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

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

As Chairman, I am responsible for leadership of the Board and ensuring the Board is effective in all aspects of its role

Specific roles have been delegated to me, as Chairman. I am 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, my role is to actively promote a culture of openness and debate by facilitating the effective contribution of the Independent Non-Executive Directors. I am available to discuss matters with shareholders and am responsible for ensuring that the Board is kept well informed about shareholder views. In order to assess the effectiveness of the Board and Committees, I lead the annual evaluation process. Further details of the Board evaluation are provided on page 57. My own performance as Chairman is appraised by the Non-Executives who, led by the Senior Independent Director, meet in my absence annually to discuss this.

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

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

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

The Board sets the strategic direction of the Group, taking account of factors such as the external environment and trends, the resources and existing challenges of the business, opportunities and risks. The Board takes time annually to review existing strategy and to refresh the agreed approach.

priorities and expectations. To inform and provide context for its consideration and debate of management's strategic proposals, the Board receives relevant reports and background presentations from both internal and external parties.

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

Separate reports by the Board's three main Committees – the Audit & Risk Committee, Remuneration Committee and Nomination Committee – are provided on pages 60 to 65.

Image removed

Working together to ensure strong governance
Our experienced Executive team are supported and challenged by the Non-Executive Directors who bring a range of different backgrounds and perspectives to boardroom discussions and decision-making.

Effectiveness

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

Last year we recognised that the independence of the Board and its Committees were not fully meeting the expectations of investors. We have therefore made changes to the Board's composition, and of its Committees, to address that issue. In doing so, we have also been able to enhance the collective skills, experience and knowledge of the Board and believe that these changes will therefore significantly benefit the business. Details of the experience, background and skills of individual Directors can be found on pages 50 to 51.

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

Our Board recruitment processes are formal, rigorous and transparent

Our policy is not to set a quota or target for Board diversity but we are fully committed to transparent and robust practices to identify the individual best suited to any vacancy. Recruitment is based on an assessment of the skills, experience, qualifications and other attributes sought and we support this principle being applied throughout the organisation. Further details of our approach to issues of diversity and, in particular, support for women within the business, can be found within the Nomination Committee report on page 62 and in relation to our wider organisation, on page 40.

For our Board recruitment activity during the year, we engaged an external firm to help ensure we searched a wide pool of potential candidates and assessed them against objective criteria in order to identify someone with the appropriate skills. Further details about this process, which was led by our Nomination Committee, are provided on page 61.

Our Directors should dedicate sufficient time to their responsibilities

The commitment of our Directors to their roles, including the time commitment of our Non-Executive Directors, is a crucial factor in ensuring that our skilled Board is able to lead the business effectively to build sustainable value for our shareholders. Non-Executive Directors' letters of appointment define their duties and, taking account of these, the Nomination Committee has reviewed the time commitment required of our Non-Executive Directors. Further details regarding this can be found on pages 61 to 62.

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

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

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

This need particularly arises on appointment and, accordingly, all new Directors undergo a formal induction process that is described on page 62. However, Directors also need ongoing development in order to perform their duties as well as possible. As a Board we recognise this ongoing requirement and seek to identify and address these needs through a variety of individual and group activities such as in-depth board briefings, store and site visits and presentations by external advisers.

Attendance at meetings

	Board	Audit & Risk	Remuneration	Nomination
Angus Porter[1]	9/9	1/1	3/3	3/3
Jonathan Miller	9/9	-	-	3/3
Simon Fuller	9/9	-	-	-
Dave Thomas	9/9	-	-	-
Georgina Harvey	8/9	4/4	3/3	3/3
Sharon Brown	9/9	4/4	3/3	3/3
Jens Hofma[2]	6/6	3/3	2/2	1/1
James Lancaster[3]	5/8	-	-	2/2

1 Angus Porter ceased to be a member of the Audit & Risk Committee on 1 July 2017.

2 Jens Hofma was appointed an Independent Non-Executive Director and member of the Audit & Risk, Remuneration and Nomination Committees on 1 July 2017.

3 James Lancaster resigned as a Non-Executive Director and member of the Nomination Committee on 3 October 2017.

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

Directors, and in particular Non-Executive Directors who are not involved in the business on a day-to-day basis, must receive high quality, relevant information in a timely manner if they are to be able to make appropriate decisions for the business. Meeting agendas need to prioritise salient matters and ensure that the Board is considering the right issues at appropriate times. Reports must be thorough so that Directors arrive at meetings well briefed and ready to dedicate the valuable time we 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 2017, 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 her counsel.

An externally facilitated Board evaluation has been conducted

There are many aspects that can influence a Board's effectiveness and, using the services of Deloitte, a full Board evaluation process was conducted. The externally-facilitated process illustrated below was completed during 2017.

Whilst the evaluation concluded that the Board was effective, a number of actions were identified from that work which we believe will result in an even more effective Board. These include a greater focus on succession planning and talent management and the need to have an even longer term view on strategy.

The Board agreed that the next evaluation should be carried out internally on the basis of individual discussions between myself and each Director. Those discussions took place towards the end of 2017.

The feedback from those discussions was discussed by the Board during the early part of 2018 in order to assess progress since the last evaluation and to identify any further enhancements that can be made.

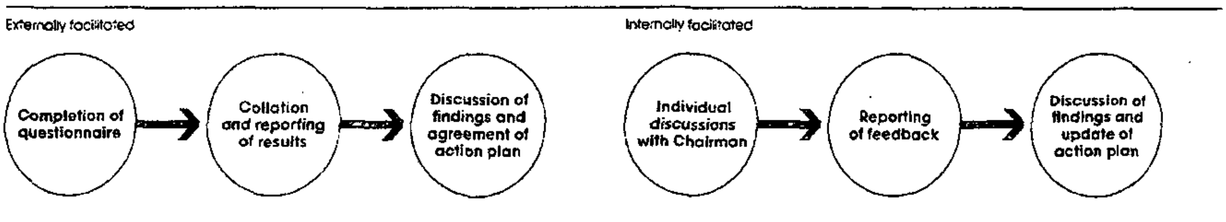
In particular the Board concluded that it wished to develop and enhance the opportunities available to Non-Executive Directors to engage with colleagues. We will be looking for a range of ways in which we can listen to and learn from the people who make McColl's a success.

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 12 April 2018, following an assessment of individual performance, all Directors are unanimously recommended by the Board for re-appointment. Biographical details for the Directors are provided on pages 50 and 51 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



Accountability

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

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

- a system of financial and other internal controls,
- the involvement of qualified, professional employees with an appropriate level of experience (both in our finance team and throughout the business),
- a transparent process to ensure full disclosure of information to the external Auditor,
- access to external help and advice on highly technical subjects,
- comprehensive review and, where appropriate, challenge from appropriate senior managers and Executive Directors,
- oversight by the Audit & Risk Committee as described in more detail on pages 63 to 67.

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 44 to 47 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 63 to 67.

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

Remuneration

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

The Directors' Remuneration Report on pages 68 to 85 *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.

Non-Executive Directors are paid a fee that reflects the time commitment required of them and their responsibilities. The Nomination Committee has recommended an increase in the time commitment expected of the Chairmen of the Audit & Risk and Remuneration Committees and, in recognition of that, the annual fee for chairing those committees has been increased from £5,000 to £8,000. Non-Executive Directors do not receive any performance-related benefits and no increase to other elements of the Non-Executive fee arrangements have been made.

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 has done so recently in respect of the remuneration policy that is submitted for shareholder approval at the Annual General Meeting to be held on 12 April 2018.

The Remuneration Report on pages 68 to 85 describes in more detail how the Remuneration Committee discharges these duties.

Engaging with Stakeholders

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

This year McColl's has considerably enhanced its investor relations activities. The programme has included individual meetings with investors, investor presentations, store visits and a capital markets day. 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. The most recent of these was undertaken in relation to proposed changes to our remuneration policy.

The Board is also conscious that the views and interests of other stakeholders in the business are important. Engaging with those other stakeholders is an aspect which the Board recognises could be improved. In particular we are looking at how we can enhance the Board's engagement with colleagues across the business

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

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

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

Approved by the Board and signed on its behalf:

Angus Porter
Non-Executive Chairman

Image removed

Investor Day
In 2017 we commissioned IGD (Institute of Grocery Distribution) to conduct some research on how convenience shoppers value time, and in May we hosted an event for investors and city analysts where we presented the results. We also provided an update on our strategic plans.

Nomination Committee report

Image removed

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

Angus Porter
Nomination Committee Chairman

Dear Shareholder
On behalf of the Nomination Committee, I am pleased to present our report for 2017.

During the year, a key focus was the recruitment of an additional Independent Non-Executive Director. Our search prioritised the skills and attributes identified as likely to enhance the Board's ability to shape and deliver the Group's strategy for growth, as well as to improve the independent nature of the Board and its Committees. As reported below, after conducting an external search, we were delighted to recommend the appointment of Jens Hofma.

Committee composition and effectiveness
Following James Lancaster's resignation from the Board, the Nomination Committee now comprises myself as Chairman, together with three Independent Non-Executive Directors and the Chief Executive. The Committee is actively supported by the Company Secretary.

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

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

	Meeting attendance
Angus Porter *Nomination Committee Chairman since 27 April 2017* *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 since 1 July 2017* *Independent Non-Executive Director*	✓
James Lancaster *Nomination Committee Chairman until 27 April 2017 and Committee member until 3 October 2017*	✓✓
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 well as reviewing its terms of reference during the year, the Committee also considered its performance and reviewed the outcomes of the Board evaluation process as a whole. The performance evaluation was conducted by Deloitte and its findings informed a number of aspects of the Committee's work during the year. A further Internal Board evaluation has been carried out, which is described on page 57.

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

Composition of the Board and its Committees

This year has been another year of change for the Board. The composition of our Board is now fully compliant with the Code's higher standard of independence requirements that apply to FTSE 350 companies.

Our previous Chairman, James Lancaster, stepped aside from that role at our Annual General Meeting in April 2017 although he remained a Non-Executive Director until his resignation on 3 October 2017. Following discussions and consideration by the Nomination Committee conducted in my absence, and based upon a written role description, I was appointed James' successor as Chairman of the Board.

The Committee also led the search and selection of an additional Independent Non-Executive Director, Jens Hofma, and was assisted in this recruitment by external consultancy, Inzito Partnership. Inzito Partnership has no other connection with the business and is accredited under the Women on Boards' Enhanced Code of Conduct for Executive Search Firms.

Finally, the Nomination Committee also reviewed the composition of the Board following James Lancaster's resignation from the Board in October and concluded that, at this time, no recommendation would be made to the Board for recruitment of an additional Non-Executive Director to replace him.

As part of these activities, which might be described as the central functions of the Nomination Committee, the Committee reviewed 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. In particular, in making the recommendation to appoint Jens Hofma, the Committee took account of his expertise in consumer goods and the food service industry as well as his in-depth experience of growing multi-site businesses.

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 • search and selection of new Non-Executive Director • recommendation on appointment of Chairman of the Board • performance evaluation
Apr	• recommendation on appointment of Non-Executive Director • review of Board Committee composition
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

Our Non-Executive Directors' key skills

Graph removed

Independence, interests and commitment

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

Nomination Committee report continued

The time commitments required of Non-Executive Directors are set out in their letters of engagement and are 25-30 days per year for the Chairman and 15-20 days per year for other Non-Executive Directors. Following review by the Nomination Committee, it has been recognised that these time commitments are not sufficient to enable the Chairmen of the Audit & Risk and Remuneration Committees to fully perform those roles in addition to their other duties. Accordingly, it has been decided to increase the required time commitment for those individuals by an extra five days per annum. Reflecting this change, the annual fees that are paid for chairing the Audit & Risk or Remuneration Committee have been increased from £5,000 to £8,000.

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 12 April 2018.

Induction and Board development

As part of the Board and Committee externally-facilitated evaluation exercise concluded during the year, the effectiveness of existing induction and development activities was assessed and found to be adequate.

Board Diversity

Graph removed

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* The Chairman was deemed independent on appointment

Upon recruitment, Jens Hofma commenced a formal induction process that has involved providing him with background information about the business and its regulatory environment through, for example, the sharing of reports and governance documents. Face-to-face meetings were arranged with other Directors, key personnel within the business and its advisers and site visits were undertaken.

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

Succession planning, talent management and diversity

Feedback from the last Board and Committee evaluation indicated that the Board and Nomination Committee's visibility of, and input to, succession planning and talent management processes could be improved. The Board received a presentation on the Group's colleague plan during the year which addressed a number of relevant issues including succession within the business, the identification and nurturing of talent, and the diversity and inclusion agenda. The Committee has determined that these are areas on which there should be some additional focus during 2018.

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

A number of wider initiatives have been established within the business during the year to ensure that we support our colleagues to achieve their aspirations and potential. Some of these are aimed at ensuring that we provide good support to women, whatever stage they are at in their life and career, to succeed in the workplace. More detail about our colleague engagement and initiatives and plans to support and develop colleagues can be found on pages 39 to 41.

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

Details of our gender pay gap are provided on page 41.

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

Angus Porter
Nomination Committee Chairman

Image removed

"We recognise that a culture that encourages high standards of conduct will reduce the risk of wrong-doing within the business."

Sharon Brown
Audit & Risk Committee Chairman

Dear Shareholder
I am pleased to present the Audit & Risk Committee's formal report.

Developments in the business this year have continued apace and our strategy for the future remains ambitious (see page 20 in the Strategic Report). Whilst our plans for the business are exciting, we must remain particularly mindful of the risks and pitfalls that a fast-developing business can face and ensure that controls are sufficiently robust and that behaviours are appropriate. During the year, the Committee's remit for risk oversight was extended following a review of its terms of reference. To reflect this the Committee was renamed the 'Audit & Risk Committee'.

The Audit & Risk Committee leads the Board's focus on matters of risk, as well as on integrity of the Group's financial reporting, and has been busy during the year in ensuring that we discharge our responsibilities carefully. The Committee's report which follows provides information on how we have done so.

McColl's is a business which has long prided itself on the valuable role it plays within the neighbourhoods we serve. Our colleagues, whether in store or behind the scenes, care about the business, our customers and the community. During the year, four new corporate values (see page 14) which capture these great qualities were endorsed by the Board.

We recognise that a culture that encourages high standards of conduct will reduce the risk of wrong-doing within the business. The Audit & Risk Committee has therefore been pleased to help the active implementation of these new corporate values by supporting their inclusion in some key policies which govern the way in which McColl's does business.

The make up 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
Audit & Risk Committee Chairman

Committee composition and effectiveness
The balance of skills, knowledge and experience of Committee members is a key factor in the Committee's effectiveness. As part of the Board's externally-facilitated performance evaluation which concluded during the year, the Audit & Risk Committee also reviewed its own performance. The Audit & Risk Committee has confirmed that the collective financial and sector experience of its members is considered to be appropriate, relevant and sufficiently recent to enable the Committee to discharge its responsibilities in full.

	Meeting attendance
Sharon Brown *Audit & Risk Committee Chairman* *Independent Non-Executive Director* *Member of the Chartered Institute of Management Accountants* *Previous experience as a Finance Director* *Chairs the Audit Committees of a number of other companies*	✓✓✓✓
Georgina Harvey *Audit & Risk Committee Member* *Senior Independent Director*	✓✓✓✓
Jens Hofma *Audit & Risk Committee Member since 1 July 2017* *Independent Non-Executive Director*	✓✓✓
Angus Porter *Audit & Risk Committee member until 1 July 2017* *Chairman of the Board (considered independent on appointment)*	✓

The biography of each member of the Audit & Risk Committee can be found on page 51.

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

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

The Committee undertook a thorough review of its terms of reference during the year and adopted several changes to ensure continued compliance with best practice. A copy of the Committee's terms of reference are 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. For example, the Audit & Risk Committee conducted a full review of the risk register and risk management framework in advance of the Board's strategy meeting in order to inform the Board's consideration of strategic plans.

Planning the year ahead also helps ensure that less time-critical matters can be spread evenly across meetings so that adequate time can be provided at meetings for full discussion. The way in which the Audit & Risk Committee divided its time during 2017 is summarised in the table of key agenda items on page 65.

Meeting date	Key agenda items
Feb	• year-end external audit outcomes • draft Annual Report and Accounts 2016 and related matters • external Auditor independence, objectivity and reappointment • principal risk disclosures • Committee performance evaluation
Jul	• half year external review outcomes • half year 2017 announcement and related matters • risk register • Committee terms of reference • policy on related party transactions
Oct	• year-end external audit scoping • risk register as background to the Board's strategy review • policy on provision of non-audit services by the Auditor
Nov	• year-end external audit plan • key accounting policies • financial and internal controls • risk management systems • consideration of the requirement for an internal audit function • compliance, fraud, whistleblowing, bribery incidents review • policies on speaking up in confidence, anti-bribery and employment of former employees of the external Auditor

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

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

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

Another source of assurance to the Audit & Risk Committee could come from an internal audit function which the business does not currently have. The Audit & Risk Committee reviews annually whether it would be appropriate for an internal audit function to be established. During the year the Audit & Risk Committee received a report on the existing controls within the business and, after discussion, concluded that it was not necessary to establish an internal audit function at this stage. This decision will be reviewed again in 2018.

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

Audit & Risk Committee report continued

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. During the year, the Audit & Risk Committee undertook a careful review of the Group's policy on the provision of non-audit services by the external Auditor and made adjustments in a number of areas to ensure the policy was clear and robust. In particular, 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). The limit may only be exceeded if the Audit & Risk Committee is satisfied the external Auditor's independence will not be compromised as a result and believes that the Auditor is best placed to undertake a particular piece of non-audit work.

Graph removed

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 pensions advice. Independence was safeguarded by ensuring that the Deloitte team that provided the pensions advice did not perform any pension calculations or make any management decisions. Their work consisted of corporate advice and was not relied upon in the preparation of the financial statements.

Auditor re-appointment
The decision whether to recommend re-appointment of the external Auditor is reviewed annually. The Audit & Risk Committee has recommended that, for 2018, the incumbent external Auditor, Deloitte LLP, be re-appointed. This decision was made after considering, amongst other things, the effectiveness of the audit team and its key members including the Audit Partner, the independence of the firm and the audit fees charged.

The current Audit Partner, Sukie Kooner, was appointed in 2014. Deloitte was first appointed as the Group's auditor in 2006. At that point the Group was a private business but, following the Group's listing in 2014, the Group is now also subject to regulatory requirements on audit re-tender. Accordingly the Group's external audit arrangements need to be re-tendered no later than 2024. However it is currently planned that the re-tender will be carried out in time for the audit of the 2019 Annual Report and Accounts. The Audit & Risk Committee will provide updates on these timings in due course ensuring that the process allows sufficient time for a well-ordered tender.

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.

Major store acquisition programme
During 2017, the Group completed its acquisition of 298 stores as agreed in 2016. Each individual store was assessed as a going concern and acquisition accounting was applied. The acquisition accounting for the transaction was considered during the year-end audit and the Committee was satisfied that the acquisition met the definition of a business combination to which acquisition accounting should be applied. The Committee reviewed the actions taken to verify the fair value assessment of assets including intangible assets and goodwill and were satisfied with the key controls that were used to ensure that reasonable judgements were applied.

Treatment of supplier income
The business has arrangements with a number of different suppliers which adds to the inherent complexity. Judgements are in particular required where payment periods are not concurrent with the financial year and accruals become necessary. The design and implementation of relevant controls were assessed in order to provide

Outline timetable for audit tender

Autumn 2018	Winter 2018/2019	Spring 2019	Summer 2019	Autumn 2019	Winter 2019/2020
Audit tender planning	2018 audit carried out by incumbent Auditor, Deloitte LLP	Publication of 2018 Annual Report and Accounts and commencement of audit tender process	Selection of Auditor confirmed and transition commenced if new firm appointed	2019 audit planned and preparatory work carried out	2019 audit carried out by new Auditor

assurance that the accruals made are appropriate, and consistent with the terms of relevant supplier contracts. The extent and nature of the audit procedures and testing were also reviewed.

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 Group's accounting policies. The most significant items of adjustment are identified in the Financial Review on page 34 and in the Auditor's Report on page 95. 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 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.

Management override of controls
Management override is a presumed risk for any business. The external Auditor tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements and reviewed accounting estimates for evidence of bias. During the year, the Committee had also received a detailed report on the financial controls within the business.

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.

During 2017, the Audit & Risk Committee reviewed the Group's policy for speaking up in confidence and made changes to emphasise the Board's commitment to dealing with such incidents properly, to reassure colleagues who may consider reporting a concern that they can do so without fear of detriment, and to make the policy more readily understandable and easy to use. The revised policy has been incorporated into the Group's colleague handbook.

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.

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

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

Sharon Brown
Audit & Risk Committee Chairman

Image removed

“Incentivising responsible delivery of an ambitious strategy.”

Georgina Harvey
Remuneration Committee Chairman

Dear shareholder
I am pleased to present the Directors' Remuneration Report for the financial period ended 26 November 2017. This report has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2013, as amended, and the principles of the UK Corporate Governance Code.

In its discussions, the Remuneration Committee has been mindful of the pay and conditions of colleagues across the wider Group. The announcement of new rates of National Minimum Wage and National Living Wage from April 2018 have been reflected in uplifts for our colleagues in store of, on average, 2.9%. For our head office and field staff colleagues, average increases in salary of 2% have been implemented from January 2018.

Our work has also been informed by the gender pay gap analysis and data presented to the Committee during the year. The data and an accompanying narrative will be separately published as required by the regulations but the Committee was relatively pleased to note that the mean pay gap across the business was small at 3% (see page 41). As a business we are a significant employer of women, with over half our stores managed by females. There is always more to do however, and our colleague plan (see page 39-40) is designed to drive further improvements into our colleague experience.

Strategic background
During the year we have benefited from a period of stability within the Executive team which has enabled encouraging progress to be made in delivering our strategy for growth. Supported by our excellent colleagues, during the year the Executive Directors achieved the smooth transition of the 298 stores we acquired to the McColl's brand and negotiated a groundbreaking wholesale arrangement which will see the much-loved Safeway brand relaunched exclusively in McColl's stores. They also trialled and commenced on ambitious programme of store refurbishments.

Delivery of these exciting strategic projects will continue during 2018. The ultimate aim of these initiatives is to improve our offering and customer experience, that will in turn drive better financial performance.

Alignment of our Executive Directors' interests with those of shareholders is at the heart of our approach to remuneration. As well as appropriate performance-related rewards, in our new policy we propose to strengthen our shareholding guidelines to 200% of salary, supported by a new part bonus deferral requirement.

Annual Bonus Plan

We are always mindful of the positive role that the right remuneration and reward structures can play in incentivising responsible delivery of an ambitious strategy. The annual bonus for 2017 was linked to both stretching operating profit targets and the strategic priorities of the business, including the achievements described above. Based on performance during 2017 (see page 81), the Executive Directors will receive an annual bonus for the year of 15% of basic salary relating to achievement of the strategic objectives for the year. The Executive Directors proposed that the Remuneration Committee make no payment in respect of achievement of the financial target for the year and the Remuneration Committee approved their proposal.

For 2018, the performance conditions set for the annual bonus are again based on achievement of operating profit targets and strategic objectives. Well defined qualitative and quantitative measures will enable an objective view to be reached on the degree to which the latter are achieved.

The strategic objectives and the underlying measures which will inform our judgement on the extent to which they have been achieved are described further on page 81. In summary they are rollout of the new supply arrangements and Safeway brand, delivery of our 100 store refurbishment project and implementation of a new customer plan.

Together, these three priorities will provide the vital building blocks for delivering the Board's long-term strategic vision of making McColl's your neighbourhood's favourite shop. Their inclusion as performance measures in the annual bonus plan provides assurance that the Executive team will be focused not only on delivering the current year's financial targets but also on establishing the foundations needed for sustainable future growth.

The importance of ensuring the Executive team's efforts are balanced in this way has been reflected in an adjustment of the proportion of bonus that is dependent on the strategic objectives. For 2018, 30% of the bonus will be based on achievement of the strategic measures with the remaining 70% dependent on operating profit. Previously, 80% of the bonus was payable if the stretch target for operating profit was achieved. However, as in previous years, no element of the bonus will be awarded unless at least threshold operating profit is achieved. 100% of basic salary is the maximum payable under the plan.

Long Term Incentive Plan

In 2018, awards made in 2015 under the McColl's Long Term Incentive Plan (LTIP) will vest subject to achievement of performance conditions based 70% on EPS and 30% on TSR. The EPS target for the three financial years ended November 2017 was not achieved and, accordingly, 70% of the LTIP awards are not expected to vest. The remaining 30% of the 2015 awards were dependent on TSR performance. As can be seen from the graph on page 84, total shareholder return has outperformed against the relevant groups and accordingly, subject to Remuneration Committee approval, 30% of the 2015 LTIP awards is expected to vest. Executive Directors will be required to hold the shares acquired from these awards for a minimum of two years or longer if needed to achieve the Company's shareholding guideline.

During 2017 we made a grant under the LTIP subject, as in previous years, to performance conditions whereby vesting will be subject to achievement of EPS (70%) and TSR (30%) targets. The TSR measure is calculated relative to the combined constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drug Retailers Index.

The Remuneration Committee continues to believe that this combination of measures helps to reinforce delivery of the Company's growth plans. For the EPS element of the 2017 LTIP awards, 25% will vest for three-year cumulative EPS of 60.4p and will vest in full at 68.6p. The Remuneration Committee considers that these targets will provide Executive Directors with an appropriately challenging and meaningful incentive to deliver performance aligned with shareholder expectations. Beyond the three-year performance period, an additional two-year holding period applies to any shares that vest for Executive Directors.

During the year, James Lancaster, who had previously received an LTIP award whilst Chief Executive, stepped down from the Non-Executive Directorship that he had assumed on retirement from his Executive role. James' LTIP options lapsed without vesting as a result of his resignation from the Board.

Remuneration policy

This year we are required to present a refreshed remuneration policy for approval by shareholders at the Company's Annual General Meeting. Therefore, as well as its regular work, the Remuneration Committee has undertaken a review and benchmarking exercise of Executive remuneration arrangements with the assistance and guidance of our advisers, Kepler. A small number of adjustments to the existing policy are proposed, as described in the Directors' remuneration policy report on pages 71 to 77. We are grateful to the shareholders who actively participated in our consultation exercise on these proposals and whose feedback added additional focus to our determination to ensure performance targets remain appropriately stretching.

Pending approval of the new remuneration policy, no change in Executive Directors' remuneration has been made save for an annual increase in basic salary that was implemented with effect from January 2018 in line with other head office colleagues.

Annual General Meeting

The Remuneration Committee presents its remuneration report on pages 68 to 85. At our Annual General Meeting, which will be held on 12 April 2018, the first section, which sets out our proposed changes to the remuneration policy, will be submitted for approval by shareholders. At the same meeting, the second section of this report, the annual report on remuneration, which details the implementation of our policy, will be subject to an advisory shareholder vote.

Yours sincerely

Georgina Harvey
Remuneration Committee Chairman

Remuneration at a glance

The following is a summary of the key components of Executive Directors' remuneration and their single figure total remuneration for financial year ended 26 November 2017.

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 for total remuneration of Executive Directors (£'000)

Graph removed

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

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

These figures are described in more detail on page 80.

Directors' remuneration policy

This report sets out the Remuneration Committee's proposed policy on remuneration for Executive and Non-Executive Directors which is to be submitted for approval by shareholders at the Annual General Meeting on 12 April 2018. If approved, the policy described below will apply from that date for a period of three years.

The proposed policy has been devised taking account of existing arrangements, the results of a benchmarking exercise undertaken by the Company's remuneration advisers and their guidance on current best practice and the views of shareholders. The Remuneration Committee key objective has been to ensure that our proposed policy will serve the business and its shareholders well and that this can best be done by incentivising appropriate behaviours and management focus on strategic and financial objectives and by remaining attractive as an employer to our successful team and, when necessary, their successors.

The proposed policy retains the key fixed and variable pay elements that comprise existing arrangements but, amongst other things, proposes an uplift from 40% to 50% in the amount of on-target bonus pay out, together with the introduction of mandatory deferral of the bonus in part into McColl's shares that must then be held for three years. This will help Executive Directors achieve the higher shareholding guideline, which we are proposing is increased to 200% of salary in line with best practice.

The full proposals, which are outlined below, are intended to strike a better balance than the current arrangements between the need to have sufficiently competitive remuneration arrangements to enable retention and motivation of executives with the right skills and experience, but also ensuring that Executive pay is strongly aligned with shareholder interests and incentivises delivery of long term success in the business.

Policy table

The key components of the proposed remuneration policy including differences from the existing arrangements are described below.

	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. An additional pay increase of approximately 6% is proposed to be made during 2018 for Simon Fuller to align the Chief Financial Officer's basic salary with that of the Chief Operating Officer.	Pension contributions vary based on individual circumstances. Pension benefits will be capped at 20% of salary, excluding legacy arrangements for the current Chief Executive. Further details are set out on page 84.	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.
Changes to existing policy	No change.	No change	No change.

Directors' remuneration policy continued

	Variable pay	
	Annual bonus	**Long Term Incentive Plan (LTIP)**
Purpose and link to strategy	To focus Executive Directors on achieving stretching profit targets as well as delivering the strategic business priorities for the financial period. The partial deferral of bonus into shares is intended to further align Directors' interests with those of shareholders.	To align the interests of Executive Directors with those of shareholders in sustainably growing the value of the business over the long term.
Operation	Performance measures and targets are set prior to or shortly after the start of the financial period. At the end of the financial period, the Remuneration Committee will determine the extent to which the targets have been achieved. Under the proposed new policy, one-third of the award after tax 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 vest for threshold and on target performance respectively. Stretch targets apply to the full award. 70% of the award for 2018 will be based on achievement of Group operating profit targets. The remaining 30% of the award for 2018 will be based on achievement of strategic performance measures. Neither element will pay out if the threshold operating profit is not achieved.	Awards may be made up to a maximum of 150% of salary in normal circumstances and up to 250% in exceptional circumstances. For the 2018 financial period Executive Directors' awards will be 150% of salary.
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. Details of the measures used during the period under review are set out on page 81. 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%. For the 2018 financial period the weightings on EPS and TSR will be 70% and 30% respectively. TSR will be measured on a relative basis against a relevant peer group. Other measures may be considered in future years to help capture the strategic goals of the business and may be used in conjunction with these metrics. Nothing will vest below threshold. 25% of each element will vest for achievement of threshold performance, then increase on a straight-line basis to full vesting for achieving stretch performance. The Committee has discretion to adjust the formulaic LTIP award downwards (or upwards with shareholder consultation), within the limits of the plan, to ensure alignment of pay with the underlying performance of the business. Further details of awards to be made during the upcoming financial period are set out on page 82.
Changes to existing policy	Under the proposed policy, the on-target bonus pay out will be increased from 40% to 50% of salary in line with common market practice. The new policy will also introduce mandatory deferral of one-third of any bonus pay out into shares that must be held for three years.	No change.

	Shareholding guidelines	Other arrangements 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 of 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.	No increases are currently planned for the Non-Executive Director fees although, following a review by the Nomination Committee of the time commitment expected of Non-Executive Directors, the additional fees payable for chairmanship of the Audit & Risk and Remuneration Committee have been increased from £5,000 to £8,000 per annum. Future increases may be considered as a result of the outcome of a review process and taking into account wider market factors including time commitment and inflation. There is no prescribed individual maximum fee but there is an aggregate limit of £500,000. Further details are set out on pages 80 and 84.
Performance metrics	None.	None.
Changes to existing policy	*The previous level of the shareholding requirement will be increased from 100% of salary to 200% of basic salary.* The graph on page 77 illustrates how an Executive Director with no shares might meet the new requirement over time.	*No change.*

Directors' remuneration policy continued

Performance measure selection and approach to target setting
Annual bonus targets are selected prior to or shortly after the start of the financial period. Operating profit is considered to be the best measure of the Group's annual financial performance and will continue to determine the majority (70% for 2018) 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 (30% for 2018) based on strategic performance measures which are selected annually to reflect the Group's key strategic priorities for the financial period ahead. For 2018 the strategic measures are transition to the new wholesale supply arrangements and introduction of the Safeway range across the majority of the estate (excluding the 298 stores acquired in 2017), delivery of a significant programme of 100 store refurbishments and implementation of a new customer plan. Clear and specific measures underpin each of these three strategic priorities to enable the degree of successful delivery to be assessed against both qualitative and financial criteria. These include specific impacts on like for like sales for the stores that are transitioned to the new supply arrangements and/or have been refurbished. 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. For 2018, 70% of the LTIP award will be based on delivery of EPS targets. TSR will also be captured to further align the interests of LTIP participants with those of shareholders. For awards granted in 2018, TSR performance, measured relative to an appropriate peer group, will determine 30% of vesting after three years.

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. Performance targets for 2017 awards are detailed on page 82. The element linked to TSR vests based on three-year TSR compared to a peer group comprising the constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drug Retailers Index. Threshold vesting for the TSR element 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.

The Committee intends to apply these principles in respect of outstanding LTIP awards to reflect the 2017 acquisition of the 298 stores and will disclose details of any such adjustments after the end of the relevant performance period.

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. Subject to approval of the new remuneration policy, consideration will be given to how an element of mandatory share deferral can be introduced into the annual bonus plan for Senior Managers below Board level. Shareholding guidelines already apply to our Retail Board members.

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

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

Performance scenarios

The graph below provides estimates of the potential future reward opportunities for Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'Target' and 'Maximum'.

Executive Director remuneration scenarios for 2018 (£'000)

Graph removed

The potential reward opportunities illustrated are based on the policy submitted for approval at the Annual General Meeting on 12 April 2018, applied to the basic salaries in force at 1 January 2018. The projected value of LTIP amounts excludes the impact of share price movement or dividend accrual. The assumptions made in illustrating potential reward opportunities are shown in the table below:

Performance scenario	Fixed pay	Annual bonus	LTIP
Minimum	Salary as at most recent review date (1 January 2018). Salary supplements in lieu of pension contributions of 22.8% and 15% of salary are paid to the Chief Executive and Chief Operating Officer respectively. A combination of salary supplement in lieu of pension contribution and a pension contribution, together totalling 15% of salary, is paid for the Chief Financial Officer. Other benefits as for the most recent financial period.	No annual bonus payable.	Threshold not achieved (0%)
Target		On target annual bonus payable (50% of maximum).	Performance warrants threshold vesting for 2018 (25% of maximum)
Maximum		Maximum annual bonus payable (100% of salary).	Performance warrants full vesting for 2018 (150% of salary)

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, subject to approval of the new remuneration policy proposed at the Annual General Meeting on 12 April 2018, use the policy as set out in the table on page 73.

Directors' remuneration policy continued

Service contracts and exit payment policy

Non-Executive Directors

The Chairman, Angus Porter, was appointed as a Non-Executive Director on 1 April 2016. Georgina Harvey and Sharon Brown were both appointed as Non-Executive Directors on 7 February 2014 and Jens Holma 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 the fees disclosed on page 80. Non-Executive Directors have a notice period of one month and receive no compensation on termination.

Executive Directors

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

The Committee acknowledges that Executive Directors may be invited to become independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company. Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

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

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

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

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

Reason for leaving	Timing of vesting	Calculation of vesting/payment
Bonus		
Summary dismissal, resignation[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]	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).

Shareholding guidelines
The graph below illustrates how an Executive Director who holds no shares in the Company might meet the proposed 200% shareholding guideline over a period of years. Performance is assumed to consistently result in 50% vesting for the purposes of both the annual bonus and LTIP.

Value of shareholding as a percentage of basic salary
%

Graph removed

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 2017, 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.

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

Feedback from the consultation indicated broad support for the proposals. Some respondents sought additional assurance that performance targets would be sufficiently stretching considering the proposed increase in potential. In its responses to these points, the Committee was able to make reference to the historically low annual bonus payouts (approximately 13% on average over the previous three years) as evidence of the Committee's commitment to setting challenging targets. Similarly, whilst the first LTIP award made in 2015 has not yet vested, it is not expected to vest in respect of the EPS element (70% of the total) despite the excellent progress made within the business. The Committee also explained that increasing the proportion of the annual bonus that would be conditional upon strategic objectives was intended to ensure that management maintained appropriate focus on these important initiatives as well as on delivery of current year financial targets.

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

Annual report on remuneration

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, Kepler (a brand of Mercer), attend committee meetings by invitation.

The Remuneration Committee and the Board carried out an externally-facilitated performance evaluation which concluded during the year. Following this, an additional Non-Executive Director, Jens Hofma, was appointed to bring additional independence to the Board and its Committees.

	Meeting attendance
Georgina Harvey *Remuneration Committee Chairman* *Senior Independent Director*	✓✓✓
Sharon Brown *Remuneration Committee member* *Independent Non-Executive Director*	✓✓✓
Jens Hofma *Remuneration Committee Member since 1 July 2017* *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 recommending and monitoring the level and structure of remuneration for Senior Managers and the implementation of share option or other performance-related schemes. In discharging its responsibilities, the Committee must review and have regard to the pay and employment conditions across the business. It must also have regard to the views of shareholders, the risk appetite of the Group and McColl's strategic objectives.

To assist them in their work, the Committee has appointed Kepler as its principal external adviser. Kepler were appointed independent advisers to the Remuneration Committee through a competitive tender process in 2014 and fees for advice provided to the Remuneration Committee were £68k for the 2017 financial year. These fees were primarily incurred for the advice and support Kepler provided in reviewing the Group's remuneration policy, including the preparatory benchmarking of Executive Directors' remuneration which provided context for the Remuneration Committee's thinking on the changes that are now proposed for shareholder approval. In addition, Kepler provided advice on a proposed adjustment of the performance targets for the annual bonus, LTIP and Company Share Option Plan (CSOP) for 2016 in the light of the class 1 transaction to acquire 298 stores, implementation of the CSOP 'good leaver' provisions and valuation of the Group's share based remuneration.

Kepler do not provide any other services to the Group and the Committee is satisfied that they provide independent and objective remuneration advice. Mercer, of which Kepler is a part, 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 2017 financial year, the committee met three times to consider the following remuneration matters:

Meeting date	Key agenda items
Feb	• confirmed Executive Directors' and Senior Managers' salary increases • considered views expressed in a shareholder consultation on adjustment of performance targets following the 2016 class 1 transaction • approved an adjustment in the 2016 EPS performance target for LTIP and CSOP subject to future shareholder consultation • approved 2016 annual bonus outturn • approved, in principle, the 2017 LTIP and CSOP performance conditions • evaluated the Committee's performance as part of Board evaluation • agreed, after benchmarking, not to recommend an increase in the Chairman's fee
Jul	• considered the approach to be taken in preparing for the remuneration policy review and agreed to instruct Kepler to undertake a benchmarking exercise in relation to key elements of fixed and variable pay
Nov	• agreed pay and other benefits for a newly-recruited Senior Manager • considered gender pay gap and pay ratio information • reviewed proposed pay increases for colleagues across the Group • agreed a further review of the Committee's terms of reference should be undertaken once best practice recommendations on oversight of pay and conditions across the Group are published • reviewed proposed salary increases for Senior Managers • reviewed potential 2017 bonus outturn • reviewed progress against targets on existing LTIP and CSOP awards • approved minor changes to the Directors' expenses policy • agreed initial remuneration policy proposals on which to consult shareholders

Making sure the Remuneration Committee is well informed

In considering remuneration arrangements, Remuneration Committee members need sufficient information to enable them to take account of factors including the Group's strategy and attitude to risk, its financial position and prospects, competitive markets including peer group practice, and pay and conditions in place for the wider work force. Some 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 view	• 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	• 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	
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	
7. Determining Executive Directors' or Senior Managers' benefits on recruitment	• benchmarking or market data • evidence of existing pay and rewards package	• 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	• 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. Consultations were conducted in relation to a proposed adjustment to the 2016 bonus outturn in the light of the 298 store acquisition transaction and on the current remuneration policy proposals. A summary of the feedback provided on the latter is provided on page 77.

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 26 November 2017 and the prior period:

	Salary		Pension Benefit[3]		Taxable Benefit[4]		Annual Bonus[5]		Multiple-year Variable[6]		Total	
£'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Jonathan Miller[1]	441	397	103	102	46	53	66	146	94	-	750	698
Dave Thomas	284	276	43	41	21	24	43	100	78	-	469	441
Simon Fuller[2]	273	176	41	26	16	12	41	120	56	-	427	334

1 Jonathan Miller was promoted from Chief Financial Officer to Chief Executive on 1 April 2016.
2 Simon Fuller was appointed Chief Financial Officer on 1 April 2016.
3 Pension benefits include pension contributions and/or salary supplement payments. Pension contributions were paid during the year for Dave Thomas and Simon Fuller of £0 and £10k respectively (£14k and £7k in 2016).
4 Taxable benefits for Jonathan Miller, Dave Thomas and Simon Fuller include car or car allowance, of £35k, £12k and £15k (taken as car allowance) respectively for 2017 (£37k, £10k and £11k for 2016), fuel allowance of £8k, £1k and £0 for 2017 (£8k, £5k and £0 for 2016) and healthcare of £4k, £4k and £1k for 2017 (£4k, £9k and £1k for 2016).
5 Annual bonus paid for performance over the relevant financial period. Annual bonus payable in cash. Simon Fuller's bonus for 2016 includes £37k relating to the fair value of awards forfeited at his previous employer (paid to him in July 2016).
6 The LTIP was introduced in 2015 under which awards will begin to vest, subject to achievement of stretching performance conditions, in 2018. No long term incentives vested during 2016 or 2017 but the awards granted in 2015 were dependent on performance to 26 November 2017 and accordingly the value presented in this table represents an estimate of the value of the awards that are expected to vest in 2018.

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 26 November 2017.

	Salary		Taxable Benefit[6]		Total	
£'000	2017	2016	2017	2016	2017	2016
Sharon Brown[1]	50	72	2	2	52	74
Georgina Harvey[2]	55	53	-	-	55	53
Jens Hofma[3]	19	-	-	-	19	-
James Lancaster[4]	146	100	-	-	146	100
Angus Porter[5]	103	30	-	-	103	30

1 Sharon Brown stepped down as interim Chairman on 1 April 2016.
2 Georgina Harvey was appointed as Senior Independent Director on 24 May 2016.
3 Jens Hofma was appointed a Non-Executive Director on 1 July 2017.
4 James Lancaster, who was previously Chief Executive, was appointed Non-Executive Chairman on 1 April 2016. He stepped down from this role on 27 April 2017 but remained a Non-Executive Director until his retirement on 3 October 2017. Fees shown cover the period 1 April 2016 to 3 October 2017 (split between the relevant financial periods).
5 Angus Porter was appointed a Non-Executive Director on 1 April 2016 and became Non-Executive Chairman on 27 April 2017.
6 Taxable benefits include nominal travel expenses to and from Company meetings and tax incurred on these expenses.

The aggregate fees paid to Non-Executive Directors for the year fell within the £500k aggregate limit approved in accordance with the Company's Articles of Association at the Company's 2017 Annual General Meeting.

Basic annual salary (audited)
Basic salaries are generally reviewed annually, with reference to individual performance, experience, market competitiveness and salary increases across the Group. The latest salary increases were awarded to the Executive Directors on 1 January 2018. The salaries of Senior Executives were reviewed by the Committee after the end of the financial period and increases averaging 2.4% were awarded effective 1 January 2018. This compares with the average pay increase awarded across the wider workforce of 2.9%.

Executive Director	28 November 2016	1 December 2016	26 November 2017[1]	% change during financial year
Jonathan Miller	£430,000	£442,000	£442,000	2.8%
Dave Thomas	£276,000	£285,000	£285,000	3.3%
Simon Fuller	£265,000	£274,000	£274,000	3.4%

1 Basic salaries for Jonathan Miller, Dave Thomas and Simon Fuller were increased with effect from 1 January 2018 to £460,840, £293,550 and £282,220 respectively. A further 4% pay increase will be awarded to Simon Fuller during the year.

Annual bonus (audited)
The Group operates an annual performance related bonus scheme for a number of Senior Managers including Executive Directors. For the 2017 financial period, annual bonuses for the Executive Directors were based on 80% of operating profit and 20% on key strategic performance measures covering successful on-boarding of the acquired 298 Co-op stores so as to deliver the benefits envisaged in the original business plan, conducting a wholesale retender for implementation during 2018 and delivering other elements of the strategic plan for the year covering a number of business enhancements.

For the operating profit element of the 2017 annual bonus, the performance condition was set such that no vesting would occur below threshold, being 95% of target. At threshold and target, 10% and 40% of the profit element of the bonus would be awarded respectively. Maximum vesting of the profit element would be awarded for achievement of the stretch condition of 110% of on-target operating profit. Payments in between these points of measurement increase on a straight-line basis. Achievement of threshold operating profit is required before any of the strategic performance element of the bonus can vest.

The maximum total bonus potential for 2017 was 100% of salary for Executive Directors. The targets, and achievement against them, were as follows:

Measure	Weighting	Threshold	Target	Stretch	Achievement	Vesting (% of maximum)
Operating profit before bonus, profit on asset disposals and exceptional items	80%	£28.2m	£29.6m	£32.4m	£28.4m	0.0%
Successful on-boarding of the acquired 298 Co-op stores					achieved	
Conducting a wholesale retender	20%				achieved	15.0%
Delivering other elements of the strategic plan for the year					partially achieved	
Total						15.0%

The Executive Directors proposed that no bonus payment be made for 2017 on the operating profit target despite the threshold profit for payment of such a bonus having been achieved. Having noted that it had discretion to deviate from a purely formulaic approach to determining bonus payouts where appropriate, the Committee accepted this proposal. Accordingly a bonus payment for 2017 was only considered for the strategic targets

The newly acquired 298 stores were successfully transitioned on time and within budget and accordingly the Remuneration Committee consider this objective to have been fully achieved. Likewise, the objective to conduct a wholesale tender that could be implemented during 2018 was fully delivered. The wholesale tender exercise delivered its objective of moving to a single supply partner that provides the business with access to high quality products at a lower cost. In addition, the tender exercise has resulted in the additional benefit of access to a high quality own brand in the guise of Safeway, which the business will have on an exclusive supply basis for 12 months. The third objective comprised delivery of a suite of strategic initiatives. Good progress had been made towards achievement of a number of these, for example our brand strategy, external communications, colleague plan and store trials. However, for other initiatives, including our digital strategy, customer engagement and implementation of the next stage of our pricing framework, progress was more limited. The objective as a whole was therefore only achieved in part. Accordingly, having taken account of the full achievement of two out of three of the strategic targets and the partial achievement of the third, the Remuneration Committee determined that a bonus at 15% of salary (out of the maximum 20%) should be paid.

The 2018 annual bonus will be based on a similar structure to the above save for the following differences:

- the bonus payout will be based 70% on achievement of operating profit and 30% on strategic performance measures (previously 80% and 20% respectively),
- subject to approval of the new remuneration policy, on-target achievement of the operating profit performance measure will result in 50% payout of the bonus compared with 40% in prior years, and
- subject to approval of the new remuneration policy, one-third of any bonus payout to Executive Directors will be deferred into shares that must be held for three years

The strategic objectives for the 2018 bonus plan are the successful transition of all stores to the new wholesale supply arrangements (except the 298 Co-op stores acquired in 2017 which are subject to a separate supply agreement), including launch of the Safeway range, delivery of the Group's ambitious store refresh programme for the year, and implementation of a new customer plan. The degree to which these objectives are achieved will be assessed based on underlying measures of success which have been defined to include both qualitative and financial indicators. These include like for like sales increases for those stores which have been refreshed and/or supplied under the new arrangements. These strategic deliverables are considered to be of significant importance to the long term sustainable growth of the business. The increased conditionality of the bonus on these strategic goals reflects the Board's desire to ensure they are achieved.

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

Long Term Incentive Plan (audited)

The first grant of share options under the LTIP was made in 2015 in respect of performance over the financial years 2015 to 2017 inclusive. 30% vesting of the 2015 LTIP award is anticipated in view of the overall performance of the business during financial years 2015 to 2017. In particular, TSR for McColl's shares was 85th centile relative to the FTSE All Share General Retailer Index and FTSE All Share Food & Drugs Retailers Index. The upper quartile stretch target for TSR was therefore exceeded. EPS performance was below the threshold of 55.9p. The Remuneration Committee is confident that the investments that the business has been making in growing and refurbishing its estate and the progress that has been made on other elements of the Group's longer term strategy will deliver future EPS growth. The following table sets out the anticipated value of the 2015 awards on vesting for the Executive Directors.

Anticipated value of 2015 LTIP Awards

Executive	Interests held	Vest %	Interests vesting	Date vesting	Assumed market price	Estimated value (£'000)
Jonathan Miller	111,894		35,568	17 August 2018		94
Dave Thomas	93,243	30%	27,972	17 August 2018	£2.79p	76
Simon Fuller	67,114		20,134	8 October 2018		41

Further LTIP awards were made in 2016 and 2017, both based on three year targets for cumulative EPS and TSR performance relative to an appropriate peer group. In 2018, it is expected that Executive Directors will be granted awards equivalent to 150% of salary under the LTIP (100% in 2017). These shares will vest subject to EPS and TSR performance over a 3-year period, as follows:

Performance measure element		
EPS[1] 70%	TSR[2] 30%	Percentage of element that will vest
Below threshold	Below median	0%
Threshold	Median	25%
Stretch target or above	Upper quartile	100%

1 EPS targets will be set at the time of grant and will be disclosed subsequently. Factors which will be considered when setting the relevant EPS targets will include a range of reference points including broker consensus (which was not available at the latest practicable printing date for this report). These will be referenced in the market announcement.

2 Total shareholder return relative to the constituents of the FTSE All Share General Retailers Index and the FTSE All Share Food & Drugs Retailers Index, measured over 3 financial years.

In addition, for LTIP awards to become exercisable the Committee must be satisfied that the formulaic LTIP outcome is a genuine reflection of the underlying performance of the business. The Committee has discretion to adjust the formulaic LTIP outcome downwards, or upwards (with shareholder consultation), within the plan limits. An additional holding period of 2 years from the end of the performance period applies to vested options held by individuals who were Executive Directors at the time of grant.

The Committee has discretion to claw back any unvested long term incentive awards, or to vary the opportunities for future awards, in case of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back vested long term incentive awards. The Group has undertaken a fair valuation of its share-based payment transactions, specifically the LTIP and CSOP, using IFRS 2. The results of the valuation have given rise to a charge to the accounts as set out in note 32 to the financial statements.

Awards made under the LTIP and any other share-based schemes (the CSOP) will not exceed the Investment Association's guideline on dilution of 10% in aggregate over a 10-year rolling period. The LTIP grants made since 2015 to the Executive Directors who served during the year are outlined below:

Executive Director	Date of grant	Number of shares	Share price[1]	Face value (£'000)	Face value (% salary)	Vesting for threshold performance[2,3,4] (% of maximum)	End of performance period
Jonathan Miller	17 August 2015	111,894	149.25	166	50%	25%	26 November 2017
	11 April 2016	259,036	166.00	430	100%	25%	25 November 2018
	15 March 2017	237,634	186.00	442	100%	25%	24 November 2019
Dave Thomas	17 August 2015	93,243	149.25	138	50%	25%	26 November 2017
	11 April 2016	166,265	166.00	276	100%	25%	25 November 2018
	15 March 2017	153,225	186.00	285	100%	25%	24 November 2019
Simon Fuller	8 October 2015[5]	67,114	149.00	100	50%	25%	26 November 2017
	11 April 2016	159,638	166.00	265	100%	25%	25 November 2018
	15 March 2017	147,311	186.00	274	100%	25%	24 November 2019

1 Cost Price per Award Share £0.001
2 2015 LTIP EPS performance conditions range is 55.9 pence to 61.5 pence.
3 2016 LTIP EPS performance conditions range is 52.5 pence to 60.1 pence
4 2017 LTIP EPS performance conditions range is 60.4 pence to 66.6 pence
5 Granted prior to his appointment as an Executive Director based on the same performance conditions as the Executive Directors' awards.

In addition to the above awards, options over 200,751 ordinary shares were granted to James Lancaster in 2015. Those options lapsed under the rules of the LTIP following his resignation from the Board on 3 October 2017.

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 one times salary. The Remuneration Committee proposes, via a change to the Remuneration Policy submitted for approval to the Annual General Meeting to be held on 12 April 2018, to increase this requirement to 200% of annual salary. A 200% shareholding guideline is consistent with best practice. The graph on page 77 provides an illustration of how an Executive Director might build a holding in shares equivalent to 200% of basic salary.

The table below sets out, for Directors who served during the year, their interests in McColl's shares and share options as at 26 November 2017.

	Options held[4]				Shares held[4]			
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]	-	608,564	-	-	11,399,500	7,440	100%	Yes
Dave Thomas	-	412,733	-	-	1,183,792	1,198	100%	Yes
Simon Fuller	-	374,063	-	-	-	-	100%	No
Non Executive Directors								
James Lancaster[3]	-	-	-	-	-	-	n/a	n/a
Georgina Harvey	n/a	n/a	n/a	n/a	10,471	34	n/a	n/a
Sharon Brown	n/a	n/a	n/a	n/a	17,471	62	n/a	n/a
Angus Porter	n/a	n/a	n/a	n/a	5,814	11.6	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 £2.685 and prevailing salary on Friday 24 November 2017 (the last dealing day before the 2017 financial year-end).
2 The ordinary shares held by Jonathan Miller include shares held beneficially via holdings of connected persons.
3 James Lancaster stepped down as a Non-Executive Director on 3 October 2017 and disposed of his shareholding on that date.
4 There have been no changes in the Directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this report.

Executive Directors' pension arrangements (audited)
Chief Executive, Jonathan Miller, received a salary supplement in lieu of pension for the full year. As a percentage of salary this payment represented 23.4% of basic salary paid to him in the year. The monetary amount of his pension supplement shall remain fixed until it reaches 20% of his salary, at which point it will increase in accordance with the Remuneration policy

The Chief Operating Officer received a salary supplement in lieu of pension equivalent to 15% of his basic salary. The Chief Financial Officer received a combination of salary supplement in lieu of pension and pension contributions equivalent, in aggregate, to 15% of his basic salary.

Non-Executive Director fees (audited)
Since his appointment on 27 April 2017, the Chairman, Angus Porter, has been paid a fee of £145,000 p.a. This fee was set following a benchmarking exercise and is £10,000 p.a. lower than the fee paid to the previous Chairman. The base fee for other Non-Executive Directors during 2017 remained at £45,000 p.a., with additional fees of £5,000 p.a. paid to the Chairmen of the Remuneration and Audit & Risk Committees and an additional £5,000 p.a. paid to Georgina Harvey for her role as Senior Independent Director. Following a review of current Non-Executive fees, which had not changed since 2014, and comparison with market rates, with effect from 1 February 2018 the Board have resolved that the fees paid for chairmanship of the Remuneration and Audit & Risk Committees will increase to £8,000 p.a. to reflect the increasing time commitment required for these roles. No other changes have been made or are proposed.

Payments for loss of office (audited)
On 3 October 2017, James Lancaster resigned as a Non-Executive Director of the Company. No compensation payments were made to him or to any Director during the year.

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

Graph removed

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

Chief Executive single figure of remuneration

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

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

2 The LTIP vesting figure for 2017 relates to options granted in 2015 and remains subject to confirmation by the Remuneration Committee.

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 2016 and 2017.

	Chief Executive annual cash (£'000)			Average change
	2016 (James Lancaster and Jonathan Miller[1])	2017 Jonathan Miller	Change	across all employees
Salary (£'000)	485	441	9.1% decrease	2.9% increase
Pension benefit (£'000)	131	103	21.4% decrease	no change
Taxable benefits (£'000)	56	46	18.0% decrease	no change
Annual variable (£'000)	166	160	3.6% decrease	31.3% decrease

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

Distribution statement

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

Graph removed

The Group paid an interim dividend of 3.4 pence per share and the Board has recommended a final dividend of 6.9 pence per share subject to approval by shareholders at the Annual General Meeting, representing a total payment of £11.7m for 2017.

Statement of shareholder voting

The following table shows the results of the binding vote on the remuneration policy at the 17 April 2015 Annual General Meeting and advisory vote on the 2016 Annual Report on Remuneration at the 27 April 2017 Annual General Meeting

	For		Against		Withheld
Votes	Number (m)	%	Number (m)	%	Number (m)
Remuneration policy 2015	83.9	98.2	1.5	1.8	0.2
2016 Annual Report on Remuneration	83.4	99.9	0.1	0.1	0.5

Shareholder consultations

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

a. were operational in nature and included i) the advanced recruitment of field teams (e.g. area and regional management); ii) the establishment of larger central functions (e.g. payroll, HR and operational finance such as stock counting); and iii) the setting up of logistics (including additional distribution);
b. had been incurred ahead of the stores being transferred;
c. having been expensed in the 2015/16 income statement rather than defined as exceptional items;
d. quantified and one-off in nature; and
e. were beyond management control.

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

In December 2017 the Remuneration Committee Chairman also wrote to advisory bodies and shareholders holding 1% or more of the Company's capital, who collectively represent approximately 65% of all shares. The letter described changes to the remuneration policy that the Committee wished to propose to shareholders for approval at the Annual General Meeting in 2018 together with some details about potential changes to the Committee's implementation of the policy. Those changes are described on pages 71 to 77 and the response to the consultation is summarised on page 77.

Approved by the Remuneration Committee and signed on its behalf:

Georgina Harvey
Chairman of the Remuneration Committee

Directors' report

McColl's Retail Group plc (the "Company" or "McColl's", or "Group") operates more than 1,600 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 11 to 47.

Governance at McColl's

Corporate governance

The Board comprises three Executive Directors, led by our Chief Executive, Jonathan Miller, our Chairman, Angus Porter who was deemed independent on appointment, and three Independent Non-Executive Directors. As a result of the changes made to the Board during the year, the Board now 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 on pages 54 to 59 and the memberships, remits and activities of Audit & Risk, Nomination and Remuneration Committees are set out on pages 60 to 62, 64 to 67 and 78 to 80 and form part of this Directors' Report.

Directors

Details of our current Directors can be found on pages 50 and 51. During the year, the following Directors served.

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

1 James Lancaster resigned from the Board on 3 October 2017. James served as Non-Executive Chairman until 27 April 2017 when he was succeeded by Angus Porter.

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

Powers of Directors

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

Conflicts of Interest

The Board considers and authorises potential or actual conflicts as appropriate and these decisions are kept under review by the Nomination Committee. Directors with a conflict do not participate in the discussion or vote on the matter in question. Further detail can be found in the Corporate Governance Report on page 62.

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 76.

Directors' indemnities and liability insurance

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

The Company's articles of association

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

Listing rules

The following table provides cross-references to where the relevant required information by Listing Rule 9.8 4R for the period is disclosed.

Section	Listing rule requirement	Location
1	Interest capitalised	Not applicable
2	Publication of unaudited financial information	Not applicable
4	Details of long term incentive schemes	See Remuneration Report on pages 82-83
5	Waiver of emoluments by a Director	Not applicable
6	Waiver of future emoluments by a Director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Item (7) in relation to major subsidiary undertakings	Not applicable
9	Parent participant in placing by a listed subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	Not applicable
13	Shareholder waivers of future dividends	Not applicable
14	Agreements with controlling shareholder	Not applicable

McColl's shareholders

Share capital

Details of the share capital from 28 November 2016 to 26 November 2017 are shown in note 28 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 and end of the year was £115,172.77, being divided into 115,172,774 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.

Directors' report continued

Restrictions on transfers of securities
As at 26 November 2017, the ordinary shares are freely transferable with the following specific exception.

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

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

As at the financial year-end and as of 28 February 2018 (being the last practical day before printing) the Company has been notified of the interests detailed in the following table, each of which represented holdings of 3% or more of the ordinary shares of the Company. This information was correct at the date of notification.

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

	26 November 2017		28 February 2018	
Shareholder	**Number of shares**	**% interest in shares**	**Number of shares**	**% interest in shares**
Kiarus Capital Limited	13,118,391	11.39%	**13,118,391**	**11.39%**
Aberforth Partners LLP	11,406,347	9.90%	**11,598,247**	**10.07%**
Jonathan Miller[1]	11,399,500	9.90%	**11,399,500**	**9.90%**
FMR LLC	-	-	**5,779,091**	**5.01%**
FIL Limited	6,713,277	5.82%	**6,713,277**	**5.82%**
Miton Group plc	6,264,116	5.44%	**5,550,193**	**4.82%**
CI Investments Inc	3,600,000	3.13%	**3,600,000**	**3.13%**

Notes:
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 existing Remuneration Policy that encourages Executive Directors to establish and hold McColl's shares equivalent in value to 100% of salary. As part of the new Remuneration Policy for which approval will be sought at the Annual General Meeting on 12 April 2018, it is proposed to increase this shareholding guideline for Executive Directors 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 and Jens Hofma, hold McColl's shares and details of their shareholdings can be found in the Remuneration Report on page 83

McColl's stakeholders

Colleague engagement
Further information about our colleague engagement is provided on pages 39 to 41.

Corporate responsibility and the environment
The Company's social and environmental review, including information about our greenhouse gas emissions and approach to corporate responsibility, is set out on pages 37 to 43.

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

Image removed

We have started 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.

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

Financial matters

External Auditor
Deloitte LLP have given their independent report on the financial statements to the shareholders of the Company on pages 92 to 98.

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

Post year-end events
Between 26 November 2017 and the date of this report there have been no material events.

Financial risk management
The Company manages its risks to ensure that the Group's performance is not adversely affected by its exposure to financial risks resulting from its operation and sources of finance. Financial risk management objectives and policies, including information on financial risks that materially impact the Group can be found in notes 22 and 30 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 44 to 47.

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 99 to 134

Furthermore, notes 22 and 30 to the Consolidated Financial Statements include the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

In July 2016, the Company announced it had signed an amended credit facility agreement. The updated facility consists of a £100m Revolving Credit Facility (a £15m increase from the existing £85m, which become available on commencement of the 298 store transition to fund working capital) and an amortising £100m term loan for specific use to part finance the 298 store acquisition. In addition, there is a £50m unsecured accordion facility available at the Company's option. At the end of the period, the Group had drawn down £154.5m (2016: £37.0m) of its facilities.

The Directors have reviewed the Group's long-term forecasts including its requirements for capital expenditure, operational needs and the expansionary impact of the 298 store acquisition. The Directors, taking into account these forecasts and the revised facilities available to the Group, continue to adopt the going concern basis in preparing the financial statements. The Directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council in September 2014.

Viability statement
In accordance with provision C.2.2 of the Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'going concern' provision. The Directors have assessed the viability of the Group over a three year period through to 2020 which coincides with the Group's strategic review period.

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

As already described in the statement of going concern, as part of this assessment the Directors have taken account of the Group's revolving credit facility with accordion option which runs through to July 2021, strong track record of operational cash inflow, discretionary capital expenditure programmes, and forward dividend cover.

Additionally, the Directors have reviewed the expected impact of government and legislative changes in particular the National Minimum and Living Wage, alongside the key financial ratios over the period e.g. EBITDA, operating profit, fixed charge cover, debt service cover and overall indebtedness.

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

Based on this assessment, the Directors have a reasonable expectation that the Group will have sufficient resources to continue in operation and meet its liabilities as they fall due over the period to November 2020.

Annual General Meeting

AGM
The Board welcome the opportunity to meet and engage with shareholders at the AGM which will be held on 12 April 2018 at 1.30pm at the registered office: McColl's House, Ashwells Road, Brentwood, Essex CM15 9ST. The Chairman of the Board and of each of its Committees will be in attendance at the AGM to answer questions from shareholders.

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

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

Appointment and retirement of Directors
Subject to a recommendation of the Nomination Committee, all Directors stand for re-election at the Company's Annual General Meeting (AGM) in voluntary compliance with provision B.7 of the Code. This practice also exceeds the requirement of the articles for Directors to retire by rotation at every third AGM.

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 54 to 59 and the Nomination Committee report on pages 60 to 62.

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

An interim dividend of 3.4p per share was paid on 8 September 2017. The Directors have also proposed a final dividend of 6.9 pence per share, amounting to £7.9m, which is subject to shareholder approval at the AGM. Provided shareholder approval is received the final dividend will be paid on 1 June 2018 to those shareholders on the register at the close of business on 20 April 2018.

Reappointment of Auditor
Deloitte LLP was originally appointed as McColl's Auditor in 2006 (when it was a private limited group). The Audit Partner last rotated during the year ended 30 November 2014.

The Board recognises the commercial advantages of tendering the audit regularly. Our mandatory ten year audit period only commenced upon listing on the London Stock Exchange, which was in February 2014. Accordingly, the Company has until 2024 to tender the external audit although the Audit & Risk Committee has indicated that it currently intends to tender the appointment in time for audit of the 2019 Annual Report and Accounts. Further details about the proposed timing of this tender will be provided in due course.

The Auditor, Deloitte LLP, have indicated their willingness to continue as the Company's Auditor and a resolution to reappoint Deloitte LLP as Auditor of the Company and the Group will be proposed at the 2018 AGM. Further details regarding the re-appointment of Auditor may be found in the Audit & Risk Committee Report on page 66.

Authority to allot shares
The Company was granted a general authority by its shareholders at the 2017 AGM to allot shares pursuant to a rights issue up to an aggregate nominal amount of £76,781. 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, 741 shares have been issued under these authorities. These authorities will expire at the conclusion of the 2018 AGM unless revoked, varied or renewed prior to that meeting. Resolutions will be proposed at the 2018 AGM to renew these authorities.

Authority for the Company to purchase its own shares
A resolution was passed at the 2017 AGM authorising the Company to purchase up to approximately 10% of its ordinary shares (11,517,277 ordinary shares) at the Directors' discretion. At the date of this report, no ordinary shares have been purchased under this authority. A similar resolution is proposed to be passed at the 2018 AGM which will, if approved, replace the existing authority and will lapse at the conclusion of the 2019 AGM.

Political donations
Further to shareholder approval at the 2017 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 26 November 2017 (2016: £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 2018 AGM in order to avoid any inadvertent breach of the regulatory requirements that might occur if a wide interpretation of political donation were to be applied to, for example, some of the Group's community support activities.

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

By order of the Board

Bernadette Young
Company Secretary

18 February 2018

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 18 February 2018 and is signed on its behalf by:

Jonathan Miller	Simon Fuller
Chief Executive	Chief Financial Officer
18 February 2018	18 February 2018

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 26 November 2017 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the *IAS Regulation*.

We have audited the financial statements of McColl's Retail Group plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company statement of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 34 and C1 to C7

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • acquisition of Co-op stores; • accounting treatment of supplier income; and • presentation and classification of results. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was £1,240,000 based on 4.7% of profit before tax adjusted for certain items due to their nature and significance.
Scoping	The Group consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as disclosed in note 4 to the financial statements. We identify only one reporting component on which we perform our audit using a single audit team.
Significant changes in our approach	Due to the transformation of the business this year we have included a new risk in the year around the presentation and classification of results. We have continued to assess the acquisition of the Co-op stores as a risk in the period. We no longer consider there is a risk surrounding the impairment of goodwill and property provisions. We continue to consider a fraud risk for supplier income.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

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

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

Principal risks and viability statement

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

- the disclosures on pages 44 to 47 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 89 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 89 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

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

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

Key audit matters

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

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

Last year our report included goodwill impairment and property provisions which are not included in our report this year. The goodwill impairment risk of misstatement in the prior year related to the uncertainty in forecasts used to support the goodwill carrying value. Due to an increase in headroom in the goodwill impairment assessment, we do not consider this to be a key audit matter in the current period.

The property provision risk of misstatement in the prior year related to the uncertainty in cash flows used to calculate the property provisions. In the current year, the property provision balance excluding the Co-op stores acquisition provision is not considered material.

We continue to consider a fraud risk in relation to supplier income. We continue to consider the acquisition of the Co-op stores as a risk and have pinpointed this to the purchase price allocation in the current year. The presentation and classification of results has been included in our report this year as this is an area which has had a significant allocation of resources in the audit.

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

Acquisition of Co-op stores	
Key audit matter description	On 13 July 2016, McColl's announced the acquisition of 298 stores from the Co-op for £117m, representing a Class 1 transaction. The transaction has been financed predominantly with additional debt and the balance as an equity placing. On 20th December 2016, the Competition and Markets Authority (CMA) gave full approval for the acquisition to proceed, with no store disposals required. The first store transitioned on 30th January 2017, with the final store transitioning on 13 July 2017. IFRS 3 requires that all separately identifiable assets and liabilities are allocated an appropriate fair value, with the remainder of the purchase price recognised as goodwill. Management judgement is required in determining the purchase price allocation, particularly the identification and valuation of intangible assets. We identified the risk of inappropriate allocation as a key audit matter. The business combination fair values are outlined in note 17 to the financial statements. The accounting policy is outlined in note 2. The Audit & Risk Committee has included this as a key risk on page 66
How the scope of our audit responded to the key audit matter	Our audit procedures included, but were not limited to: • evaluating the design and implementation of controls in place within the purchase price accounting process and assessing management's processes for compliance with IFRS 3 Business Combinations; • assessing the judgements applied by management in their identification of the assets and liabilities acquired; • considering whether any other intangible assets should be recognised; • evaluating management's assumptions used in estimating the fair value of assets and liabilities acquired by comparing to relevant available information, working with our real estate valuation specialists where appropriate; and • evaluating the adequacy of the business combination disclosures against the requirements in IFRS 3
Key observations	We concurred with management's identification of acquired assets and liabilities and found that their valuation was materially accurate. We consider the disclosure of the acquisition to be appropriate.

Supplier income	
Key audit matter description	Supplier income is generated from a number of commercial agreements with suppliers including incentives, rebates and discounts. This represents a deduction to cost of sales which is material to the Group financial statements. There are a large number of individual arrangements which can be complex in nature. The majority of these contributions tend to be small in unit value but high in volume and span relatively short periods of time, although these can be across the financial year-end. Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to. Also, the process of appropriate recognition in the financial statements can involve significant manual adjustments which have the potential for inappropriate manipulation We identified a key audit matter relating to the accrued supplier income recognised in the statement of financial position at the period end. On 31 July 2017 McColl's entered into a new wholesale supply agreement with WM Morrison Supermarkets. Due to the material nature of the new agreement, we identified a key audit matter relating to the accounting treatment for supplier income associated with the agreement. The cost of sales accounting policy is outlined in note 2 to the financial statements. The Audit & Risk Committee has included this as a key risk on page 66.

How the scope of our audit responded to the key audit matter	Our audit procedures included, but were not limited to: • evaluating the design and implementation of controls in place over supplier income and understanding of the commercial process as well as reviewing new and unusual agreements. • for a statistical sample of supplier income agreements: – understanding the contract terms and recalculating the expected supplier income; – comparing the amounts used in the calculations to actual purchases; and – testing the IT controls over system-generated reports relating to supplier income for accuracy, validity and completeness; • performing analytical work on supplier income trends across suppliers and product categories and challenging management's estimates by investigating any unexpected variances and corroborating with supporting evidence; • assessing the recoverability of a sample of accrued supplier income by agreeing to subsequent invoicing and cash receipts, or performing alternative procedures such as tracing to third party documentation or contracts; • inspecting a sample of post year-end credit notes for evidence of refunds or of invoiced amounts not being valid; • applying data interrogation tools to perform an analysis to determine if any manual adjustments were recorded within the supplier income balance; and • reviewing the terms of the WM Morrison Supermarkets wholesale agreement and evaluating the accounting treatment for supplier income arising from the agreement
Key observations	The results of our testing 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 26 November 2017.

Presentation and classification of results	
Key audit matter description	Management present adjusted profit excluding items that *"may distort comparability that arise from events and transactions within the ordinary activities of the Group, but that should be separately identified to help explain underlying performance"*. The presentation of income and costs within adjusted measures (to derive "adjusted profit before tax") under IFRS is judgemental, with IFRS only requiring the separate presentation of material items. In the Group's reported results, significant adjustments have been made to statutory profit before tax of £18.4m to derive adjusted profit before tax of £26.3m. Explanations of each adjustment are set out in notes 5 and 6 to the Financial Statements. Owing to the magnitude of these items and the inherent judgement required by management, we consider there to be a potential for inappropriate classification of costs as adjusted items. We identified a key audit matter relating to the appropriateness of the Group's accounting policy of non-GAAP measures; the application of the policy in the period; and the disclosure of adjusted items. The most significant items classified as non-underlying in 2016/17 are: • costs associated with acquiring the Co-op stores of £5.0m; • costs associated with the store closure programme as part of the business restructuring of £2.9m; and • property, plant and equipment disposals and property provisions resulting in a gain of £3.1m The Audit & Risk Committee has included this as a key risk on page 67.

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

Presentation and classification of results continued	
How the scope of our audit responded to the key audit matter	Our audit procedures included, but were not limited to: • evaluating the design and implementation of controls of the classification of income and expenses as adjusting items; • reviewing the definitions and reconciliations of the alternative performance measures included in the annual report • considering the balance of presentation of statutory and non-statutory reporting measures; • evaluating the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted items, this included: – assessing the consistency of items included year on year; and – evaluating adherence to IFRS requirements and latest guidance from regulators; • inspecting a sample of adjusted items to supporting evidence; • assessing unadjusted items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature and/or quantum for whether they should be included within adjusted items; and • discussing the appropriateness of the adjusted items with the Audit & Risk Committee and any disclosure considerations
Key observations	We are satisfied that the items excluded from profit before adjusted items and the related disclosure of these items in the financial statements are consistent with the Group's accounting policy on non-GAAP measures.

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

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

	Group financial statements	Parent company financial statements
Materiality	£1,240,000 (2016: £1,000,000)	£154,000 (2016: £181,940)
Basis for determining materiality	4.7% (2016: 4.8%) of adjusted pre-tax profit. Pre-tax profit has been normalised by adjusting for adjusted items (the one-off costs relating to the Co-op acquisition and store closure programme). See exceptional items disclosure in note 5 to the financial statements.	0.2% (2016: 0.3%) of net assets. A factor of 3% of net assets was used capped to an appropriate component materiality (12% (2016: 18%) of Group materiality.)
Rationale for the benchmark applied	We believe this is an appropriate basis for materiality as it reflects our view that recurring performance is the most relevant performance measure to the stakeholders of the entity.	We believe this is an appropriate basis for materiality as it reflects the contribution of the parent company to the Group performance.

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £62,000 (2016: £50,000) for the Group and £7,700 (2016: £9,100) for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
The Group business consists of a collection of retail stores and operates as a single operating segment, entirely within the UK, as defined in note 4 to the financial statements. The financial results of the Group are aggregated at a consolidated level without the need for consolidation adjustments to account for eliminations between Group statutory companies. Therefore we identify only one reporting component being the Group itself, which includes the parent company audit (which we audit to a lower materiality level), on which we perform our audit using a single audit team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report, the Governance Report and Contacts, addresses and shareholder information, other than the financial statements and our Auditor's report thereon.

We have nothing to report in respect of these matters.

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

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

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

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

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

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.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Report on other legal and regulatory requirements

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

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • *adequate accounting records have not been kept by the parent* company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure
Following the recommendation of the Audit & Risk Committee, we were appointed by the Board of Directors on 3 February 2014 to audit the financial statements for the year ended 2014 and subsequent financial periods. The entity was listed on the London Stock Exchange on 28 February 2014. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ended 2014 to 2017.

Prior to 2014, we were appointed by the Board of Directors on 1 October 2006 to audit the financial statements for the year ended 2006 and subsequent financial periods of McColls Retail Group Ltd which was previously the parent company to the Group. The period of total uninterrupted engagement including previous renewals and reappointments of the firm was 12 years, covering the years ended 2006 to 2017.

Consistency of the audit report with the additional report to the Audit & Risk Committee
Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Sukhbinder Kooner, (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
18 February 2018

Consolidated income statement

for the 52 week period from 28 November 2016 to 26 November 2017

	Note	Adjusted 2017 £'000	Adjusting items 2017 Note 5 £'000	Total 2017 £'000	Adjusted 2016 £'000	Adjusting items 2016 Note 5 £'000	Total 2016 £'000
Revenue	4	1,131,777	-	1,131,777	950,403	-	950,403
Cost of sales		(841,370)	-	(841,370)	(711,752)	-	(711,752)
Gross profit		290,407	-	290,407	238,651	-	238,651
Administrative expenses		(286,889)	(3,730)	(290,619)	(239,443)	(2,186)	(241,629)
Other operating income	4	24,757	-	24,757	23,147	-	23,147
Profits/(losses) arising on property-related items		3,110	(2,621)	489	1,109	(757)	352
Operating profit	6	31,385	(6,351)	25,034	23,464	(2,943)	20,521
Finance income		93	-	93	13	-	13
Finance costs		(5,200)	(1,521)	(6,721)	(2,723)	(152)	(2,875)
Net finance cost	8	(5,107)	(1,521)	(6,628)	(2,710)	(152)	(2,862)
Profit before tax		26,278	(7,872)	18,406	20,754	(3,095)	17,659
Income tax (expense)/receipt	9	(5,228)	1,014	(4,214)	(3,406)	(337)	(3,743)
Profit for the period		21,050	(6,858)	14,192	17,348	(3,432)	13,916
Earnings per share (pence)	11	18.28p	-	12.32p	15.99p	-	12.82p
Diluted Earnings per share (pence)	11	18.19p	-	12.26p	15.99p	-	12.82p

The above results were derived from continuing operations.

Consolidated statement of comprehensive income

for the 52 week period from 28 November 2016 to 26 November 2017

	Note	2017 £'000	2016 £'000
Profit for the period		14,192	13,916
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	9, 31	2,522	(928)
Total comprehensive income for the period		16,714	12,988

Consolidated statement of financial position

for the 52 week period from 28 November 2016 to 26 November 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	103,565	66,783
Intangible assets	14	248,899	154,351
Deferred tax assets	27	172	-
Retirement benefit asset	31	13,609	10,946
Investments	15	36	18
Total non-current assets		366,281	232,098
Current assets			
Inventories	18	75,965	55,041
Trade and other receivables	19	39,810	34,609
Cash and cash equivalents	20	14,273	3,757
Total current assets		130,048	93,407
Assets classified as held for sale	13	581	4,286
Total assets		496,910	329,791
Equity and liabilities			
Current liabilities			
Trade and other payables	21	(165,469)	(130,021)
Income tax liability		(2,633)	(2,294)
Provisions	26	(4,508)	(1,647)
Total current liabilities		(172,610)	(133,962)
Liabilities directly associated with assets classified as held for sale	13	(830)	(5,137)
Net current liabilities		(42,811)	(41,406)
Non-current liabilities			
Loans and borrowings	22	(152,968)	(35,961)
Other payables	23	(12,121)	(4,160)
Provisions	26	(593)	(365)
Deferred tax liabilities	27	(8,528)	(4,856)
Retirement benefit obligations	31	(3,352)	(4,844)
Total non-current liabilities		(177,562)	(50,186)
Total liabilities		(351,002)	(189,285)
Net assets		145,908	140,506

	Note	2017 £'000	2016 £'000
Equity			
Share capital	28	(115)	(115)
Share premium	28	(12,579)	(12,579)
Retained earnings		(133,214)	(127,812)
Equity attributable to owners of the Group		(145,908)	(140,606)

These financial statements of McColl's Retail Group plc registered number 08783477 were approved and authorised for issue by the Board on 18 February 2018 and signed on its behalf by:

Simon Fuller
Director

Consolidated statement of changes in equity

for the 52 week period from 28 November 2016 to 26 November 2017

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 28 November 2016		115	12,579	127,812	140,506
Profit for the period		-	-	14,192	14,192
Other comprehensive income		-	-	2,522	2,522
Total comprehensive income		-	-	16,714	16,714
Dividends	10	-	-	(11,748)	(11,748)
Share-based payment transactions	32	-	-	436	436
At 26 November 2017		**115**	**12,579**	**133,214**	**145,908**

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 30 November 2015		105	47,836	78,024	125,965
Profit for the period		-	-	13,916	13,916
Other comprehensive income		-	-	(928)	(928)
Total comprehensive income		-	-	12,988	12,988
Dividends	10	-	-	(11,036)	(11,036)
New share capital subscribed		10	12,579	-	12,589
Other share premium reserve movements		-	(47,836)	47,836	-
At 27 November 2016		115	12,579	127,812	140,506

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

Consolidated statement of cash flows

for the 52 week period from 28 November 2016 to 26 November 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the period		**14,192**	13,916
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	**15,636**	14,305
Profit on disposal of property plant and equipment	6	**(489)**	(352)
Finance income	8	**(93)**	(13)
Finance costs	8	**6,721**	2,875
Share-based payment transactions	32	**436**	-
Income tax expense	9	**4,214**	3,743
Impairment losses		**746**	415
		41,363	34,889
Working capital adjustments			
Increase in inventories	18	**(20,924)**	(1,853)
Increase in trade and other receivables		**(3,969)**	(5,921)
Increase in trade and other payables		**40,561**	3,207
Decrease in retirement benefit obligation net of actuarial changes	31	**(1,633)**	(1,025)
Increase/(decrease) in provisions	26	**3,089**	(2,504)
Cash generated from operations		**58,487**	26,793
Income taxes paid		**(4,267)**	(5,144)
Net cash flow from operating activities		**54,220**	21,649
Cash flows from investing activities			
Interest received	8	**93**	13
Acquisitions of property plant and equipment		**(25,655)**	(15,920)
Proceeds from sale of property plant and equipment		**7,622**	5,874
Acquisition of businesses, net of cash acquired		**(122,409)**	(15,656)
Net cash flows from investing activities		**(140,349)**	(25,689)
Cash flows from financing activities			
Interest paid		**(6,327)**	(2,479)
Proceeds from issue of ordinary shares, net of issue costs		**-**	12,559
Repayment of bank borrowing	24	**(37,000)**	(7,500)
New bank borrowing	24	**154,500**	-
(Payment of)/new finance lease creditors		**(2,506)**	1,921
Interest payment to finance lease creditor	8	**(274)**	(199)
Dividends paid	10	**(11,748)**	(11,036)
Net cash flows from financing activities		**96,645**	(6,734)
Net increase in cash and cash equivalents		**10,516**	(10,774)
Cash and cash equivalents at beginning of period		**3,757**	14,531
Cash and cash equivalents at end of period		**14,273**	3,757

Notes to the financial statements
for the 52 week period from 28 November 2016 to 26 November 2017

1 General information
The Group is a public company limited by share capital, incorporated and domiciled in the United Kingdom.

The address of its registered office is:
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 2017 consolidate the financial statements of McColl's Retail Group plc (the "Company") and all its subsidiary undertakings (together, "the Group") drawn up to 26 November 2017. 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 89.

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

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 3.

Basis of measurement
The consolidated financial information has been prepared on a historical cost basis, except for net defined benefit pension asset or liability which has been prepared on an actuarial basis (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 26 November 2017.

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

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

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

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

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

IFRS 16 'Leases'
IFRS 16 represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors are substantially unchanged from IAS 17. The Group has carried out preliminary work to assess the accounting impacts of the change. From work performed to date, it is expected that implementation of the new standard will have a substantial impact on the consolidated results of the Group. The Group continues to assess the full impact of IFRS 16, however, the impact will depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate.

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

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

None of the other standards, interpretations and amendments which are effective for periods beginning after 28 November 2016 and which have not been adopted early, are expected to have a material effect on the financial statements

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

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

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

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

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 which are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The adjusted profit before tax measure (profit before adjusting items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of adjusting items are set out in note 5.

Other operating income
Post Office, rental income, ATM commissions and franchise income 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 and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

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

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

Notes to the financial statements continued
for the 52 week period from 28 November 2016 to 26 November 2017

2 Accounting policies continued
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 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:

Depreciation
Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	**Depreciation method and rate**
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
Motor vehicles	Straight-line basis: 4 years
Computer equipment	Straight-line basis: 5 years
Furniture and fittings	Straight-line basis: 10 years

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

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

Intangible assets impairment
For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units 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.

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.

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

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 14 for further details of cash generating units and impairment testing.

Computer software within intangible assets
Computer software is stated at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences and costs relating to development of computer software for internal use (to the extent that they meet the recognition criteria of IAS 38 Intangible Assets) are capitalised and amortised on a straight-line basis over their useful economic lives of five years and are included within other intangible assets. Costs relating to development of computer software for internal use that do not meet the IAS 38 recognition criteria are expensed as incurred.

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

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

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

Trade receivables are recognised initially at the transaction price. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of any loss is recognised in the income statement.

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

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

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

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2 Accounting policies continued

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

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

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

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

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

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

Contingent liabilities
Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to note 29 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; plus
- Unrecognised past service costs; less
- The effect of minimum funding requirements agreed with scheme trustees

A surplus is recognised where the Group has an unconditional right to the economic benefits in the form of future contribution reductions or refunds.

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

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

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

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

Further information on pensions is disclosed in note 31.

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 32.

Financial instruments

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

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

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counter party or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Group balance sheet.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

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 30.

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

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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.

Judgements
Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Determination of cash generating units
The Group determines CGUs for the purpose of goodwill impairment based on the way it manages the business. Judgement is required to ensure this assessment is appropriate and in line with IAS 36. This is discussed in further detail in note 14.

Sources of estimation uncertainty
Estimates and underlying assumptions are reviewed on an ongoing basis. Sources of *estimation and uncertainty are discussed below:*

Goodwill impairment
The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash generating units (CGUs).
The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows.

This is discussed in further detail in note 14.

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:

	Note	2017 £'000	2016 £'000
Sale of goods		1,131,777	950,403
Property rental income		3,224	2,985
Finance income	8	93	13
Other operating income		21,533	20,162
		1,156,627	973,563

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

5 Adjusting items

Adjusting items

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

	2017 £'000	2016 £'000
Co-op acquisition and integration costs[1]	3,447	2,004
Impairment and onerous lease provisions related to assets held for sale[2]	-	757
Costs relating to closure of non-trading sites	-	334
Finance costs in relation to Co-op acquisition and integration	1,521	-
Unprofitable store closure programme[3]	2,904	-
Tax effect	(1,014)	337
	6,858	3,432

1 **Co-op acquisition and integration costs**
On 13 July 2016 management entered into an agreement to purchase 298 convenience stores from the Co-op, for an aggregate consideration of £117m. The acquisition was approved by the Competition and Markets Authority on 20 December 2016. The acquisition was integrated during 2017 by Martin McColl Limited, a wholly-owned subsidiary of the Group.
The adjusting costs relate to legal fees, sponsor fees and implementation costs. All 298 stores were successfully transitioned by 13 July 2017.

2 **Assets held for sale**
Following a review of its portfolio in 2015, the Group decided to sell 97 of its newsagents. The Group continues to focus on the strategy of developing and expanding the convenience business and identified these marginal stores as not being part of its long-term planning. As at year end 27 November 2016 there were 75 stores remaining. During 2017 the Group sold 17, 17 are trading on, and 32 have been transferred to the closure programme, leaving nine remaining at the end of the period.

3 **Unprofitable store closure programme**
Management have undertaken a review of poor performing stores and have made the decision to close stores which are not economically viable to continue trading. The majority of these stores are either near lease expiry or lease break date. The closure programme consists of stores which we either close in 2017 or 2018. Management have adjusted onerous lease provisions, impairment, and other costs in relation to the closures. £398,000 of the costs are included within administrative expenses. Any other closures costs which cannot be reliably estimated at present, will also be adjusting in 2018.

6 Operating profit

Arrived at after charging/(crediting)

	Note	2017 £'000	2016 £'000
Depreciation and amortisation expense		15,636	14,305
Write-down of inventory recognised as an expense		13,766	8,417
Operating lease expense – property		33,810	30,191
Profit on disposal of property, plant and equipment		(489)	(352)
Impairment	12	746	415
Cost of inventories recognised as an expense		876,599	738,678

The analysis of the Auditors' remuneration is as follows:

	2017 £'000	2016 £'000
Audit of Group	60	32
Audit of subsidiaries	182	182
Total audit fees	242	214
Audit related assurance services (including interim review)	41	40
Total assurance services	41	40
Services related to corporate finance transactions not covered above	-	290
Other non-audit services not covered above	14	24
Total other non-audit services[1]	14	314
Total non-audit services	65	354
Total fees	297	568

1 In 2016 corporate finance transactions were one-off and subject to a tendering process. 2017 fee relates to work on pension schemes on behalf of the Group.

Notes to the financial statements continued
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6 Operating profit continued

Adjusted EBITDA and operating profit excluding property-related items
In order to provide shareholders with a measure of the underlying performance of the business and to allow a more understandable assessment of its position, the Group makes adjustments to profit before tax. These adjustments are one-off in nature, not in line with our normal course of business, material by size and are considered to be distortive of the true adjusted performance of the business. 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. For example, the Group adjusts for property related items as these are not in line with our principal activity as an operator of convenience and newsagent stores. The Group also adjusts 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.

	2017 £'000	2016 £'000
Adjusted EBITDA excluding property-related items		
Operating profit before adjusting items	31,385	23,464
Depreciation and amortisation	15,289	14,305
Impairment of property, plant and equipment and onerous leases	-	308
Profits arising on property-related items	(3,110)	(1,422)
Share-based payments	436	-
	44,000	36,655
Adjusted operating profit excluding property-related items		
Operating profit before adjusting items	31,385	23,464
Less: Profits arising on property-related items	(3,110)	(1,109)
	28,275	22,355

7 Employee costs

The aggregate payroll costs (excluding Directors' remuneration) were as follows:

	2017 £'000	2016 £'000
Wages and salaries	157,111	132,136
Social security costs	15,268	5,860
Pension costs, defined benefit scheme	1,549	1,008
	173,928	139,004

The average number of persons employed by the Group (including Directors) during the period, analysed by category was as follows:

	2017	2016
Retailing	20,749	19,011
Central administration	512	308
	21,261	19,319

8 Finance income and costs

	2017 £'000	2016 £'000
Finance income		
Interest income on bank deposits	93	13
Finance costs		
Interest on bank overdrafts and borrowings	(4,522)	(2,226)
Interest on obligations under finance leases and hire purchase contracts	(274)	(199)
Amortisation of issue costs	(381)	(279)
Other finance costs	(23)	(19)
Finance costs in relation to Co-op acquisition and integration (included in adjusting items)	(1,521)	(152)
Total finance costs	(6,721)	(2,875)
Net finance costs	(6,628)	(2,862)

9 Income tax

	2017 £'000	2016 £'000
Current tax:		
Current tax on profit for the period	4,780	5,319
Adjustments in respect of prior periods	(173)	(283)
	4,607	5,036
Deferred tax:		
Origination and reversal of temporary differences	(81)	(955)
Associated with pension deficit	-	69
Arising from change in tax rate	(14)	(125)
Adjustments in respect of prior periods	(298)	(282)
	(393)	(1,293)
Income tax expense for the period	4,214	3,743
Other comprehensive income		
Deferred tax in respect of actuarial valuation of retirement benefits	517	(168)
Corporation tax	–	(117)
	517	(285)

The differences are reconciled below:

	2017 £'000	2016 £'000
Profit before tax	18,406	17,659
Tax on profit calculated at standard rate for 2017 of 19.33% (2016: 20.00%)	3,558	3,532
Disallowed expenses and non-taxable income	642	901
Deferred tax on share options	(18)	-
Adjustments in respect of prior years	(471)	(565)
Arising from change in rate of tax	(14)	(125)
Exempt amounts	517	-
Total tax charge	4,214	3,743

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.

Amounts recognised in other comprehensive income

	2017			2016		
	Before tax £'000	Tax (expense) /benefit £'000	Net of tax £'000	Before tax £'000	Tax (expense) /benefit £'000	Net of tax £'000
Remeasurements of post employment benefit obligations	3,039	(517)	2,522	(1,213)	285	(928)

10 Dividends

	2017 £'000	2016 £'000
Final 2016 dividend of 6.80p (2015: 6.80p) per ordinary share	7,832	7,120
Interim 2017 dividend of 3.40p (2016: 3.40p) per ordinary share	3,916	3,916
	11,748	11,036

The Directors are proposing a final 2017 dividend of 6.90 pence (2016: 6.80 pence) per share totalling £7,947,000 (2016: £7,832,000).

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

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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.

	2017 £'000	2016 £'000
Basic weighted average number of shares	**115,172,774**	108,505,494
Diluted weighted average number of shares	**115,724,645**	108,505,494
Profit attributable to ordinary shareholders (£'000)	**14,192**	13,916
Basic earnings per share	**12.32p**	12.82p
Diluted earnings per share	**12.26p**	12.82p
Adjusted earnings per share:		
Profit attributable to ordinary shareholders (£'000)	**14,192**	13,916
Adjusting items (note 5)	**7,872**	3,095
Tax effect of adjustments	**(1,014)**	337
Profit after tax and before adjusting items	**21,050**	17,348
Basic adjusted earnings per share	**18.28p**	15.99p
Diluted adjusted earnings per share	**18.19p**	15.99p

The difference between the basic and diluted average number of shares represents the dilutive effect of share options and warrants in existence.

The diluted weighted average number of ordinary shares is calculated as follows:

	2017 £'000	2016 £'000
Ordinary shares in issue at the start of the period	**108,505,494**	104,712,042
Effect of shares issued for the Co-op acquisition (part year)	**-**	3,793,452
Effect of shares issued for the Co-op acquisition (full year)	**6,667,280**	-
	115,172,774	108,505,494
Effect of shares to be issued for the Long-term Incentive plan (LTIP)	**551,871**	-
Weighted average number of ordinary shares at the end of the period	**115,724,645**	108,505,494

12 Property, plant and equipment

	Land and buildings £'000	Furniture fittings and equipment £'000	Total £'000
Cost or valuation			
At 30 November 2015	26,415	84,529	110,944
Additions	4,945	10,774	15,719
Acquired through business combinations	4,623	856	5,681
Classified as held for sale	-	22	22
Disposals	(5,159)	(2,122)	(7,281)
Transfers	3,655	(3,655)	-
At 27 November 2016	34,679	90,406	125,085
Additions	8,727	15,981	24,708
Acquired through business combinations	29,839	4,410	34,249
Classified as held for sale	-	3,044	3,044
Disposals	(5,242)	(3,690)	(8,932)
At 26 November 2017	**68,003**	**110,151**	**178,154**
Depreciation			
At 30 November 2015	7,315	39,268	46,583
Charge for period	3,655	9,874	13,529
Eliminated on disposal	*(131)*	*(1,628)*	*(1,759)*
Impairment	-	415	415
Transfers	2,277	(2,277)	-
Classified as held for sale	-	*(466)*	*(466)*
At 27 November 2016	13,116	45,186	58,302
Charge for the period	4,235	10,761	14,996
Eliminated on disposal	(274)	(1,525)	(1,799)
Impairment	-	746	746
Classified as held for sale	-	2,344	2,344
At 26 November 2017	**17,077**	**57,512**	**74,589**
Carrying amount			
At 26 November 2017	**50,926**	**52,639**	**103,565**
At 27 November 2016	21,563	45,220	66,783

13 Assets classified as held for sale

Following a review of its portfolio in 2015, the Group decided to sell 97 of its stores. The Group continues to focus on the strategy of developing and expanding the convenience business and identified these stores as not being part of its long-term planning. As at year end 27 November 2016 there were 75 stores remaining. During 2017 the Group sold 17, 17 are trading on, and 32 have been transferred to the closure programme, therefore these are no longer classified as held for sale, leaving nine remaining at the end of the period as held for sale

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

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

The major classes of assets and liabilities of stores are as follows.

	Note	2017 £'000	2016 £'000
Property, plant and equipment		**190**	890
Inventories	18	**300**	2,073
Trade and other receivables	19	**91**	1,323
Total assets classified as held for sale		**581**	4,286
Trade and other payables	21	**(468)**	(4,840)
Provisions	26	**(362)**	(297)
Total liabilities as held for sale		**(830)**	(5,137)
Net assets classified as held for sale		**(249)**	(851)

14 Intangible assets

	Goodwill £'000	Other intangible assets £'000	Total £'000
Cost or valuation			
At 30 November 2015	147,531	5,706	153,237
Additions	9,662	166	9,828
Fair value adjustment for goodwill	(1,410)	-	(1,410)
Deferred tax on fair value adjustment of land and buildings	286	-	286
Classified as held for sale	1,223	-	1,223
At 27 November 2016	157,292	5,872	163,164
Additions	91,442	929	92,371
Deferred tax on fair value adjustment of land and buildings	3,377	-	3,377
Fair value adjustment for goodwill	(560)	-	(560)
At 26 November 2017	**251,551**	**6,801**	**258,352**
Amortisation			
At 30 November 2015	3,518	3,803	7,321
Amortisation charge	-	776	776
Net transferred from assets held for sale	716	-	716
At 27 November 2016	4,234	4,579	8,813
Amortisation charge	-	640	640
At 26 November 2017	**4,234**	**5,219**	**9,453**
Carrying amount			
At 26 November 2017	**247,317**	**1,582**	**248,899**
At 27 November 2016	153,058	1,293	154,351

The goodwill addition in the year includes £88,769,000 related to the acquisition of the 298 Co-op stores (see note 17).

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

	2017 £'000	2016 £'000
CGU 1	247,317	153,058

Since the IPO in 2014, McColl's Retail Group has tested goodwill impairment annually on the basis of three cash generating units. They are:

- CGU 1 – Goodwill arising from the 2005 Management buy-out including goodwill held at that time
- CGU 2 – Goodwill relating to the 2008 Smile acquisition
- CGU 3 – Goodwill acquired on all other acquisitions since the 2005 management buy-out

IAS 36 describes that a CGU is:

- The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- Represents the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- Not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments

If the above existing methodology was adopted the carrying amount of goodwill would have been allocated as follows:

	2017 £'000	2016 £'000
CGU 1	95,804	95,865
CGU 2	6,504	6,504
CGU 3	145,009	50,689
	247,317	153,058

However, during 2017 the business underwent significant transformation, following both the integration of 298 stores from the Co-op and the announcement of a new sole supply agreement with Morrisons.

Following a review of how the business is governed, structured, financed and how performance is assessed, Management have concluded that goodwill impairment be tested going forward on the basis of a single CGU. Key rationale is noted below:

- The Board and senior management assess performance at a Group level, that is as a single operating segment (note 4), and not on the basis of historical CGU splits
- Management are incentivised on the performance of the Group, which is the operation of convenience stores
- Financing, and covenant testing of the financing, are applicable to the Group as a whole
- Acquisitions, whether major or individual stores, bring synergies to the Group as a whole and are not specific to an individual store or acquired group of stores
- The Group recently announced a new sole supply agreement to service all stores in the Group

The recoverable amount of the CGU is determined from value in use calculations with a discounted cash flow model used to calculate this amount. The key assumptions for the value in use calculation include the discount rate and long-term growth rates. The value in use calculations use forecast cash flows taking into account actual performance for 2017. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a weighted average cost of capital (WACC) of 8.89% (2016: 12.05%). The change in WACC is driven by a change in capital structure, with an increase in debt and number of shares in issue.

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

The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions including a 2% change in WACC, management have concluded that the carrying amount of goodwill would exceed the value in use, both under the historical 3 CGU and new single CGU classifications.

15 Investments

	2017 £'000	2016 £'000
Investments at cost	36	18

Investments have increased due to an increase in Nisa shares as a result of the Co-op store acquisition.

Group subsidiaries
Details of the Group subsidiaries as at 26 November 2017 are as follows:

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

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2017	Proportion of ownership interest and voting rights held 2016
A Harris Limited*	Dormant	Scotland	100%	100%
Birrell Limited*	Dormant	Scotland	100%	100%
Bracklands Limited*	Property Company	Scotland	100%	100%
Charnwait Management Limited*	Retailing	England and Wales	100%	100%
Clark Retail Limited*	Retailing	Scotland	100%	100%
Dillons Stores Limited*	Retailing	England and Wales	100%	100%
Farthingmist Limited*	Dormant	England and Wales	100%	100%
Forbouys Limited*	Dormant	England and Wales	100%	100%
Forbouys Services Limited*	Dormant	England and Wales	100%	100%
Hargreaves Vending Limited*	Corporate activities	England and Wales	100%	100%
ISS Limited*	Dormant	England and Wales	100%	100%
Key Food Stores Limited*	Intermediate Holding Co	England and Wales	100%	100%
Lovells 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 CTN Group Limited*	Dormant	England and Wales	100%	100%
Martin McColl Limited*	Retailing	England and Wales	100%	100%
Martin McColl Group Limited*	Dormant	England and Wales	100%	100%
Martin McColl Retail Limited*	Intermediate Holding Co	England and Wales	100%	100%
Martin Retail Group Limited*	Retailing	Scotland	100%	100%
Martin the Newsagent Limited*	Dormant	England and Wales	100%	100%
NSS Newsagents Limited*	Dormant	England and Wales	100%	100%
NSS Newsagents Retail Limited*	Dormant	England and Wales	100%	100%
Price Smasher Limited*	Intermediate Holding Co	England and Wales	100%	100%
RS McColl (UK) Limited*	Dormant	England and Wales	100%	100%
Smile Holdings Limited*	Intermediate Holding Co	England and Wales	100%	100%
Smile Property Limited*	Dormant	England and Wales	100%	100%
Smile Stores Limited*	Retailing	England and Wales	100%	100%
Thistledove Limited*	Intermediate holding Co	England and Wales	100%	100%
TM Coffee Limited*	Dormant	England and Wales	100%	100%
TM Group Limited*	Dormant	England and Wales	100%	100%
TM Group Holdings Limited*	Predecessor Holding Co	England and Wales	100%	100%

Notes to the financial statements continued
for the 52 week period from 28 November 2016 to 26 November 2017

15 Investments continued

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2017	Proportion of ownership interest and voting rights held 2016
TM Pension Trustees Limited*	Dormant	England and Wales	100%	100%
TM Retail Limited*	Dormant	England and Wales	100%	100%
TM Vending Limited*	Corporate Activities	England and Wales	100%	100%
Tog Limited*	Intermediate Holding Co	England and Wales	100%	100%
Trents Leisure Limited*	Dormant	England and Wales	100%	100%
Trimley Stores Limited*	Dormant	England and Wales	100%	100%

* *Indicates direct investment by the Company*

From the above table the following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 26 November 2017: Bracklands Limited, Charnwalt Management Limited, Clark Retail Limited, Dillons Stores Limited, Martin McColl Limited, Martin McColl Retail Group Limited, Martin Retail Group Limited, Smile Stores Limited, Thistledove Limited, TM Group Holdings Limited, TM Vending Limited. All the subsidiaries are included on the Group's consolidated financial statements for the period. The Group will guarantee the debts and liabilities of these UK subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

16 Business combinations

During the period, the Group made 12 acquisitions excluding the stores acquired from the Co-op, none of which was individually considered material to the Group. The cash consideration for these acquisitions and the assets acquired are summarised as follows:

	2017 £'000	2016 £'000
Tangible fixed assets	2,834	5,681
Inventory	462	1,758
Goodwill	2,113	7,931
Deferred tax asset	-	286
Cash consideration	5,409	15,656

17 Business combinations – Co-op stores

On 13 July 2016, the Group agreed to acquire 298 stores from the Co-op as an asset purchase for an aggregate consideration of £117m. The acquisition was integrated during 2017 by Martin McColl Limited, a wholly-owned subsidiary of the Group, by way of asset purchase. The principal activity of the acquired Co-op stores is convenience stores operating in the same market as the Group. The first store was acquired on 30 January 2017 with its first day of trading on 31 January 2017. The last store was acquired on 13 July 2017. The Co-op stores were acquired in order to grow the existing convenience estate.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	2017 £'000
Assets and liabilities at date of acquisition	
Property, plant and equipment	31,415
Financial liabilities	(3,184)
Total identifiable assets	28,231
Goodwill	88,769
Total consideration	117,000
Satisfied by:	
Cash	117,000

The goodwill of £88,769,000 arising from the acquisition represents the difference between consideration transferred, and accounting of fair value of freeholds, fixtures and fittings and provisions relating to stock and dilapidations. None of the goodwill is expected to be deductible for income tax purposes.

The acquisition contributed £183,000,000 of sales and £3,900,000 of adjusted operating profit to the Group's results for the part-year.

18 Inventories

	Note	2017 £'000	2016 £'000
Finished goods and goods for resale		76,265	57,114
Classified as held for sale	13	(300)	(2,073)
		75,965	55,041

19 Trade and other receivables

	Note	2017 £'000	2016 £'000
Trade receivables		1,945	3,223
Prepayment of Co-op acquisition expenses		-	2,396
Supplier rebates		24,746	19,169
Prepayments		6,972	5,492
Other receivables		6,238	5,652
Transferred to assets held for sale	13	(91)	(1,323)
Total current trade and other receivables		39,810	34,609

Ageing of past due but not impaired receivables

	2017 £'000	2016 £'000
31 to 60 days	318	368
61 to 90 days	509	130
Greater than 90 days	376	361
	1,203	859

Supplier rebates receivable ageing

	2017 £'000	2016 £'000
31 to 60 days	1,299	1,641
61 to 90 days	818	291
Greater than 90 days	621	378
	2,738	2,310

Notes to the financial statements continued
for the 52 week period from 28 November 2016 to 26 November 2017

20 Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	14,273	3,757

21 Trade and other payables

	Note	2017 £'000	2016 £'000
Trade payables		119,400	98,784
Accrued expenses		27,432	22,195
Holiday pay accrual		1,281	1,043
Social security and other taxes		9,321	5,265
Other payables		1,925	3,078
Accrued interest		394	274
Amounts due under hire purchase obligations		1,799	1,469
Classified as assets held for sale	13	(468)	(4,640)
Deferred income		4,385	2,750
		165,469	130,021

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.

22 Loans and borrowings

	2017 £'000	2016 £'000
Non-current loans and borrowings		
Bank borrowings	154,500	37,000
Unamortised issue costs	(1,532)	(1,039)
	152,968	35,961

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

In July 2016, the Group completed a £100,000,000 term loan and an amended £100,000,000 revolving facility with a £50,000,000 accordion. The current facility drawn as at 26 November 2017 is £154,500,000 (2016: £37,000,000).

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

	2017 £'000	2016 £'000
Term loan and revolving facility available until July 2021	154,500	37,000
Hire purchase obligations	1,753	3,346
	156,253	40,346

23 Non-current liabilities – other payables

	2017 £'000	2016 £'000
Other payables and deferred income	10,368	814
Amounts due under hire purchase obligations	1,753	3,346
	12,121	4,160

24 Net debt

	Note	2017 £'000	2016 £'000
Cash at bank and in hand	20	**14,273**	3,757
		14,273	3,757
Term loan and revolving facility available until July 2021		**(154,500)**	(37,000)
Less: unamortised issue costs		**1,532**	1,039
		(152,968)	(35,961)
Amounts due under hire purchase obligations		**(3,552)**	(4,815)
Net debt		**(142,247)**	(37,019)

Analysis of net debt

	2016 £'000	Cash flow £'000	Other non-cash movements £'000	2017 £'000
Analysis of net debt				
Cash and short-term deposits	3,757	10,516	-	**14,273**
Loans and borrowings	(35,961)	(117,500)	493	**(152,968)**
Finance lease liabilities	(4,815)	1,263	-	**(3,552)**
	(37,019)	(105,721)	493	**(142,247)**

25 Leases and commitments

Operating leases

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

The total future value of minimum lease payments is as follows.

	2017 £'000	2016 £'000
Land and buildings		
Within one year	**32,185**	26,933
In two to five years	**100,441**	84,231
In over five years	**117,885**	99,572
	250,511	210,736

As set out in note 4 property rental income earned during the year was £3,223,921 (2016: £2,985,000). 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.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2017 £'000	2016 £'000
Within one year	**273**	351
Within one to five years	**427**	654
After five years	**261**	292
	961	1,297

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:

	2017 £'000	2016 £'000
Amounts due within one year	**1,882**	1,041
Amounts due within one to five years	**1,840**	1,990
	3,722	3,031
Less future interest	**(170)**	(327)
	3,552	2,704

Other financial commitments

In order to manage its exposure to fluctuating energy prices, during the year the Group entered into contracts to purchase 25.5 MW of electricity at a fixed price from Scottish Southern Electric (SSE). The contracts allow for a 10% over or underutilisation of the power contracted at the rates secured. While management acknowledge that the forward contracts in place are derivatives, they cannot be traded and are therefore treated as contracts that secure a pre-agreed price for electricity requirements to operate the stores portfolio.

Notes to the financial statements continued
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26 Provisions

	Note	Dilapidations £'000	Onerous contracts £'000	Total £'000
At 28 November 2016 (including held for sale)		1,220	792	2,012
Additional provisions		3,744	1,369	5,133
Utilised during the period		(922)	(385)	(1,307)
Released unused		(295)	(420)	(715)
Unwinding of the discount included in provisions		43	-	43
Classified as held for sale 2016		80	217	297
Classified as held for sale 2017	13	-	(362)	(362)
At 26 November 2017		3,870	1,231	5,101
Non-current liabilities		–	(593)	(593)
Current liabilities		3,870	638	4,508

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

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

27 Deferred tax
Deferred tax assets and liabilities

2017	Asset £'000	Liability £'000	Net deferred tax £'000
Pension benefit obligations	-	(1,744)	(1,744)
Revaluation of property, plant and equipment	-	(3,174)	(3,174)
Revaluation of intangible assets	-	(3,610)	(3,610)
Other items	172	-	172
	172	(8,528)	(8,356)

2016	Asset £'000	Liability £'000	Net deferred tax £'000
Pension benefit obligations	-	(1,020)	(1,020)
Revaluation of property, plant and equipment	-	(422)	(422)
Revaluation of intangible assets	-	(3,414)	(3,414)
Other items	-	-	-
	-	(4,856)	(4,856)

Deferred tax movement during the period

	At 28 November 2016 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	At 26 November 2017 £'000
Pension benefit obligations	(1,020)	(207)	(517)	-	(1,744)
Revaluation of property, plant and equipment	(422)	733	-	(3,485)	(3,174)
Revaluation of intangible assets	(3,414)	(196)	-	-	(3,610)
Other items	-	101	-	71	172
Net tax assets/(liabilities)	(4,856)	431	(517)	(3,414)	(8,356)

Deferred tax movement during the prior period is as follows:

	At 30 November 2015 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	At 27 November 2016 £'000
Pension benefit obligations	(1,119)	(69)	151	17	(1,020)
Revaluation of property plant and equipment	(827)	691	-	(286)	(422)
Revaluation of intangible assets	(4,279)	865	-	-	(3,414)
Other items	194	(167)	-	(27)	-
Net tax assets/(liabilities)	(6,031)	1,320	151	(296)	(4,856)

Deferred tax has arisen owing to accelerated capital allowances, business combinations, pension deficit/surplus and other temporary differences and also in respect of the taxable *gains arising on the disposal of intangible fixed assets where the gains have been rolled into* replacement assets.

Deferred tax at 26 November 2017 has been measured at 17% (2016: 17%) being the tax rate enacted at the balance sheet date expected to be effective for future periods.

28 Authorised, issued and fully paid share capital

	Number of shares	Share capital £'000	Share premium £'000
Issued ordinary shares of £0.001 at 28 November 2016	115,172,774	115	12,579
Issued ordinary shares of £0.001 at 26 November 2017	115,172,774	115	12,579

Voting rights
The ordinary shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held.
Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves

29 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 26 November 2017, the Group has the following contingent liabilities:

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

On 22nd December 2017 the Group was found guilty of a health and safety breach at a store, and subsequently a fine was issued to the Group.

	2017 £'000	2016 £'000
Bank arrangement fee (to be paid on first draw down of new term loan)	-	447
Broker fee for acquisition to be paid after CMA approval has been obtained	-	1,170
Health and safety incident	600	-
	600	1,617

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30 Financial instruments and risk management

Derivatives and other financial instruments
The Group's principal financial instruments comprise loans, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables that arise directly from its operations.

On 13 July 2016 the Group completed and signed an amended £100,000,000 revolving credit facility and a £50,000,000 accordion facility for the Group. The new facility will be in place until July 2021. The current facility drawn as at 26 November 2017 is £57,000,000 (2016: £37,000,000).

On the same date, the Group completed a £100,000,000 term loan agreement for the purchase of 298 stores from the Co-op. At 26 November 2017, £97,500,000 had been drawn with £2,500,000 repaid per the terms of the agreement. Total drawings as at 26 November 2017 were £154,500,000.

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

Floating rate financial liabilities on which interest is paid bear interest at rates based on one month LIBOR. It is the Group's policy to consider the need for interest rate hedging on an ongoing basis. No interest rate hedging is currently in place although this is kept under review by management.

Interest rate risk profile of financial liabilities and assets
The interest rate profile of the financial liabilities of the Group is as follows:

	2017 £'000	2016 £'000
Fixed rate financial liabilities	1,836	2,705
Floating rate financial liabilities	156,216	39,109
Financial liabilities on which no interest is paid	165,185	128,938
Financial liabilities	323,237	170,752

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

	2017 £'000	2016 £'000
Financial assets on which no interest is paid	54,692	42,678

If interest rates had been 0.5% higher during the period ended 26 November 2017, with all other variables held constant, the post-tax profit for the period would have been approximately £339,000 lower (2016: £300,000 lower) as a result of higher interest expense.

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

	2017 £'000	2016 £'000
Up to 3 months or on demand	155,268	128,526
In 3 - 12 months	1,349	1,208
In more than one year but not more than two years	3,561	2,047
In more than two years but not more than five years	162,778	38,971
In more than five years	282	-
	323,238	170,752

The disclosures above are the contractual undiscounted cash flows and exclude unamortised finance costs.

Borrowing facilities

The Group had certain borrowing facilities available to it for general working capital requirements of which £57,000,000 has been drawn at 26 November 2017 (2016: £37,000,000).

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:

	26 November 2017		27 November 2016	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial liabilities				
Trade and other short-term payables	(154,818)	(154,818)	(128,123)	(128,123)
Hire purchase borrowings	(3,552)	(3,552)	(4,815)	(4,815)
Long-term borrowings	(154,500)	(154,500)	(37,000)	(37,000)
Long-term payables	(10,368)	(10,368)	(814)	(814)
	(323,238)	(323,238)	(170,752)	(170,752)
Financial assets				
Other investments carried at cost	36	36	18	18
Classified as loans and receivables				
Short-term receivables	40,393	40,393	38,903	38,903
Cash and short-term deposits	14,273	14,273	3,757	3,757
	54,702	54,702	42,678	42,678

The long-term rating for all financial institution counter parties ranges from AAA to Baa1 per Moody's rating scale.

Capital disclosures

The Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern and to provide an adequate return to shareholders. Capital comprises the Group's equity i.e. share capital including share premium and retained earnings, excluding pension asset and liability.

The Group's net debt to capital ratio is as follows:

	2017 £'000	2016 £'000
Net debt	142,247	37,019
Total equity (as defined above)	135,651	134,404
Debt to capital ratio	1.05	0.28

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31 Retirement benefit schemes
The Group accounts for pensions in accordance with IAS19 revised.

The Group operates two defined benefit pension schemes in the UK, the TM Group Pension Scheme and the TM Pension Plan, in addition to several defined contribution schemes which require contributions to be made to separately administered funds. Pension costs for defined contribution schemes were £1,559,000 (2016: £1,409,000).

The two defined benefit pension schemes are subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The schemes are operated under trust and, as such, the trustees of the schemes are responsible for operating the schemes and they have a statutory responsibility to act in accordance with the Trust Deed and Rules, in the best interest of the beneficiaries of the schemes, and UK legislation (including Trust Law).

The nature of the schemes exposes the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

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

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

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

The last completed triennial full actuarial valuation of the schemes was carried out at 31 March 2016. Deficit repair contributions were agreed at £944,000 p.a. from 1 April 2017, £1,150,000 p.a. from 1 April 2018, and £1,400,000 p.a. 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 IAS19, on valuations using the projected unit method.

The disclosures are based upon the preliminary valuation of the schemes which were carried out as of 31 March 2016, updated to 26 November 2017 by qualified independent actuaries. The main assumptions when valuing the assets and liabilities of the schemes under IAS19 revised are as follows:

	Group pension schemes	
	2017 %pa	**2016 %pa**
RPI inflation	**3.15**	3.25
CPI inflation	**2.15**	2.25
Rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase to pensions in payment:		
5% LPI	**3.05**	3.15
2.5% LPI	**2.15**	2.20
Discount rate	**2.60**	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	**2017 years**	**2016 years**	**2017 years**	**2016 years**
Life expectancy of a pensioner aged 65 – male	**87.0**	87.0	**87.2**	87.1
Life expectancy of a pensioner aged 65 – female	**88.9**	89.0	**88.9**	88.6
Life expectancy at age 65 for someone aged 45 – male	**88.5**	89.4	**86.4**	89.5
Life expectancy at age 65 for someone aged 45 – female	**90.6**	90.6	**90.5**	90.4

	TM Group Pension Scheme		TM Pension Plan	
Notes to the balance sheet	**2017 £'000**	**2016 £'000**	**2017 £'000**	**2016 £'000**
Fair value of scheme assets	**89,097**	89,249	**48,104**	46,791
Present value of funded scheme obligations	**(75,488)**	(78,303)	**(51,456)**	(51,635)
Net pension asset/(liability)	**13,609**	10,946	**(3,352)**	(4,844)