019.

Profits/(losses) arising on property-related items: This relates to the Group's property activities including: gains and losses on disposal of property assets, sale and lease back of freehold interests; costs resulting from changes in the Group's store portfolio, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail operations of the business. They can be one-time in nature and can have a disproportionate impact on profit between reporting periods.

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