McColl's

Your favourite neighbourhood shop

McColl's Retail Group plc
Annual Report and Accounts 2020

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Financial KPIs

Like-for-like sales[1]

12.0%

+12ppt 2019

Grocery & Alcohol Mix[2]

34.3%

+270bp 2019

Gross profit margin

23.9%

–200bp 2019

Adjusted EBITDA[3]

£29.1m

–9.3% 2019

Adjusted earnings per share

0.6p

-89.3% 2019

Average basket size

£7.61

+21.2% 2019

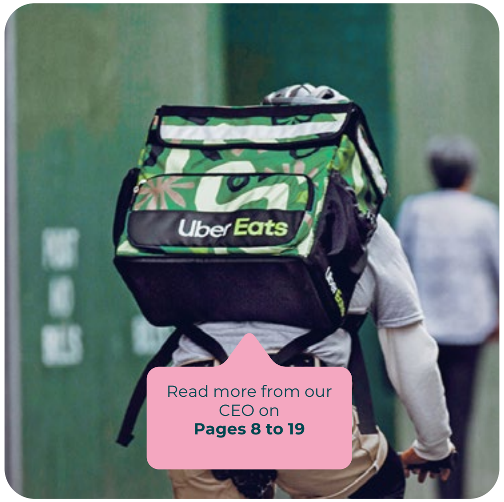
The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 135–136.

1 LFL sales reflect sales from stores that have traded throughout the current and prior financial periods, and include VAT but exclude sales of services (fuel, lottery, mobile phone top-up and travel tickets). This measure is based on a 52-week comparison.

2 Defined as the proportion of grocery (including food-to-go) and alcohol sales to total sales (excluding services). This measure excludes VAT.

3 EBITDA based on pre IFRS 16. Full details of adjusted EBITDA can be found in note 6 on page 111.

2020 highlights



"The importance of our convenience stores to local communities has never been greater. The pandemic has reinforced our conviction that our strategy of growing grocery mix, and keeping the customer at the heart of everything we do, will achieve our vision to be your favourite neighbourhood shop."

Chairman's statement

Angus Porter
Chairman

Dear shareholder

The last 12 months have of course been dominated by the COVID-19 pandemic, which has engulfed the UK and wider world, and naturally, our response to the pandemic has been the primary focus for our Chief Executive, Jonathan Miller, and his management team.

As an essential retailer, and one that provides a crucial service to local neighbourhoods, not only for food but other services including Post Office and Collect+, we knew that our communities would rely heavily on us throughout the crisis. The fact that we were able to keep our stores open, and continue to do so, is testament to the dedication and hard work of everyone at McColl's.

At the start of the pandemic, the management team worked tirelessly to ensure the safety of colleagues and customers. We moved quickly to adapt stores for social distancing measures, temporarily removed non-essential items from sale such as scratch cards due to potential transmission risks, reduced trading hours to manage deliveries and staff absence levels, as well as fitting stores with the necessary protections such as perspex screens at the till counter.

We also deployed a full range of personal protective equipment (PPE) for our store colleagues and offered them double discounts for an extended period to help to support them during these times.

We rapidly deployed remote working for our Retail Support Centre colleagues, whilst finalising the sale of our head office – meaning we have yet to benefit fully from the much better working environment afforded by our new headquarters.

The resilience shown by all our colleagues under such challenging circumstances, over months and months, has been inspiring. We will continue to prioritise their support and wellbeing, as well as the communities we serve as the nation navigates its way through the pandemic.

Review of the year

Demand for our local convenience retail offering has never been higher, highlighted by like-for-like revenue growth of 12.0% during the year. This growth was primarily driven by the pandemic, with us welcoming many new customers as a result of the positioning of our stores in key neighbourhood locations and the breadth and range of product on offer.

This strong top-line performance did not carry through to profit, as changing shopping behaviours and product mix led to a dilution of operating margins, with higher-margin sales of impulse products, for example, being severely impacted. This was on top of the ongoing COVID-19 related costs that the business has had to absorb. Adjusted EBITDA (pre IFRS 16) in the year was £29.1m, lower than the £32.2m delivered in the prior year. The business rates relief and VAT deferral from the Government provided us with crucial support throughout this period and I must emphasise how grateful we are, enabling us to continue to support our local communities that rely on us.

Despite the disruption caused by the pandemic, the business made good progress on its strategic objectives. We extended our customer range and selectively invested in essential items to offer better value for money. A new operations structure was also created to create a flatter, simpler and more effective organisation for the future.

Our store optimisation programme was accelerated during the period, which saw 179 stores close, as we focus our business on larger, food-led convenience stores. This strategy has been reinforced during the pandemic, with the strongest revenue performance being delivered with stores with the highest grocery mix. It is clear that customers demand a convenience offering with a broad fresh food range, at competitive prices. This has been exemplified by the trial of 31 Morrisons Daily stores, which have performed strongly.

Therefore, I am pleased to report that we have extended our relationship with Morrisons by a further three years, which will give us an even wider range of product, as well as benefitting from a total of 300 Morrisons Daily format store conversions within the next three years. This is in addition to the fact that Morrisons has become our sole wholesale supplier, enabling us to simplify our operations even further.

We will continue to work with Morrisons to optimise the performance of the remainder of our store estate, continuing to develop the Safeway product range as part of a broader programme of range reviews.

To help support our Morrisons plans, we recently engaged with our banking syndicate, and I am pleased to say that our financing arrangements have been amended to give us more flexibility to help execute on our strategy in 2021 and beyond. Further detail is provided in the financial review.

> **"Demand for our local convenience retail offering has never been higher, highlighted by like-for-like revenue growth of 12.0% during the year."**

Board and Executive changes
I'd like to take this opportunity to thank all of our people for their contributions this year, particularly under such challenging circumstances. Everyone from the Board, Jonathan and his management team, to our frontline retail colleagues have gone above and beyond their duties, adapting to a rapidly changing environment, while keeping a positive attitude.

Having the right, talented senior leadership in place is critically important to help navigate our business through a variety of challenges including the current coronavirus crisis, coupled with a highly competitive sector and weak consumer confidence.

There were several changes to the leadership team and Board over the last year. Robbie Bell stepped down from his position as Chief Financial Officer to pursue a new opportunity. The Board undertook a thorough process and welcomed a new Chief Financial Officer, Giles David, who joined the Group in June 2020. Giles brings 15 years of experience as a Chief Financial Officer across consumer facing businesses. I would like to thank Robbie for all he achieved for our business.

Richard Crampton, Chief Commercial Officer (CCO), was also appointed to the Board in June 2020. The appointment was recognition of the significant contribution that Richard has made since joining McColl's in September 2019. Richard has been responsible for accelerating the development of the Group's commercial strategy and further enhancing the customer proposition. The Board and I welcome Giles and Richard to their new roles and wish them every success in the future.

We were also delighted to strengthen the Board with two new Non-Executive Director appointments. Dominic Lavelle joined the Board in May 2020, succeeding Sharon Brown as Chair of the Audit & Risk Committee. I thank Sharon for her valuable contribution during her time at McColl's. Dominic also sits on the Remuneration Committee and Nomination Committee. Benedict Smith joined the Board in July 2020, and sits on the Audit & Risk Committee, Remuneration Committee and Nomination Committee. Both Dominic and Benedict bring a wealth of relevant experience that we will benefit from.

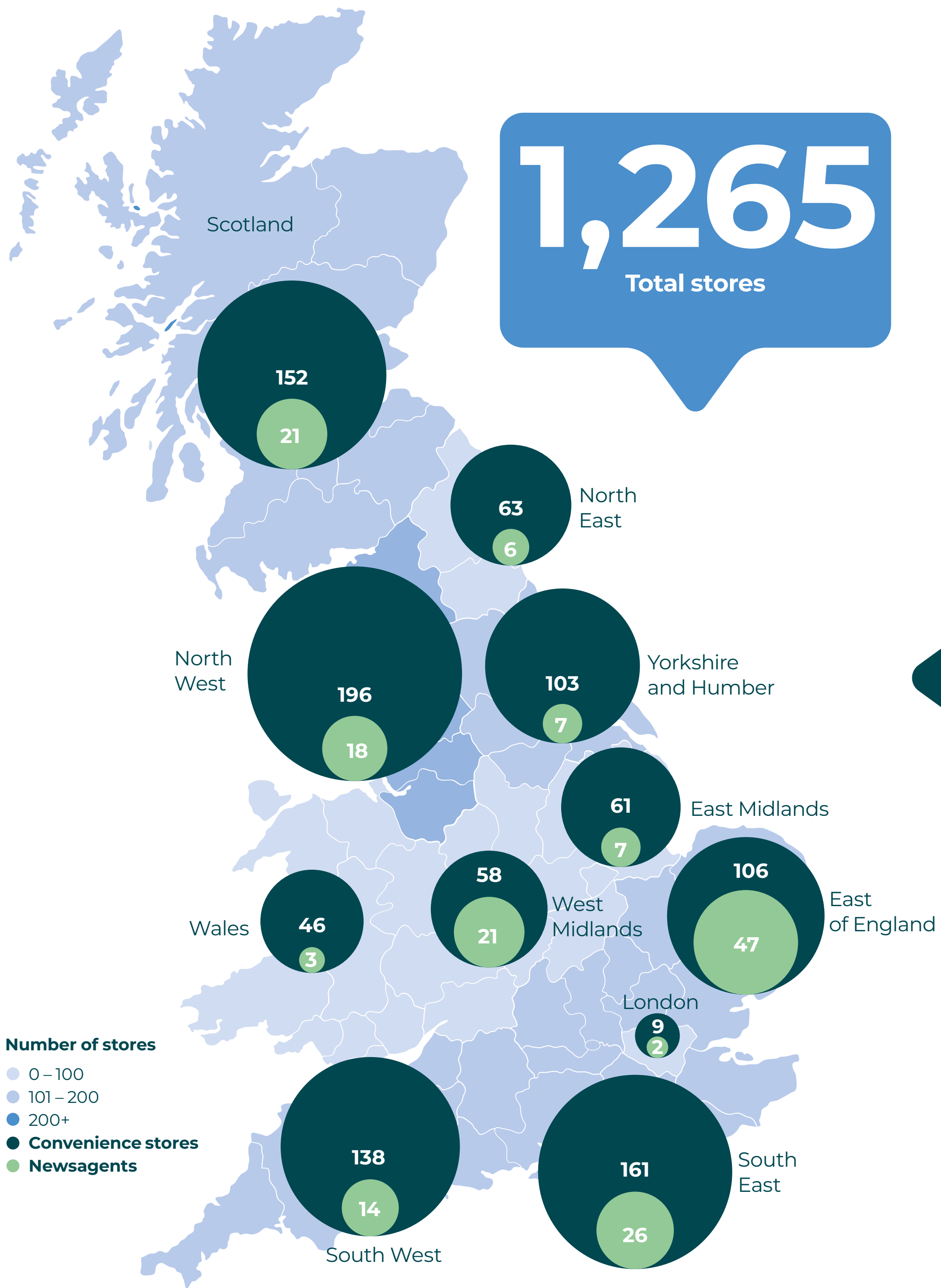
I am also pleased that we have strengthened the support centre team by making critical senior appointments in Technology, Investor Relations, Property and Operations, and believe we are now much better equipped for success.

Optimism for the future
I am confident that we will emerge from this crisis as a better and stronger business, and one that remains focused on delivering our core strategic objectives. The importance of neighbourhood stores has never been greater, and we are well positioned to continue enhancing our convenience offer by further developing our partnership with Morrisons, and further improving the quality of our estate and our overall customer experience.

Angus Porter
Chairman

Where we operate

Our network of convenience stores and newsagents provides essential groceries and services to 1,265 neighbourhoods across the UK.



1,093

Convenience stores

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

Through acquisitions and the conversion of hundreds of our newsagents, we are one of the UK's largest neighbourhood retailers with 1,093 convenience stores nationwide.

Morrisons Daily
During the year, we converted 21 of our stores to Morrisons Daily. These are stores that are owned and operated by McColl's, but have the Morrisons Daily fascia with ranges that include Morrisons own-branded products. At the year-end, we had 31 Morrisons Daily stores altogether, with these formats performing strongest given their high grocery mix and wider choice for customers. Under the new agreement with Morrisons, we have plans to convert 300 stores over the next three years.

172

Newsagents

Our newsagents are branded Martin's across the UK, except in Scotland where we operate under our heritage brand, RS McColl. We currently operate 172 newsagents across the UK.

What we offer

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

Customer focus

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

22%
of customers visit a local convenience store every day

Source: Lumina CTP 2020.

Local

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

51%
of customers live within 400 metres of a local convenience store

Source: Lumina CTP 2020.

Products

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

+13%
grocery sales growth

Everyday services

So much more than local shops, our stores are neighbourhood hubs that provide a vital service to lots of communities, including ATMs, bill payment, Post Offices, and internet collection/return points.

534
Post Offices

Communities

Our customers value the support we give to communities around our stores. This includes a £1 million fundraising target for Great Ormond Street Hospital Charity.

>£500k
raised for Great Ormond Street Hospital so far

Chief Executive's Review

Your favourite neighbourhood shop

Fundamentally, the pandemic has reinforced our conviction in our vision and our ongoing strategic change programme.

Jonathan Miller
Chief Executive Officer

Food-led neighbourhood retail

This has been an extraordinary year and one in which the passion, dedication and loyalty of my colleagues throughout the business has been simply incredible. Since the onset of the COVID-19 pandemic, I am proud to see how our colleagues on the frontline have consistently gone above and beyond to support their local communities and keep the business trading.

The pandemic has also led to significant changes in food retail, and accelerated trends that otherwise might have taken years. There is no doubt that local neighbourhood retailing has come into focus in 2020, and our food-led stores have outperformed the convenience market. Lockdown restrictions and the move to home working have materially affected how our customers shop with us, and validated the changes we were already making to our offer. Increased demand for food-led neighbourhood retail is here to stay. For this reason, I am delighted that we have recently reached agreement with Morrisons to extend our supply agreement, giving us even greater access to their food retail expertise, breadth of product offering and brand. Together with our recently signed bank facility extension, this is an important milestone as we execute our strategy to become your favourite neighbourhood shop.

At the height of the pandemic, consumer shopping behaviour in our stores shifted towards less frequent visits, but with bigger shopping baskets and more food-based missions. Some categories benefitted from this change, with fresh food, BWS (beers, wines and spirits) and tobacco growing quickly, at the expense of other products such as food-to-go and impulse confectionery, snacks and soft drinks. As a result of this strong demand, the business was able to deliver materially higher like-for-like sales, up by 12.0%. However, a significant shift in the pattern of trade, and additional costs related to the implementation of COVID-19 protection measures for staff and customers, impacted overall operating margins.

Chief Executive's review continued

> **In stores, we offered all emergency and NHS workers free coffee, as well as the delivery drivers that kept goods flowing to our stores.**

Whilst we expect some of these trends to normalise when the pandemic eases, we do not expect them to completely revert, particularly the growth in take-home food and home delivery. Ultimately, the trends amplified by the onset of COVID-19 directly tie into the areas where we are focusing our strategy – towards a local grocery-led convenience retail offering, now supplemented by online.

In the short term the pandemic will continue to impact trading, and we will continue to adapt our business to a change in customer demand. We recently signed a new agreement with Uber Eats that will see the service operate across 400 stores by the end of March 2021. This provides another channel for customers to get their daily essentials, while also attracting a younger generation of customers to our brand.

McColl's is well positioned in a market that is forecast to grow. The importance of neighbourhood stores and convenience retail to local communities has never been greater. Our key strategic priorities will help deliver sustained profitable growth over the coming years.

COVID-19 response

The health, safety and wellbeing of our colleagues and customers continues to be a priority, as we remain very much amidst the COVID-19 pandemic. I thank all of our colleagues who continue to work in an extremely challenging environment.

At the onset of the COVID-19 outbreak we adapted quickly to a rapidly changing situation, to keep all of our stores trading to help serve our local communities with essential products and services. We dealt with the increased demand from consumers, deployed the necessary personal protective equipment (PPE), adopted social distancing and health and safety measures in line with Government guidance and worked closely with our wholesale partners to keep supply chains open.

As a neighbourhood retailer we implemented numerous initiatives to help serve our communities. To show our support for the NHS and the invaluable service it provides, McColl's provided essential food and goods to colleagues at NHS Great Ormond Street Hospital (GOSH) for free. In stores, we also offered all emergency and NHS workers free coffee, as well as the delivery drivers that kept goods flowing to our stores. We were the first convenience retailer to support the Free School Meals voucher scheme. We also stocked The Big Issue in-store for the first time in the magazine's history to support its vendors.

Uber Eats service operating across

400

stores by the end of March 2021

Extension of Morrisons partnership
Our partnership with Morrisons is of key strategic importance, and I am delighted to have recently announced an extension of our agreement to January 2027, giving us continuity of supply for the next six years. Events over the past year have highlighted how critical it is to have a strong wholesale partner and how important a credible food offer will be to our future. Our partnership with Morrisons was a key reason we were able to provide continued service and extended food ranges against a backdrop of huge disruption.

The new long-term partnership will provide McColl's with an important strategic opportunity to convert 300 of our best convenience stores to the Morrisons Daily format over the next three years. Sales in our existing stores of this format have outperformed the rest of the estate during 2020, and the move is in line with our strategic focus to grow our grocery mix. We will also have continued access to a supermarket quality fresh food and grocery offer through the Safeway brand, where further range extensions are planned.

We have now completed the process of migrating the entire estate to the Morrisons supply chain, making them our single wholesale partner, enabling us to simplify our operations, whilst ensuring the best value and enhanced range for our customers.

Extension of banking facilities
We retain a supportive relationship with our lending banks and having engaged with our banking syndicate in the latter part of 2020, we were pleased to recently announce that our bank facilities have been successfully amended with improved headroom against covenants, and extended with a revised maturity date of February 2024. Alongside the extension of our Morrisons partnership, the amended facility gives us greater security and flexibility to execute on our strategic initiatives in 2021, and beyond. Further details of the new banking arrangements are provided in the financial review.

Our new brand has already featured in our new Retail Support Centre and will be rolled out across internal and external communications. The new fascia is currently on trial in one store, where we will evaluate performance and customer feedback before any decision is made on a wider implementation.

Chief Executive's review continued

Strategic progress

The key focus in 2020 was successfully navigating the challenges posed by COVID-19, and to ensure that all our stores kept trading. However, the pandemic has reinforced our conviction that our strategy of growing fresh food and grocery mix, keeping the customer at the heart of everything we do, remains the right one, supplemented by developing an online offering to capitalise on the market shift we are experiencing.

Our vision remains to be your favourite neighbourhood shop and more than ever we are focused on delivering a great customer experience. The new partnerships with Morrisons and Uber Eats will be critical to deliver this. In addition, the work we are doing on format and range will ensure we retain the new customers drawn to our stores because of the pandemic.

Our strategy is based on four key pillars: 1) strong customer offer, 2) easy to run stores, 3) improving our stores and 4) great place to work. We have continued to make progress on these priorities wherever possible, and adapting them to changing circumstances as required.

Our key strategic priorities are as follows:

1. **Strong customer offer,**
2. **Easy to run stores,**
3. **Improving our stores and**
4. **A great place to work.**

> **"Our vision remains to be your favourite neighbourhood shop and more than ever we are focused on delivering a great customer experience."**

Our home news delivery (HND) grew significantly due to the COVID-19 crisis and national lockdowns. It provided a crucial service for customers who wanted to be kept abreast of the latest news with their daily newspaper, without needing to venture outside of the home.

At the end of FY20, we had over 90,000 HND customers, which represents a like-for-like increase of over 17,000 customers over the period. Our HND operation is one of the largest in Europe, and McColl's has around 10% of the total UK market.

1. Strong customer offer

High demand for grocery and BWS categories
Total like-for-like (LFL) sales growth of 12.0% (FY19: 0.0%) across the Group was driven by a strong performance in the grocery and BWS (beers, wines, spirits) categories in particular.

This highlighted the changing shape of trade throughout the year as a result of the pandemic, with strong demand for fresh food, BWS and multipacks, with a shift away from impulse purchases (confectionery, soft drinks). We also invested selectively in price on chilled foods, fruit and vegetables and milk, as well as maintaining our promotional programme to offer customers great value.

Reviewing space, range and format
Some of our planned range review work had to be delayed in 2020 because of the COVID-19 crisis. Instead, we had to respond with agility and speed to adapt ranges to the change in consumer behaviour over the course of the year. This work will now take place across 2021, where the team is planning to review every category both in the core McColl's estate, as well as our Morrisons Daily stores.

The completion of this range review work will deliver a better range of products to fit with the needs of our customers, combined with a focus on efficiency to deliver lower costs through reduced stock keeping units (SKUs) and lower stock turn.

There is also an opportunity to optimise the space within our retail portfolio by re-setting store formats, fixtures and store clusters to maximise sales and gross margin. This work includes segmentation of stores by location, performance, size and demographics, to strengthen our targeting of products, promotions and services to local markets and shopping missions.

Our social media channels have continued to grow, driven by the "YourMcColl's" brand. Customer engagement across our social channels was up by over 60% from last year. Engaging with customers daily via these channels allowed us to find new ways of assisting customers, particularly during the COVID-19 pandemic. Being able to listen to their requests helped to shape the way we deployed personal protective equipment (PPE) and communicated the latest developments to our shoppers.

We have grown to 36,000 followers through various marketing and media campaigns, rewarding our customers by letting them know that we are always there for them. We will leverage these platforms to continue serving our customers through the pandemic, as well as promoting the business with the latest promotions and competitions, and new product development.

Customer insight
As well as improving range, we continue to develop our offer through investment in customer insight to optimise our brand and value position. A recent 'Word on the Street' customer survey conducted with 3,500 McColl's customers highlighted that 83% were 'highly satisfied' with their shopping experience overall. The highest scores on the survey were directed to our colleagues with most customers citing the friendliness and helpfulness of the store team, as well as the ease of completing their shopping trip. Our shoppers have told us that they would like to see a wider range of fruit and vegetables, and bakery products in our convenience stores which fits with our strategic focus towards larger food-led stores.

Chief Executive's review continued

Uber Eats now across 400 stores
The 'last mile' online delivery opportunity is a hugely important one for McColl's, offering our customers that extra element of convenience in having their daily essentials delivered directly to their doorstep. Building on our long-established home news delivery service, at the onset of the pandemic we rapidly rolled out Deliveroo to 135 stores. We have now switched our partnership to Uber Eats, which means that as of March 2021 we now offer this service from 400 stores.

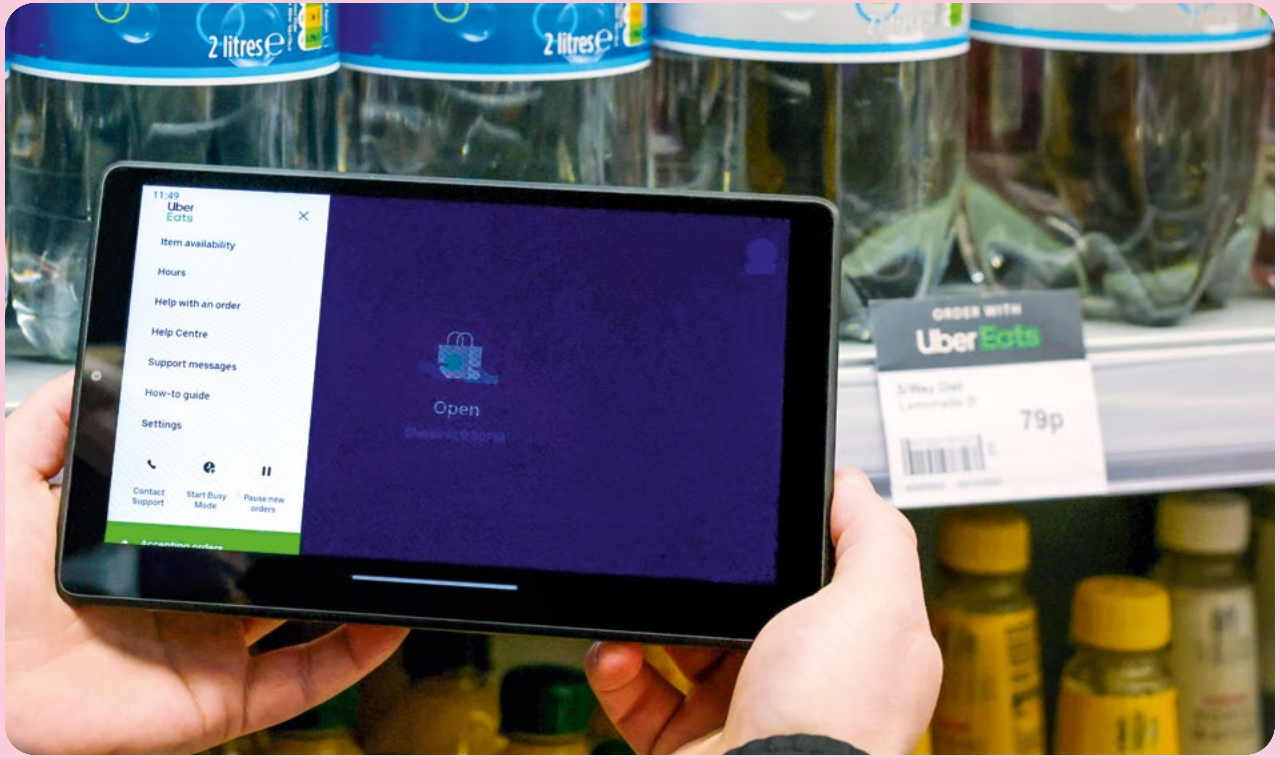
Our new partnership allows customers to order an even wider range of 500 convenience products including groceries, soft drinks, confectionery, snacks, beer, wine, toiletries, and other essential household items. Goods can be purchased in line with local store opening times which means that customers can order goods morning, day and night via the Uber Eats app for delivery in as little as under 30 minutes.

The partnership is an incremental revenue opportunity and in line with our strategy to further strengthen our customer offer by making it easier than ever for customers to get their daily essentials, as well as helping to attract the younger generation of customers.

Uber Eats

This new partnership is another example of how we continue to improve our strong customer offer. Now live across 400 stores nationwide, it allows our customers to purchase their daily essentials at any point in the day, with delivery in as little as 30 minutes. Whether it be for breakfast, lunch, dinner or late-night snacking, we cater for all our customer's needs. BWS and tobacco remain the most frequently purchased items.

This improved online home delivery will help us to appeal to a younger generation, and as we continue to explore other ways to leverage the growth in online home delivery, we expect this to create further opportunities as we expand the offer.



Post Office partners

We are the Post Office's biggest partner. With Post Offices in more than 530 of our stores, we operate twice the number of outlets that they run themselves. Most of our Post Office counters sit alongside our retail tills, and we are typically open 6am-10pm, much longer than a regular Post Office.

As the high street changes and customer behaviours switch to on-line shopping and working from home, our POs are well positioned to meet these changing needs and provide a crucial public service to our communities. The new 'Drop & Go' service allows customers to drop off multiple parcels without having to wait. This gives us more flexibility to process parcels at quieter times and manage our queues much better.

The PO banking services we provide offer a lifeline, allowing people to withdraw cash, check their balance and pay cash and cheques into their account. Particularly important with so many bank and building society branches disappearing from our high streets, especially in rural areas, and in areas with higher levels of elderly customers.

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Post Offices in our stores

Chief Executive's review continued

> **The work to optimise store processes has more than a dozen work streams to improve efficiency in the store without impacting service.**

Converting

300

existing stores to the Morrisons Daily format

2. Easy to run stores

Our work around driving efficiencies through the operating model was paused temporarily in March 2020 as we entered a national lockdown, but restarted in September 2020. The work to optimise store processes has more than a dozen work streams to improve efficiency in the store without impacting service. These initiatives include simplifying store scheduling, rightsizing the range and making replenishment easier.

We are also analysing store structures to maximise shop-floor presence, and work has begun on implementing a labour modelling system to help us refine the 'right hours in the right place' to deliver for our customers.

We completed a reorganisation of our field support teams to align more closely with our strategy and to create a simpler, flatter structure for the future. This move will enable more enriching and customer-centric roles. Changes included fully integrating the Post Office function into our retail business, reducing the overall number of regions, and moving some of the risk & compliance function centrally, away from the operations team.

Some of our plans to introduce new technology in FY20 to serve customers more efficiently were disrupted by the COVID-19 pandemic, however it has served to reinforce the importance of a progressive technology strategy for the business. I am delighted that we have been able to recruit a new Technology Director in 2021 to support us through this rapidly changing environment.

3. Improving our stores

Store optimisation programme

We continued our programme of store optimisation during the year, exiting loss-making stores to focus our estate on larger, food-led convenience stores. As a result, we closed 179 stores leaving a total of 1,265 stores at the end of the year. Closures were temporarily paused in early 2020 due to the COVID-19 pandemic to keep as many of our stores operating and serving the community as possible. We will continue to progress the opportunity to right-size our estate towards the profile of shops that fit our strategy going forward.

Morrisons Daily rollout to accelerate

Demand has been strongest in our larger turnover, food-led, convenience stores. This ties in with our strategic focus on the larger convenience store format, such as Morrisons Daily, to drive incremental sales in grocery, fresh food and BWS, providing opportunities for sales mix improvement.

We opened 21 Morrisons Daily trial stores during the year, leading to a total of 31 now in operation. The trial has been important to help refine range development, while exploring the potential to expand the fascia into more stores. Our Morrisons Daily stores have the highest grocery mix across our estate, helping to drive the strongest performance across the business. As part of the Morrisons contract extension, we plan to convert 300 existing stores into Morrisons Daily in the next three years.

Morrisons supply partnership extended

> The partnership involves supply of Morrisons own-branded product in our Morrisons Daily stores, as well as over 300 Safeway branded fresh food and grocery products.

In March 2021, we announced an extension of our supply partnership for a further three years to January 2027, giving our customers an even broader range of grocery and fresh foods while also offering the best possible quality at the best possible price.

The partnership involves supply of Morrisons own-branded product in our Morrisons Daily stores, as well as over 300 Safeway branded fresh food and grocery products for McColl's branded stores. The migration to Morrisons supply for the whole estate was completed in February 2021, enabling us to further simplify our operations and provide a more consistent offer to our customers.

Chief Executive's review continued

4. A great place to work

Listening and responding to the concerns of our colleagues across the business has been a priority over the last year given the COVID-19 pandemic. We kept teams connected and colleagues were offered additional resources and learning opportunities to support them through the crisis. These included regular podcasts, articles, videos and webinar sessions, focused around developing resilience skills, wellbeing and effective time management.

During the period, we launched a colleague engagement plan and embraced new ways of working. Frontline colleagues were empowered to go that extra mile in supporting our local communities. It was heart-warming to read stories of our colleagues making deliveries to local elderly and vulnerable customers and supporting them in a variety of ways.

The launch of McColl's Connect, a frontline employee communications platform, was an important step to connect all colleagues across the organisation. The platform creates a feedback loop and has been invaluable in creating a more inclusive culture at McColl's.

Apprenticeship schemes continued to be offered, despite the disruption around the pandemic, with a focus on developing retail management and customer service skills. Apprenticeship schemes provide an additional way for colleagues to learn and develop, and support the capability and skills required to deliver the business strategy.

"It was heart-warming to read stories of our colleagues personally making deliveries to local elderly and vulnerable customers and supporting them in a variety of ways."

A new initiative in 2020 was the launch of our first ever graduate programme, starting with six colleagues. The graduates joined their respective departments in December 2020 on a two-year rotation programme focused on understanding the business across a variety of departments and working towards becoming a senior manager. Placing graduates can bring a fresh level of enthusiasm and creativity to the workplace, and we hope our new intake will make a long-term contribution to the development of the business.

I am delighted that in our most recent colleague engagement survey, 87% of respondents rated McColl's as a great place to work. We will build on these successes with the aim of continuing to support our colleagues to do a great job and listening and responding to ensure that we are all engaged in the future success of this great business.

Engagement survey

87%

of respondents rated McColl's as a great place to work

Leadership changes

To capitalise on the increased momentum in the business, we have made further changes to strengthen the McColl's leadership team. Giles David joined McColl's and the Board on 1 June 2020 as Chief Financial Officer. Giles brings extensive experience in senior finance roles in customer facing businesses across retail, hospitality, property and telecoms.

Richard Crampton, Chief Commercial Officer, was appointed to the Board from 1 June 2020. Richard has made a significant contribution to the business since joining in September 2019 and is a strong addition to the Board as we execute our strategic programme.

Karen Bird was appointed to the position of Colleague and Operations Director in February 2020, having joined as Colleague Director in 2016. Karen has extensive experience in food retail, with over 20 years' experience at Tesco in both HR and Operational roles, including leading significant change programmes.

I am also pleased to welcome two new Non-Executive Director appointments. Dominic Lavelle joined the Board in May 2020 and Benedict Smith joined the Board in July 2020. Dominic and Benedict's broad range of skills and experience will be of significant benefit to the Board as we implement our strategy.

Looking forward

Looking ahead to 2021, whilst uncertainties and restrictions remain, the pandemic has reinforced my conviction that we have the right building blocks in place to benefit from a post COVID-19 world. I do not expect the trends experienced over the last year to completely revert, with flexible working patterns continuing as a matter of course going forward, and hence a higher demand for a strong local convenience offer.

Our strategic focus toward larger grocery-led convenience stores will accelerate an improved grocery mix and help to increase the average basket size. We will improve the quality of our estate and bring a great shopping experience to more customers through our extended Morrisons partnership. We will continue to refine our operating model and costs to serve without impacting customer service. This will be supplemented by maximising the online home delivery opportunity to drive incremental revenues. All of these initiatives will help enhance our convenience offer and deliver sustainable profitable growth for McColl's over the medium term.

Finally, I would like to thank all of my colleagues for the difference they make to our customers on a daily basis and for their hard work and dedication, never more evident than during the current COVID-19 pandemic.

Jonathan Miller
Chief Executive Officer

Great Ormond Street Campaign

In November 2019, we began local fundraising for Great Ormond Street Hospital Charity (GOSH) with a target to reach £1m within three years. The money raised will help fund the refurbishment of McColl's House, which provides family accommodation near to Great Ormond Street Hospital. This enables parents of sick children to be at their bedside day or night.

Thanks to efforts from store colleagues and customers up and down the UK, we reached £500,000 by September 2020, less than a year since the national partnership launched. We remain well on track to achieve the fundraising target ahead of schedule. Fundraising highlights include 81 McColl's colleagues and friends who completed two 26-mile walks around Loch Leven and Ayrshire, collectively raising over £15k. The partnership has also seen world records broken, with a team of eight McColl's colleagues from Crewe who achieved the Guinness World Record for hitting the most double 10's on a dartboard in a 24-hour period, while raising £12k in the process.

Marketplace
Convenience trends

Retail sector
Retail sales proved resilient in 2020, declining by only 0.3%. However, this is the first decline seen for a calendar year since the BRC-KPMG Retail Sales Monitor began in 1995. Performance was mixed with food sales up 5.4%, and non-food down by 5.0%. Food sales were higher than before the pandemic as retailers continue to benefit from the shift from the on-trade market to the off-trade market as consumers continued to stay at home more than before the pandemic. Physical non-food stores, which includes all 'non-essential' retail, saw sales drop by a quarter compared with 2019.

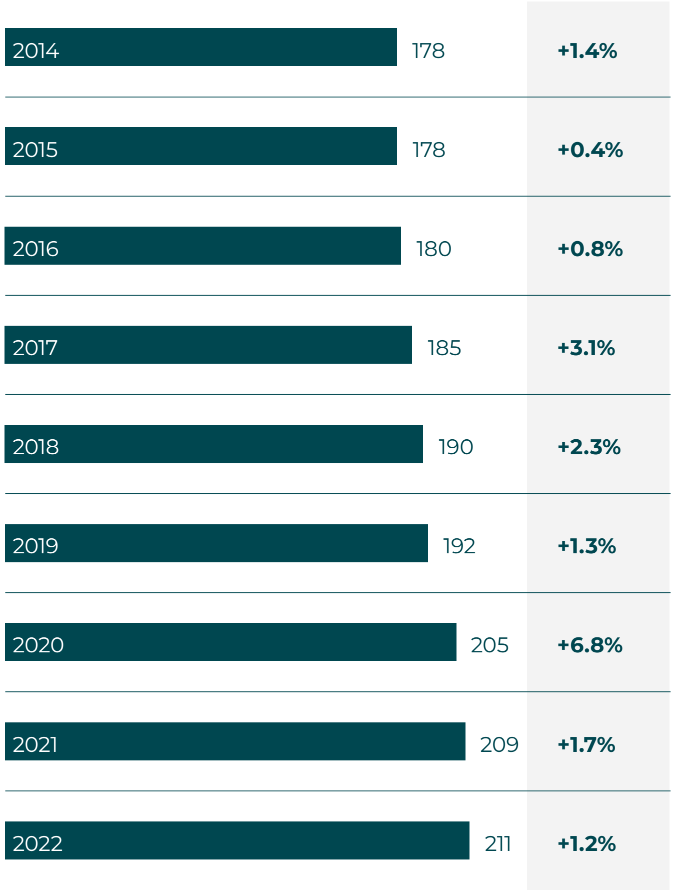
The grocery sector saw significant change as a result of the lockdown, with a shift to fewer but bigger shops, and the unprecedented growth of online. What was a temporary channel shift is becoming permanent and this mainly to the detriment of the large supermarket channel. On the other side, demand has been stronger for convenience stores with more people visiting their local high street as they continue to work from home.

This has impacted the high street, which has been under pressure from lower footfall and rising costs for a number of years already. We have seen a record number of closures and administrations during 2020, and the impact is likely to continue into 2021, particularly as government support measures are withdrawn. Despite the new baseline, online sales across all categories are expected to continue to grow in 2021, aided by increased investment and consumers adapting to the ease of online shopping, particularly for those not feeling safe shopping in a store.

Spending on take-out meals has lagged significantly behind last year's level, driven by pub and restaurant closures and social distancing measures that have put people off eating out. This will continue to translate into higher demand for groceries for as long as these restrictions are in place. Going forward, while a lot remains uncertain, pent-up savings and a successful vaccine rollout should help support recovery in the retail sector later in the year.

IGD is forecasting that the UK food and grocery market will increase by 9.9% between 2019 and 2022. IGD has limited the forecast horizon to 2022, instead of its usual five-year forecast, due to a lack of long-term macroeconomic data and the uncertainty over how long the pandemic will persist.

UK Grocery Market Forecast (£bn)



Source: IGD UK market and channel forecasts (August 2020)

Channel forecast and market share

The retail landscape has seen a seismic shift as a result of the pandemic with consumer shopping patterns likely changed over the long term. This has driven online shopping up 40-70% on pre-coronavirus levels for almost all categories, according to the BRC, and a shift to local shopping with consumers feeling safer not to travel and choosing to support local businesses.

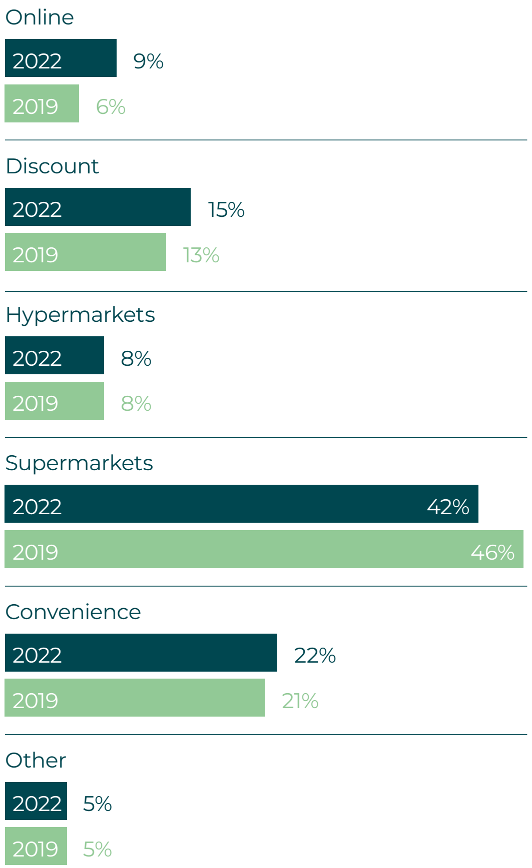
This shift in consumer shopping habits led to significant growth in convenience store sales, with the rate of growth in 2020 of almost 8%, more than double that achieved in 2019 (3%) according to Mintel research (Keeping it Local, August 2020). Convenience outperformed the wider grocery market, which grew by c.6% in 2020, as many consumers used their local shops for the main shopping trips during the pandemic.

This strong demand in convenience is not expected to continue into 2021, with lockdown and social distancing measures likely to be eased as the year progresses. Mintel estimates that convenience will decline by 3.9% in 2021 before returning to lower levels of growth (2-3%) through to 2024. As a result, the challenge for the convenience sector will be to retain the new customers attracted during the pandemic, while managing the transition back to impulse categories and food-to-go.

Overall, the Institute of Grocery Distribution (IGD) estimates that the convenience channel will grow by 13% from 2019 to 2022, with market share increasing by 60 basis points to 22% during the same period. This comes at the expense of larger stores (supermarkets and hypermarkets) who will lose market share faster than expected and account for half of grocery sales by 2022.

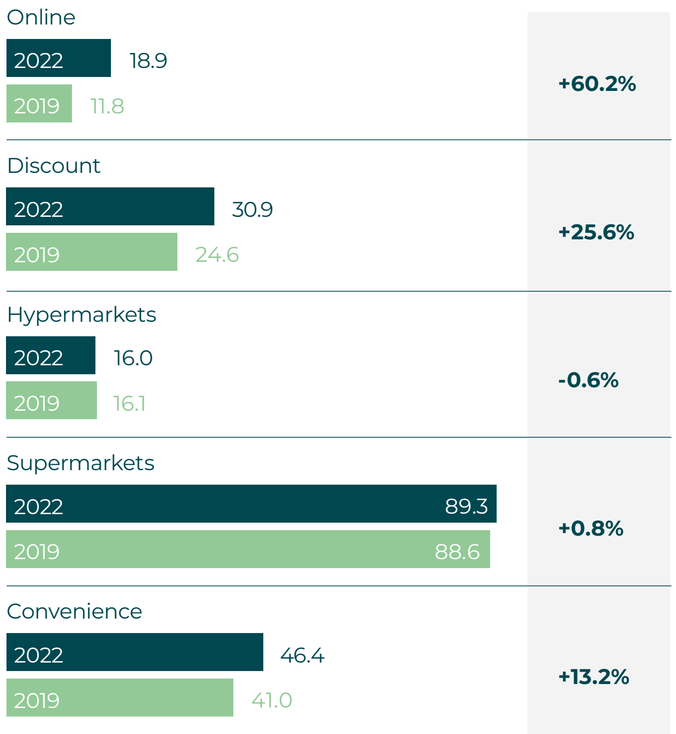
The online and discount channels will be the fastest growing during 2019 to 2022, with online set to grow by close to 60% according to IGD following a dramatic increase during the pandemic driving an influx of new shoppers and bigger basket sizes. Online is expected to take £1 in every £11 spent on grocery in 2022. The discounters are also expected to perform well, growing by 25% between 2019-2022 as unemployment rises and shoppers further seeking value for money.

UK Channel Market Shares (%)



Source: IGD UK market and channel forecasts (August 2020).

UK Channel Forecast (£bn)



Source: IGD UK market and channel forecasts (August 2020).

Marketplace continued

Convenience – bigger basket sizes
Convenience retail has benefitted from larger basket sizes and spend since the start of the coronavirus pandemic. According to a report from HIM & MCA Insight, basket value has grown 17% year-on-year to £7.46 and average basket size is 2.5 items – up from 2.3 in 2019.

Consumers are likely to use convenience stores to top-up their shopping locally, as weekly shops continue to grow online and consumers manage their cash flow. The average convenience store customer visits their local shop 3.7 times per week. Planned top-up shops accounted for 22% of all convenience shopping trips in 2020 according to HIM & MCA, up four percentage points versus the prior year.

Convenience – an important pillar of the local community
The convenience retail sector has benefitted significantly from meeting local needs during lockdown. While demand for convenience retail is likely to moderate from the high levels seen in 2020, there will be opportunities for stores to further enhance their role as destinations to meet local community needs.

According to Mintel research, 80% of convenience store shoppers agree that they provide essential services to local neighbourhoods, with 94% of store users visiting at least once a month. Increasingly, there has been growing awareness of consumers looking to support and be more engaged with local businesses. Mintel says that a quarter of consumers are now shopping more with local businesses as a result of the pandemic.

Convenience sector remains highly fragmented
The convenience channel remains highly fragmented, with around 47,000 stores in mainland UK according to the Association Of Convenience Stores (ACS), almost three-quarters of which are independently owned. The number of stores has remained fairly static in recent years and this trend is expected to continue, with limited availability of new greenfield and brownfield sites.

The disruption created by the coronavirus crisis meant any investment plans that were put on hold will be relaunched as the pandemic subsides. There is likely to be a shift in investment away from high streets and city centres, towards convenience stores in neighbourhood and suburban areas that will continue to play an important role in serving local communities.

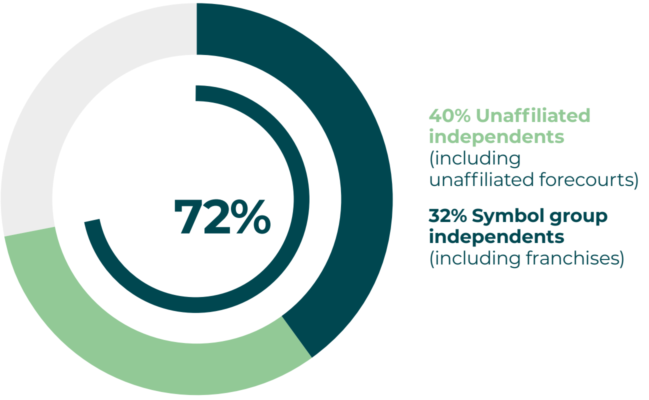
Retailers with a flexible operating model, looking to fine-tune the store offering to a local market, will benefit from the longer-term consumption trend of consumers choosing to support local businesses and shopping closer to where they live.

Brexit impact
The trade agreement between the UK and EU significantly mitigated many of the key Brexit risks for the sector. However, the impact of Brexit is far from over, with disruption at the border which could lead to price rises or shortages of certain food and drink items.

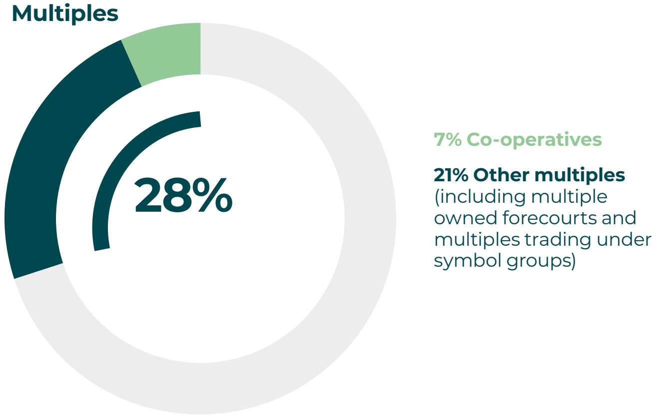
Our key supply chain partner, Morrisons, is an authorised economic operator in Europe, meaning that goods are fast-tracked through customs, reducing the risk with non-UK suppliers. In addition, Morrisons' vertically integrated supply chain and priority on local sourcing means it is well placed to mitigate the disruption caused by Brexit. We will continue to monitor the impact of the trade agreement, including any risks to the supply chain.

Shop ownership

Independent retailers



Multiples



Source: WRBM 2020.

Increasingly, there has been growing awareness of consumers looking to support and be more engaged with local businesses. Mintel says that a quarter of consumers are now shopping more with local businesses as a result of the pandemic.

Convenience store shoppers

80%

agree that they provide essential services to local neighbourhoods

Our business model

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

Our business model is underpinned by our core values:

Simple and consistent

Customer first

Caring and compassionate

Community champions

1. The resources and relationships we need

Colleagues

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

Stores

We directly manage all of our 1,265 stores across the UK (1,093 convenience stores and 172 newsagents). We make them easy to run, easy to shop at and ensure strong retail standards.

Partners and suppliers

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

Brand and reputation

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

IT systems

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

Robust financials

We maintain strong capital discipline and are developing an investment case to improve the resilience of the balance sheet.

2. How we manage our supply chain

Morrisons is our wholesale supplier, providing all of our convenience stores and newsagents with a range of fresh food and groceries under the Safeway brand, as well as Morrisons own-brand products across the Morrisons Daily fascias.

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

Safeway by Morrisons Since 1899

3. What makes us a leading neighbourhood retailer

51% of customers live within 400 metres of a local store*

22% of customers visit a local store every day*

619 Collect+ points and Amazon lockers

963 ATMs

534 Post Offices

>300 Safeway products

c.1,800 products in a typical convenience store

>£500K £1m fundraising target for Great Ormond Street

83% of customers 'highly satisfied' with shopping experience

Customer First

Local
Being at the heart of neighbourhoods means we're the convenient choice for customers.

Everyday services
Our stores are neighbourhood hubs – providing great products and useful services, when people need them and where they live.

Communities
We know how much people value their nearby shop and we work hard to support the communities around our stores.

Customer focus
Our warm and friendly colleagues put our customers first, providing the excellent service they expect from their neighbourhood's favourite shop.

Products
With essential food and groceries, fresh fruit and vegetables, ready meals and freshly prepared food-to-go, we cater for a wide variety of customer needs and missions.

4. The value this creates

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

4m Transactions per week

Colleagues
We look after our colleagues so that they can look after our customers.

87% enjoy working at McColl's

Social
We are an integral part of our communities and support a wide range of local organisations and a national good cause.

£1m fundraising target for Great Ormond Street Hospital Charity

Economic
We invest for long-term growth, helping our suppliers and the wider economy prosper.

£17.3m gross capital expenditure

Shareholder returns
We are committed to delivering long-term value to shareholders.

0.6p Adjusted Earnings Per Share (p)

Margins
We are committed to strengthening our sales mix to reduce our reliance on traditional low margin categories and drive improvements in our gross margin.

23.9% gross margin

Cash generation
As a cash generative business, we manage our debt and invest strategically.

£49.3m Net cash from operating activities

* Source: Lumina CTP 2020.

Resources and relationships

We aim to generate attractive financial and social value, and this will be enabled by the key resources and relationships identified on our business model.

Our colleagues

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

We had 16,413 people in total at the end of 2020, including more than 4,123 Home News Deliverers. Altogether, and accounting for part-time working patterns in the business, we employ the equivalent of 6,403 full-time colleagues.

Listening and responding to our colleagues
We hold regular business briefings and senior manager meetings that give colleagues an opportunity to ask questions and give us feedback. We use these briefings and our colleague magazine to keep them up-to-date on our business strategy and performance, as well as the broader financial or economic factors that may affect us all. We launched our internal social media platform in 2020 allowing us to really connect with colleagues across the business in sharing ideas and recognising each other for great work.

Our colleagues

16,413

people in total at the end of 2020

We conduct an annual colleague survey and an interim 'pulse' survey, which enables colleagues to share their views on working for McColl's, helping us identify things we need to improve on. In 2020, 87% of our people said that they enjoy their job and 72% would recommend McColl's as a great place to work. Our new colleague forums across stores, field teams and the retail support centre also allow us to engage with 250 colleagues on a deeper level to understand any issues or concerns they may have and gain more insight into the data behind our colleague survey.

Supporting our colleagues development

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

We have a good track record of promoting colleagues – 63% of Store Manager vacancies are filled internally. Many of our Store Managers started out with us on a paper round or as Sales Assistants, underlining the career opportunities we provide and the role we play in supporting local people and younger people into work. We also operate a successful apprenticeship programme, with 89 colleagues currently enrolled on the programme and 87 colleagues having completed in 2020.

We have enhanced our opportunities to develop in the last year, we have launched our first graduate programme and continue to deliver our Women at McColl's and Leaders programme which allows colleagues to gain new skills, learn, grow and gain confidence. This year, to support our colleagues further, we will be launching Talking Careers and the Potential Model Framework to truly understand the career aspirations of our colleagues supporting them to move into bigger and broader roles.

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

Rewarding and recognising our colleagues

We know how important it is that colleagues feel valued and are recognised for their hard work. We have introduced an online platform to recognise colleagues.

We offer a range of benefits for colleagues as well as flexible working opportunities. These range from colleague discounts in our stores to health care plans and a wide range of offers on days out and experiences.

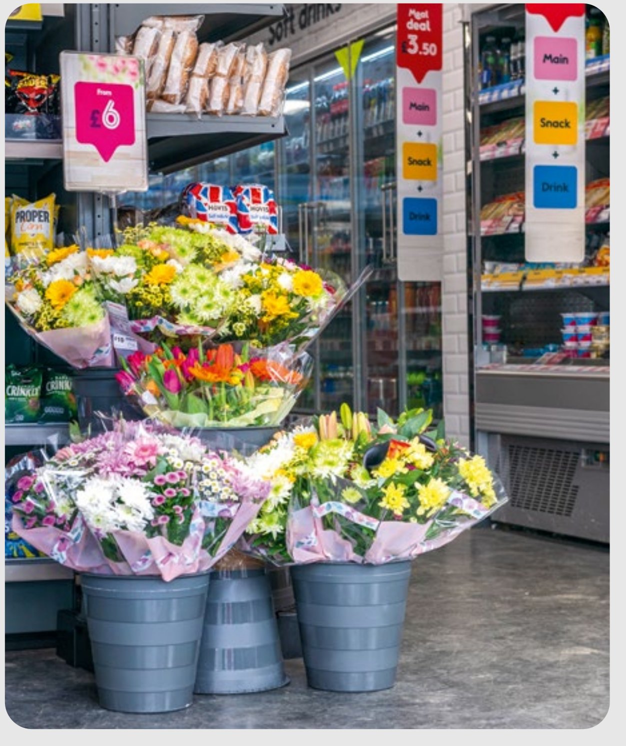
> **We conduct an annual colleague survey and an interim 'pulse' survey, which enables colleagues to share their views on working for McColl's, helping us identify things we need to improve on.**

Resources and relationships continued

Our stores

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

We continue to focus on making our stores easier to run, which in turn will make them easier to shop. Having the right range and right size will increasingly be a key focus in order to meet our customer needs. In addition, having the correct flow, layout and store infrastructure will provide an optimum shopping experience. We can then fine tune each store and optimise our range of products, categories and services for our customers.



Our partners and suppliers

Our distribution arrangement with Morrisons brought huge food retail experience to our business which complements our understanding of the convenience sector. We continue to work closely with Morrisons to better develop our offering and positioning in neighbourhood retailing. Through the relationship we are leveraging the grocery expertise of Morrisons with the convenience expertise of McColl's.

We had 31 Morrisons Daily stores operating in 2020. The format has been one of our most successful, delivering the highest revenue performance across our estate. This relationship will strengthen further with an extension agreement in place for a further three years to 2027, alongside a target of 300 Morrisons Daily conversions over the next three years.

As of February 2021, Morrisons is the single wholesale supplier across the Group. This will enable us to seek continuous improvement and further simplify our operations, whilst ensuring the best value and enhanced range for customers.

We also have supply agreements directly with large fast moving consumer goods (FMCG) manufacturers like Mars and Coca-Cola. In 2021, we will have high level meetings with all our key suppliers to share best practice and seek further improvements.

Morrisons Daily stores operating in 2020

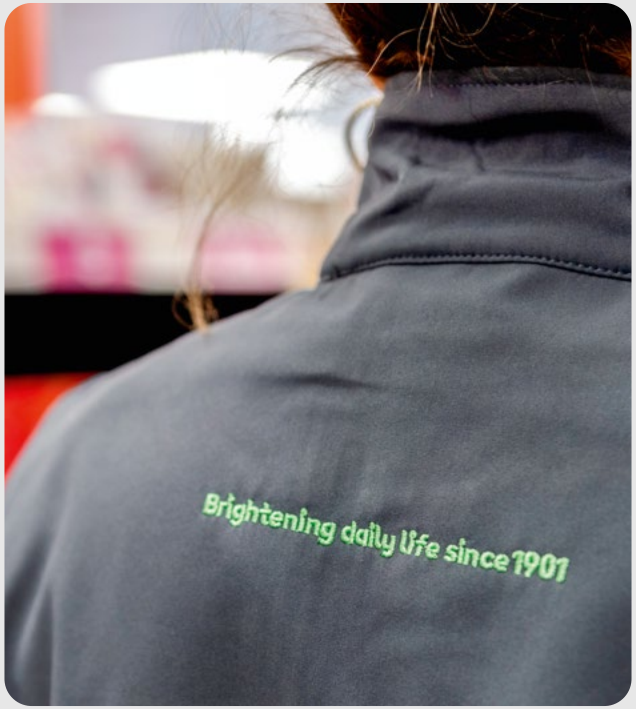
31

Our brand and reputation

The foundations of the Group started over 100 years ago, when the famous Scottish footballer Robert Smyth McColl opened the first RS McColl store in Glasgow in 1901. However, what you might recognise as the Group today was founded in 1973, which started as a vending business before moving into food retail, newsagents and convenience. Within 25 years, McColl's had become the largest independent neighbourhood retailer in the UK.

By the time the Group successfully floated on the London Stock Exchange in 2014, we had acquired a strong reputation for providing great products and value, when our customers need them – close to where they live. We have developed into a business of real scale, with over 1,200 stores nationwide, operating in the growing convenience grocery sector, with a clear and considered strategy for long-term success.

This has been brought into even deeper focus since the start of the COVID-19 pandemic, where communities have relied on us even more to keep supplying them with the food, goods and services they need. The strategic importance of neighbourhood stores is greater than ever before, and we are well positioned to continue to build on our strong brand and reputation to further enhance our convenience offer.



"The strategic importance of neighbourhood stores is greater than ever before, and we are well positioned to continue to build on our strong brand and reputation to further enhance our convenience offer."

Our IT systems

Improving our technology is a big priority for McColl's, not only to manage products and drive efficiency, but to use the hours we have to serve our customers better. Our investment in technology will enhance transactions with the customer, regardless of whether the customer is using the technology directly or a McColl's colleague is using it on their behalf. Technology enables and facilitates the relationship with the customer, providing a consistency of interaction that drives loyalty and trust.

We have been working to introduce a new EPOS platform into our stores that will bring a range of efficiencies. The platform was due to be introduced in 2020, but has since been delayed, primarily due to COVID-19, with rollout now planned to start in 2021. The new platform is designed to be faster and more reliable, and will make our stores easier to run. For example, when a colleague is using a till, they currently have to log on and log off, but our new tills will use fingerprint recognition.

We also plan to have a new end-to-end enterprise resource planning (ERP) software system in place in 2021. Again this was initially due to be live in 2020, but implementation was delayed in part due to the pandemic. The ERP software will give us more visibility of stock, as well as better information and metrics for our commercial teams. The new ERP will be the foundation for many technology improvements over the coming years, including a more efficient store ordering system and greater operational insight.

Our key performance indicators

We have a range of key performance indicators (KPIs) by which we assess our performance. To ensure our management's focus is aligned with our shareholders, our KPIs are reflected in their remuneration through our management incentive schemes.

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

We have made the following changes to our KPIs in order to provide a better representation of our long-term goals.

New KPI: Grocery and Alcohol Mix

Dropped KPI: Revenue

Financial KPIs

Like-for-like sales[1]

12.0%

+12 percentage points 2019

2020 12.0%
2019 0.0%

Relevance
This is an important measure of underlying performance and reflects an improving customer proposition.

Performance
Led by strong demand since the pandemic started, with fresh food, alcohol and tobacco categories performing well.

Grocery and Alcohol Mix[2]

34.3%

+270 basis points 2019

2020 34.3%
2019 31.6%

Relevance
These growth categories are most relevant to our customers' needs and are fundamental to enhance our convenience offer.

Performance
The grocery and alcohol mix improved by 270 basis points driven by a shift in the pattern of trade due to the pandemic.

Gross profit margin

23.9%

-200 basis points 2019

2020 23.9%
2019 25.9%

Relevance
Recovering gross margin is a cornerstone to our investment case.

Performance
Gross margin decline reflects a change in product mix as shopping patterns changed due to the pandemic, as well as price investment in key product areas.

Adjusted EBITDA[3]

£29.1m

-9.3% 2019

2020 £29.1m
2019 £32.1m

Relevance
Increasing profitability is a foundation for long-term success.

Performance
EBITDA impacted by lower gross margin, as well as lower services contribution and ongoing COVID-19 costs.

Adjusted earnings per share

0.6p

-89.3% 2019

2020 0.6p
2019 5.6p

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

Performance
Adjusted earnings per share decreased to 0.6 pence reflecting the lower profit year-on-year.

Average basket size

£7.61

+21.2% 2019

2020 £7.61
2019 £6.28

Relevance
Illustrates the attractiveness of our customer proposition.

Performance
A change in shopping behaviour as a result of the pandemic resulted in less frequency visits and larger basket sizes.

The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms on pages 135 and 136.

1 Like-for-Like sales reflect sales from stores that have traded throughout the current and prior financial periods, and include VAT but exclude sales of services (fuel, lottery, mobile phone top-up and travel tickets). This measure is based on a 52-week comparison.

2 Defined as the proportion of grocery (including food-to-go) and alcohol sales as a proportion of total sales (excluding services). This measure excludes VAT.

3 EBITDA based on pre IFRS 16. Full details of adjusted EBITDA can be found in note 6 on page 111.

Financial review

We have delivered strong revenue growth and a robust underlying performance.

The past 12 months has brought about a fundamental change in how consumers have shopped in our stores as a result of the COVID-19 pandemic. Our stores were a lifeline to local communities during the national lockdowns, with customers choosing to shop closer to home. This brought about changes to sales patterns, product mix and the cost to operate that affected the financial results.

While we expect shopping behaviour to somewhat normalise as the pandemic subsides, some patterns such as a sustained element of remote working are likely to continue. This will continue to influence our financial performance and the decisions we take in responding to the changeable conditions.

In the period, our like-for-like revenues accelerated from broadly flat in the first quarter, to a double-digit performance in the remaining three quarters. For the year as a whole, like-for-like revenues rose by 12.0%. Consumer preferences switched to lower margin take home and value packs. Below margin, incremental COVID-19 related costs were offset by continued cost discipline and business rates relief received in the period.

Our financial priorities in 2020 included strengthening our balance sheet, mitigating cost inflation and further optimising our estate. While there remain a number of challenges, we have demonstrated our resilience this year with a robust underlying performance.

£m	FY 2020	FY 2019	Change
Sales	**1,258**	1,219	+3.2%
Gross Profit	**301**	316	-4.7%
Gross Margin %	**23.9%**	25.9%	-200bps
Adjusted EBITDA (post IFRS 16)	**57.9**	–	–
Adjusted EBITDA (pre IFRS 16)	**29.1**	32.1	-9.3%
Loss after tax	**(2.7)**	(95.9)	–
Net Debt (post IFRS 16)	**(281.8)**	–	–
Net Debt (pre IFRS 16)	**(89.6)**	(94.1)	+4.8%

New accounting standards

IFRS 16 'Leases' became effective for the Group from 25 November 2019 and replaces the requirements of IAS 17 'Leases'. The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17.

IFRS 16 removes the distinction between operating and finance leases – all leases of more than 12 months are now recognised on a lessee's balance sheet, except for some limited exceptions. This leads to an increase in leased assets and financial liabilities on the balance sheet of the lessee. There is also a corresponding increase in operating profit and EBITDA because lease expenses are reclassified as interest and depreciation instead of operating expenses.

> **Adapting to a rapidly changing environment.**

Financial review continued

Revenue

£1,258bn

£1,219m 2019

Adjusted EBITDA[1]

£29.1m

£32.1m 2019

Net cash from operating activities[2]

£49.0m

£20.0m 2019

Net debt[1]

£89.6m

£94.1m 2019

1 Numbers on a pre IFRS 16 basis.

2 The adoption of IFRS 16 has led to an increase in depreciation and interest expense. As a result, net cash from operating activities has increased by £30.6m in FY 2020.

As a result of adopting the new accounting standard for the 12 months ended 29 November 2020, the Group's Adjusted EBITDA was £57.9m and Net Debt was £281.8m as at the period end. On a consistent, pre IFRS 16 basis, Adjusted EBITDA for the period was £29.1m (2019: £32.1m) and Net Debt reduced to £89.6m (2019: £94.1m) as at the period end.

See notes 6 and 21 for a reconciliation of the IFRS 16 adjustments impacting EBITDA and Net Debt.

Revenue

Revenue for the 53-week period ended 29 November 2020 was £1,258m, compared to £1,219m for the 52 week period ended 24 November 2019. On a comparable 52-week basis, revenue grew by 1.4% to £1,236m.

The revenue performance during the year reflects a number of trends with strong demand since the start of the COVID-19 pandemic, offset by reduced services revenues and an acceleration in divestments and store closures made during the year. Overall, we closed 179 stores in FY20, up from 120 stores in FY19.

On a like-for-like basis (and comparable on a 52-week period), revenues grew by 12.0% during the period (2019: 0.0%). The growth was a result of strong demand following the onset of the COVID-19 pandemic, as consumers chose to shop locally during lockdown restrictions. Strong growth in grocery, BWS (beers, wine, spirits), tobacco and multipack products, came at the expense of impulse products (crisps and snacks, soft drinks, confectionery) and food-to-go.

Gross profit and margin

Gross profit fell to £300.9m FY20, compared to 2019 (£315.7m). This represented a gross margin of 23.9% (2019: 25.9%), a decline of 200 basis points over the period. The fall in gross margin reflects the changing mix of sales during lockdown, as customers moved away from higher-margin impulse purchases to lower margin take home products as well as multi-buys and value items. In addition, we took the active decision to selectively invest in essential food pricing to maintain good value to existing customers and build loyalty amongst the incremental shoppers in our stores.

Operating expenses/overheads

Administrative expenses, excluding the impact of adjusted items, fell by 6.5% to £286.8m (2019: £306.6m) during the period, due to stronger cost discipline and the impact of our store optimisation programme. On a pre IFRS 16 basis, adjusted administrative expenses as a percentage of revenue were 23.2% (2019: 25.2%).

We experienced a number of underlying cost pressures and worked hard to mitigate the impact of National Living Wage inflation. Additional direct COVID-19 related costs amounted to £5.9m, which included the personal protective equipment (PPE) necessary to keep our colleagues and customers safe, additional card charges, cleaning equipment and colleague costs. This was partially offset by a number of government support measures in the period amounting to £9.4m in total. These government support measures included business rates relief and use of the Coronavirus Job Retention Scheme for furlough of our most vulnerable employees.

Going forward we expect cost headwinds related to COVID-19 to continue. We will also maintain focus on our store optimisation programme in order to improve the quality of our estate, focused on the divestment and closure of under-performing stores. We are pleased with the implementation of the store optimisation strategy so far, with 179 stores closed during the period, moving away from low margin newsagents and targeted towards larger, food-led convenience stores.

EBITDA and operating profit

Group Adjusted EBITDA was £57.9m in the period including the impact of IFRS 16. On a consistent, pre IFRS 16 basis, Adjusted EBITDA for the period was £29.1m, a fall of 9.3% over the same period last year (2019: £32.1m). The year-on-year decline is due to lower gross profit, lower contribution from Services and ongoing net COVID-19 costs.

Depreciation for the year was £38.0m (2019: £15.8m), which includes a depreciation on right-of-use assets in relation to IFRS 16 of £24.2m (2019: nil). Amortisation for the year was £1.0m (2019: £0.8m).Adjusted operating profit increased to £18.7m (2019: £15.4m). Statutory operating profit was £12.3m (2019: loss of £90.4m).

Adjusting items
Certain items are identified and separately disclosed as adjusting items. These adjusting items are excluded from the Group's adjusted profit measures due to their size and nature in order to better reflect management's view of the performance of the Group.

Adjusting items totalled £3.4m in FY20 (2019: £102.4m). These costs primarily reflected expenses related to business restructuring and the store optimisation programme, where the Group has undertaken a material number of store closures.

Adjusting items in FY19 totalled £102.4m, where the majority of this amount related to a goodwill impairment of £98.6m. The write-down was due to rebasing of financial projections, based on lower underlying gross margin, National Living Wage and retail cost inflation pressures.

Net property-related adjusting items in FY20 were £2.4m (2019: £6.0m). This included £5.5m of costs associated with our store optimisation programme, and a net gain on disposal of £3.4m in relation to the sale of our head office. Total proceeds were £7.3m, with £2.3m received by the year-end, with the remaining balance expected to be received by end of March 2021.

Interest and tax
Net finance costs in the year were £17.6m (2019: £8.2m). The increase over the prior year primarily reflects a £9.1m finance charge under IFRS 16.

The tax credit for the year was £2.6m (2019: credit of £2.7m). The comparable effective rate of tax in 2020 excluding the impact of non-deductible adjusting items was 36.4% (2019: 12.4%). The difference between the current and statutory rate of 19.0% in the period is due principally to a prior year adjustment for losses carried back and adjustments in respect of prior years.

Earnings per share
Basic loss per share was 2.3 pence (2019: loss of 83.3 pence). On an adjusted view, basic earnings per share was 0.6 pence (2019: 5.6 pence).

Balance sheet and net debt
Total shareholder funds at the end of the year were £19.9m (2019: £38.7m).

The book value of non-current assets increased by £170.5m to £417.4m (2019: £246.9m), where the increase reflects the introduction of right-of-use assets under IFRS 16 of £173.5m. The Group recognises right-of-use assets and lease liabilities for most leases, except for short-term leases and leases of low-value-assets.

Current assets at the end of the period decreased to £144.9m (2019: £163.3m), as a result of a decrease in cash and cash equivalents of £13.8m mainly due to repayment of debt as the term loan continues to be amortised at £10m a year and drawings on the revolving credit facility have reduced by £7m.

Current liabilities increased to £248.5m (2019: £229.2m), reflecting an increase in loans and borrowings of £21.1m over the prior year to £32.3m (2019: £11.2m). Non-current liabilities increased to £293.9m (2019: £142.3m) due to increased loans and borrowings of £152.8m over the prior year to £272.7m (2019: £119.9m). The increase relates to the inclusion of lease liabilities following the adoption of IFRS 16.

Net debt (total borrowings less cash and cash equivalents) at the end of the period was £281.8m. On a consistent pre IFRS 16 basis, net debt reduced to £89.6m (2019: £94.1m pre IFRS 16). The business remains focused on working capital and cash management to reduce business leverage. At the end of the year our net debt to EBITDA ratio was 3.1x on a rolling 12-month basis.

> **"We have demonstrated resilience under challenging circumstances and maintained financial control."**

Financial review continued

Pension schemes
We operate two defined benefit pension schemes, the TM Group Pension Scheme and the TM Pension Plan, both of which are closed to future accrual. Total assets across both schemes had a value of £141.7m at the period end date of 29 November 2020. The combined accounting surplus in the two defined benefit pension schemes operated by the Group decreased to £3.9m (2019: £7.9m). The last actuarial review of the two schemes in June 2017 concluded that the combined funding deficit was £12.6m, and the Group currently contributes approximately £2.1m per year, inclusive of fees and levies.

Cash flow and capital expenditure
The Group took, and continues to take, proactive actions to preserve cash, manage working capital, maximise liquidity, and phase capital expenditure appropriately, given the uncertainty relating to the impacts of demand and shopping behaviours from the COVID-19 pandemic, including increased cash collection from stores and reacting to changes in demand to manage stock. We have also prudently modelled a range of future downside scenarios, which we are confident we have the financial and operational flexibility to deal with.

Net cash provided by operating activities in the year was £49.0m (2019: £20.0m), reflecting the changes due to the implementation of IFRS 16, while pre IFRS 16 it was £18.4m. Cash outflows related to leases are no longer included within net cash from operating activities except for short-term and low-value leases. The cash position was also benefitted by a total amount of £15.2m from government support measures available to the Group following the onset of the COVID-19 pandemic. These measures included the job retention scheme, a deferral of VAT payments, and business rates relief.

Gross capital expenditure was £17.3m (2019: £14.4m). Net capital expenditure, including property proceeds from the sale and leaseback of freehold properties, increased to £5.6m (2019: £2.9m).

Cash interest on bank loans and borrowings paid was £7.0m (2019: £7.4m), while the bank loans and borrowings interest expense was broadly in line with last year (see note 8).

Bank facilities
In March 2021, we announced that our banking arrangements have been revised in order to give us more certainty and flexibility to execute our strategy. The amended credit facility agreement provides improved headroom against covenants, a realigned amortisation schedule and extends the maturity from May 2022 to February 2024. The updated facility consists of a £100m revolving credit facility and an amortising £67.5m term loan.

The facility has been arranged with our existing syndicate of six banks, comprising AIB Group (UK), Barclays Bank PLC, HSBC UK Bank plc, National Westminster Bank plc, Santander UK PLC, and Bank of Ireland. The continuing support of our banks reflects their confidence in the prospects of the Group.

See the Directors Report in the Annual Report for a further explanation of going concern in relation to the facilities agreement.

Dividends
The Board has not declared a dividend for the period ended 29 November 2020. We recognise that dividend payments are an important part of the Group's returns to shareholders and will keep the dividend policy under review with the aim of reinstating the payment of dividends at an affordable and sustainable level, once our strategic change programme gathers momentum and the Group deleverages.

Additionally, the Company is restricted from paying a dividend until certain conditions are satisfied in its banking facilities, including achieving Group leverage below 1.75x.

Giles David
Chief Financial Officer

Our approach to stakeholders

Directors' duties
The Directors are bound by their duties under section 172 of the Companies Act 2006 (the Act) and the manner in which these have been discharged, particularly their duty to promote the success of the Company for the benefit of its members as a whole.

In performing their duties, Directors have regard to a range of factors, including the below matters as set out in sections 172(1) (a) to (f) of the Act, which are taken into consideration when decisions are made.

We have integrated into our reporting how stakeholders are considered in terms of our business model and governance.

The likely consequences of any decision in the long term

All decisions are made for the long-term benefit of stakeholders

See more information
Page 31

The interests of its employees

A great place to work is a key strategic priority

See more information
Page 18

The need to foster business relationships with suppliers, customers and others

The support of a broad community of stakeholders is essential

See more information
Page 26

Directors' duties

The impact of its operations on the community and the environment

We are committed to operating responsibly, supporting local people and organisations, looking after our colleagues and managing our environmental impact

See more information
Page 37

The desirability of maintaining a reputation for high standards of business conduct

We apply consistent high standards wherever we are

See more information
Page 6

The need to act fairly between members of the Company

All stakeholder groups are fully considered in every decision that we make, listening to any concerns and responding quickly wherever we can

See more information
Page 24

Non-financial information statement

We are pleased to set out below where you can find information relating to non-financial matters in our Strategic report, as required under sections 414CA and 414CB of the Companies Act 2006. Reference to our policies and processes and information on how we are performing on various measures in these areas are contained throughout the Strategic report.

Environmental, social and employee related matters

- We operate corporate policies in these areas, which comply with or exceed legal and regulatory requirements in our markets.
- Good employee relations are a vital part of our business. We prioritise these through our policies and engagement, development and recognition programmes.

See more information
Page 26

Business model, policies, principal risks, KPIs

- Non-financial inputs and outputs are integrated into the Group's business model and strategic planning.

See more information
Page 24

- Risks are monitored on an ongoing basis. We have a framework for identifying risks, quantifying both impact and likelihood.

See more information
Page 42

- KPIs are monitored by the Group.

See more information
Page 30

Human rights and anti-bribery related matters

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

See more information
Page 38

Diversity policy and approach

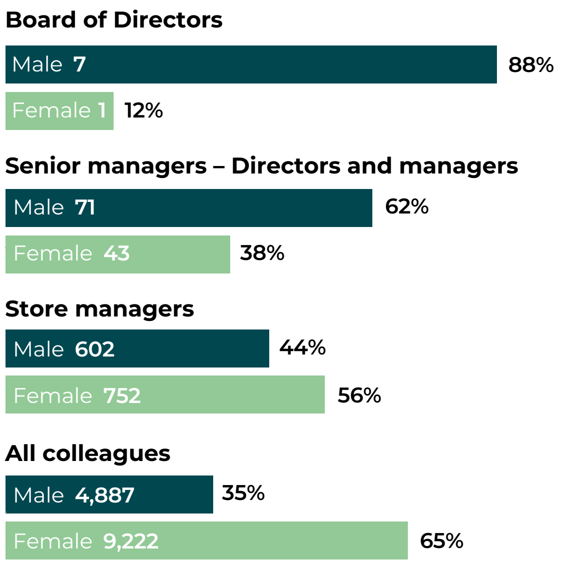
- The Board places great importance on the positive benefits that diversity of experience, background and viewpoints can bring and is supportive of the objectives of the Hampton- Alexander review and other reviews on diversity.
- Policies and initiatives are operated throughout the business and these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

See more information
Page 37

Sustainability review

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

Gender diversity (based on actual year-end headcount*)



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

Our local communities

McColl's 'neighbourhood' ethos is at the core of our purpose to make life easier for our customers, colleagues and the communities we serve. With everyday access to fresh food and groceries, plus a range of services such as ATMs, bill payment, Post Offices and online order collection points, our stores make a positive impact on a local area. But our role goes way beyond being a neighbourhood retailer. Our colleagues take pride in knowing our customers by name and this all adds to the way we differentiate our stores and build a competitive advantage. Around half of our customers live within 400 metres of our shops and most of our colleagues live in the surrounding area. This helps us drive customer loyalty and footfall, becoming another reason for people to come into our stores.

Beyond the products we sell, we are the 'best-in-class' for the services we offer and our list of services is endless: from click and collect and Amazon lockers; to Uber Eats; to bill payments and other Post Office services; to magazine and newspaper deliveries. There's something for everyone, and we're adding more services all the time. That's why, when you look at the customer satisfaction surveys that are published each year, McColl's is always somewhere near the top.

2020 gender pay gap

1.8%

(2019: 0%)

Our people

Valuing diversity and inclusion

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

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

Closing the gender pay gap

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

65% of our colleagues are women (2019: 66%) and our gender pay gap calculated on a median rank order basis is now 1.8% (2019: 0%). The reason behind the small increase is due to a slightly higher proportion of males in supervisor roles, as well as more women in part time roles over the period. Our gender pay gap calculated on a mean basis in 2020 was 7.5%, compared to 13.6% in the prior year (the UK average gender pay gap is 15.5% – ONS, 2020). While this was a decline on the prior year, our analysis shows that although men and women are paid equally for fulfilling the same job role, we have a higher percentage of males employed in supervisory/managerial roles which attract higher rates of remuneration.

Sustainability review continued

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

Our leadership team and senior managers have all completed unconscious bias training. In 2021, we will publish a robust Diversity & Inclusion plan, as well as appointing a business champion with responsibility for monitoring progress and challenging decisions.

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

Focus on health and safety

Our commitment to health and safety starts from the top and all Senior Leadership Team Directors and Senior Operations Managers have completed nationally recognised training in health and safety. It is discussed by the Board, and through our health and safety committee, we take a consistent and collaborative approach to creating a safe place for our colleagues, customers and visitors. This committee, comprising Executives and Senior Management, along with the Health and Safety Manager, manage and monitor all health and safety initiatives. We have introduced a Compliance and Risk function to support our commitment on Health and Safety with 33 colleagues regionally based to focus on our efforts in this space.

As a food-led convenience business, food safety is a priority. Our 'strive for five' programme is designed to drive a consistent standard of food excellence across our stores. We target a food safety score of 5 for all stores and for those that fall short, we aim for improvements through coaching and monitoring. In addition, our field management teams have all completed nationally recognised qualifications in food safety.

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

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

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

Commitment to human rights

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

We are absolutely committed to preventing modern slavery in all our activities and ensuring that our supply chain is free from slavery and trafficking. Our Modern Slavery Statement for the year 2020/21 (pursuant to section 54 of the Modern Slavery Act 2015) can be found at www.mccollsplc.co.uk/modernslaverystatement.

> **Our 'strive for five' programme is designed to drive a consistent standard of food excellence across all stores.**

Protecting the environment

We take our responsibility to the environment very seriously. We aim to act in a sustainable way at all times, driving efficiency, reducing waste and improving our recycling.

Recycling

Through our arrangements with our key wholesale supply partners we recycle plastic and cardboard used in our business. The same lorries that arrive with products leave with plastic and cardboard, so no additional miles are involved. It's an efficient way to recycle packaging, though we continue to look at new ways for our stores and head office to recycle everything and are also considering brand selections that better meet environmental concerns. An example of this, is moving to a regime of Dry Mixed Recycling in our new retail support centre, with a view to minimising the general waste to be disposed of.

Food waste

The way we manage waste is a key metric for all our Store Managers. In particular, our regular waste management routines ensure that we maintain very low levels of food waste and always seek to reuse, give away or distribute it instead. We conduct weekly reviews of food waste that have resulted in a number of different actions, including: a move to smaller case sizes; changes to our ordering algorithms; reviews of product quality and pricing; changes to product pack sizes; reducing or even delisting of particular products; and store training to improve waste routines such as stock rotation and mark-downs. In Scotland we have a separate food waste collection arrangement with our trade waste contractors and the collected waste is taken to an anaerobic digestion site for conversion to green energy.

In 2021, we are reviewing our trade waste requirements with our contractors with a view to driving efficiency and reducing the number of lifts of the waste containers, thereby, reducing the number of lorry journeys undertaken.

Reducing single-use plastics

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

Climate change

We recognise the risk that climate change poses to our business, and are conscious of our responsibility to the wider environment. We manage this by targeting a reduction in carbon emissions and an improvement in energy efficiency throughout our operations.

1. Reducing carbon emissions

Outlined below is our total energy use and carbon emissions aligned to the Mandatory Reporting Requirements for quoted companies for the financial year 2019/20.

Our report sets out our annual energy data and greenhouse gas (GHG) emissions and energy data for the year ended November 2020 (period 25/11/2019 to 29/11/2020), in accordance with the Streamlined Energy and Carbon Reporting (SECR) requirements set out in the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Hereafter referred to as the SECR.

The SECR requires companies to disclose in their Annual Reports (for accounting periods commencing on or after 1 April 2019) a summary of associated energy consumption and GHG emissions including; direct (Scope 1) and indirect (Scope 2) emissions, total energy consumption and a suitable measure of carbon intensity (for which we've selected: carbon emissions as a ratio per £100,000 of revenue).

> **We take our responsibility to the environment very seriously. We aim to act in a sustainable way at all times, driving efficiency, reducing waste and improving our recycling.**

2025

Target for all our own brand packaging to be reusable, recyclable or compostable

Sustainability review continued

Energy use and GHG emission data is set out in tables below, along with a description of the approach and methodologies used in the calculation of reported data, and the measures we have taken/are taking to reduce energy use and emissions.

All energy use and emissions are related business activities onshore in the UK. As this represents our first report aligned to the SECR, data for the year will be utilised as a new baseline for progress reporting in future years.

Approach and Methodology
The Group has used the guidance as set out in DEFRA's Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance, dated June 2013 aligned to the Greenhouse Gas Protocol.

Emission factors applied were taken from the UK Government conversion factors for Company Reporting 2020 (the year in which the majority of emissions occurred).

Data for vehicle energy use and GHG emissions (from both diesel and petrol vehicles owned by the Group) has been estimated this year based on apportionment of data from 2018-19 due to difficulties in collating actual data. It is likely that this estimation overstates the fuel use and emissions, as there has been a reduction in business travel due to the impact of the COVID-19 pandemic during the reporting period.

For electricity, gas and other fuels, consumption data has been extracted from billing information from the start of the reporting period to the date of the last bill received for each type of supply. Where actual data was not available, an estimation of energy use and associated GHG emissions for both electricity and gas has been undertaken. A pro-rata method was applied, taking into account typical use based on data from preceding years.

Refrigerant data has been calculated by reference to a log of known items of equipment across the majority of stores. Where information is not available for a new store, average data has been used to extrapolate the total refrigeration installed by type to provide an estimated level of equipment and refrigerant charge within each property used by the Group. The methodology utilises annual leakage rates as set out in Appendix C of the Environmental Reporting Guidelines for mandatory greenhouse gas emissions applying the Screening Methodology.

The figures disclosed below for 2019-20 and the methodology used to collate the information has been reviewed by Project Rome Ltd.

Our performance overview

Scope 1 emissions reported this year have reduced by over 20% due to several factors as follows:

- Use of gas for premises heating: there has been a 10% reduction due to disposal of a number of stores, and a relatively milder spring, summer and autumn reducing the requirement for heating.
- Reported emissions for business travel has reduced by 50% due to changes in our reporting approach to meet the SECR reporting requirements. Vehicular emissions this year have been estimated based on 50% of 2019 figures to separate Scope 1 – emissions from fuel use in company owned vehicles from Scope 3 – emissions from fuel use reimbursement for business travel by employees in their own vehicles.
- Refrigerant emissions have reduced by close to 10% as a result of disposal of some properties and retrofitting refrigerant equipment with refrigerants of lower global warming potential.

Scope 2 – Indirect emissions related to our use of electricity remain the largest source of both our energy use and GHG emissions. Total emissions have reduced by over 3,500 TCO_2e in the year as a result of two key factors as follows:

- Favourable reduction in the emission factor for electricity in 2020, reflecting the UK's continued growth in the use of renewable energy in the overall electricity generation mix, and move away from coal.
- Net closure of stores during the reporting period.

Our carbon intensity TCO_2e/£100k turnover has reduced from 3.3 TCO_2e/100k turnover to 2.6 TCO_2e/100k turnover. This positive shift has resulted from an increase in overall turnover and the reduction in emissions as described above.

2. Improving our energy efficiency

Our ongoing commitment to improving energy efficiency has helped us to further reduce our energy consumption in 2020. We have further improved the efficiency of our refrigerated cabinets in store by taking a 'total cost of ownership' view, as well as undertaking a tender process for the best value.

Some of our stores have live energy monitors, so we can see how much energy they use in real time and actively manage them accordingly. We continue to invest in building energy management systems to give us greater control of our energy use at site level and, by understanding our most energy intensive sites, we can make targeted investments in energy-efficient technology. Through our new facilities management (FM) model we have partnered with managing agents who are globally experienced in assisting with energy consumption reduction, and we have a suite of solutions to assist in controls and reduction.

We have moved energy supplier from SSE to Bryt Energy, and this now means that we purchase 100% green energy. We are also working closely with trusted energy consultants and partners to reduce our energy use. These include our three-year SMART services programme with BIU, a leading energy and utility consultancy, giving us access to their experts and extensive data to identify opportunities across the estate to drive efficiency. We also continue to engage with colleagues across the business to make sure they are following the correct routines and processes to minimise energy use at source.

In future years, we will calculate the GHG emissions taking into account the emission reduction arising from the procurement of 100% Green Energy utilising the market-based calculation methodology set out for Scope 2 reporting by the Greenhouse Gas Protocol.

Our future reporting will also fall within the scope of the TCFD disclosure requirements (Taskforce on Climate-related Financial Disclosures). In the coming year we will start working towards reporting against the four core elements of disclosure: governance, strategy, risk management and metrics & targets.

Calculated Energy Use and GHG Emissions

Total Energy Consumption and Breakdown in 2019/20 was as follows:

Energy use	2019/20 Energy usage (kWh)
Electricity	121,160,649
Gas	1,304,396
Diesel	1,558,798
Petrol	1,636,126
Total energy use	**125,659,969 kWh**

GHG Emissions in 2019/20 including our Mandatory Scope 1 and 2 emissions in accordance with the SECR requirements were as follows:

	2018/19	2019/20
Scope 1 GHG Emissions (Direct)	Tonnes CO_2e*	Tonnes CO_2e*
Natural gas	359	240
Vehicle fuels (diesel and petrol)	1,500	750
Refrigerant related emissions	4,197	3,768
Scope 2 GHG Emissions (Indirect)		
Purchased Electricity	33,971	28,247
Total Scope 1 and 2 Emissions	**40,027**	**33,005**
Turnover (£m's)	1,218.7	1,258.1
Emission intensity – Tonnes CO_2e per £100,000 of revenue	3.3	2.6

* Figures expressed as Tonnes of carbon dioxide equivalent (Tonnes CO_2e or TCO_2e) taking into account emissions of all direct and indirect greenhouse gas emissions within Scopes 1 and 2 from our operations. Figures are based on the location-based reporting methodology.

Principal risks

Like all businesses, McColl's is exposed to factors, both internal and external, which can have a positive or negative affect on its performance.

How we identify and manage risk

As a business we aim to take a proactive approach to risk that could threaten the delivery of either our short- or long-term goals. In the past year, one of the significant factors has been the pandemic.

Our risk framework seeks to identify risks, quantify the likelihood of such risks occurring and determine the potential impact. We consider ways in which risks can be mitigated in order to reduce the likelihood and impact to a level that is acceptable to the Board. The effectiveness of these actions is monitored on an ongoing basis to ensure that they deliver the intended outcomes. Our understanding of these risks also informs our strategic choices for the business.

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

Risk identification and assessment

Risks are identified and assessed at all levels within the business, from individual store risk assessments through to the identification and assessment of Group-wide strategic threats.

Risk management framework

We operate detailed procedures and appropriate training in store to ensure the safety and security of our colleagues and customers, as well as the protection of our assets. At Group level, we consider a wide range of factors when assessing the main threats to our business, such as customer trends, competition, economic conditions, regulatory developments, technological issues, counterparty security, financial matters and in the past year COVID-19.

Risk ownership

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

Risk appetite and risk policies

The Audit & Risk Committee considers the risks facing the business and the level of risk that can be accepted in pursuit of the Group's strategic goals, and guides the Board accordingly. The Board determines its risk appetite and the strategy that can be delivered within acceptable risk parameters, taking into account the risks faced and the extent to which they have been reduced, eliminated or transferred, for example through insurance cover.

Fostering an appropriate risk culture is a vital component of the Board's risk related responsibilities.

A new or amended strategy can often give rise to new risks and these need to be identified and assessed, and built into the management and reporting processes described.

The values are incorporated into our risk and other related policies.

Risk reporting

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

Risks, whether operational or strategic, are considered by the Group Health, Safety and Compliance Committee. The Committee, comprising the Executive Team, Senior Managers from across the business, the Health & Safety Manager, and a recently appointed Head of Risk, brings together senior representatives from all areas to consider collectively, and from their different functional perspectives, the more significant risks faced by the business. The Committee is supported by the Company Secretary.

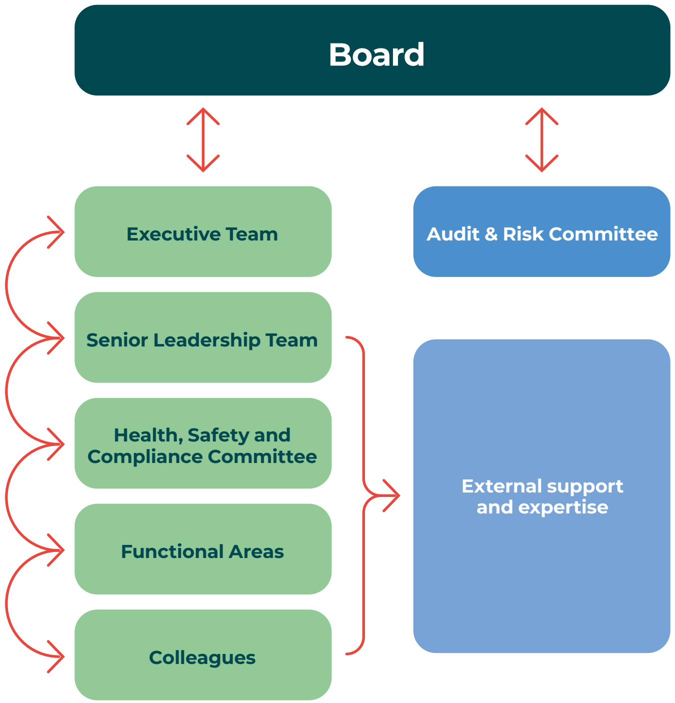
The Health, Safety and Compliance Committee reports, and escalates as appropriate, matters of risk to the Senior Leadership Team, responsible for supporting the Executive Team in delivering the Group's strategic and business objectives. The Audit & Risk Committee periodically reviews risks and makes recommendations to the Board. Individual matters of a significant nature are escalated to the Board where appropriate.

Resources and structure

Our internal resources are designed to ensure that the risk management framework is appropriately understood by colleagues and embedded throughout the business. Towards the end of the year, we restructured our internal resources to enhance the risk function at an operational level.

Risk management structure

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



The risk management processes described above are continual and risks evolve over time.

Principal risks continued

The Board, with the assistance of the Audit & Risk Committee, considers the following to be the principal risks facing the Group at the current time. The risks are not intended to be an exhaustive list.

Maintained

Increased

Decreased

Links to strategic priorities

1 Strong customer offer

2 Easy to run stores

3 Improving our stores

4 A great place to work

Area	Customer proposition (Increased; 1 2)	Reliance on third party supply (Decreased; 1)
Risk	Customer shopping habits are influenced by a wide range of factors and are constantly evolving. COVID-19 restrictions have accelerated some existing trends and introduced some new ones. If we do not respond to their changing needs, with internal processes and resource allocated appropriately to adapt in terms of offer, price, range and availability, they are more likely to shop with a competitor, resulting in falling revenues.	We rely on a small number of key distributors and may be adversely affected by uncompetitive pricing or processes and procedures being unable to support customer innovation, range development or have agility in customer responsiveness. A disruption in supply, however short term, would prevent orderly trading and impact the brand and financial performance.
Mitigation	• Significant insight and tracking of customer habits, convenience channel trends and utilising supply base to understand trends and innovations. We work with industry experts, third party partners and trading associations to keep up to date on trends. • A Format, Space and Range team has been established to review how optimally to align the proposition to the customer journey. • Supermarket grade product, accessed through our supply partners are deployed in store to differentiate our offer. • We undertake constant review of promotional programmes and pricing to assess effectiveness, convenience sector trends and how best to offer customers good value. • Our strong customer service standards, delivered through our store colleagues are reflected in our evolving brand strategy. We look to build on this service ethos as a key strength of the brand. • Hygiene standards and customer safety following the COVID-19 restrictions have become a key decision-making factor in where to shop. We have changed process and invested to ensure customers feel safe when they shop with us. • We are building our presence in social media combined with local initiatives to better engage with customers. • Price index tracking vs competitive set has been established to ensure the offer remains relevant. • We follow customer feedback and sales information when establishing our investment strategy. COVID-19 trading has changed how customers want to shop. We have commenced investment to deliver more of the products and categories that customers want in their neighbourhood convenience retailer. • Online is becoming an increasingly important channel we have responded in partnership with third party delivery apps and are building our own online platform.	• We establish long-term relationships with trusted suppliers. • We extend the relationship to multi-discipline relationships for our most important partner ensuring our operations and financial objectives are aligned. • Joint business plans are developed with our key partners where possible building joint investment programmes to deliver a combined buy in to the outcome. • We look for opportunities to work closer with our key partners, to unlock areas of business benefit, such as 'implants' within our commercial department to collaboratively develop promotional and range strategies. • We monitor the financial stability of key partners. We maintain a network of industry contacts in case of the need to move rapidly. • We minimise volume linked contracts with wholesalers to ensure we are not locked in on products that may not be what our customers want.

2 3 4

Operating model and cost efficiency challenges

We have a high operational cost base, consisting primarily of wages (impacted by the National Living Wage), property rental and utility costs. Increases in these costs without a corresponding increase in revenues could adversely impact our profitability. COVID-19 had made the operating environment more challenging and has introduced new investments and processes that need to be absorbed into the cost base.

- We continually seek to remove unnecessary complexity from our operational procedures to optimise performance; whilst engaging external review of our operating model to identify opportunities for further efficiency.
- We review options to deploy technology and operating practices to further simplify and reduce cost from our operating model, such as advances in stocktaking, promotions, pricing and matching colleague attendance to demand.
- We monitor legislation and developments related to our costs, e.g. National Minimum and Living wage, tribunal results and government policy announcements to allow us to plan and mitigate increases. We engage openly with all governmental agencies.
- We monitor working patterns of our colleagues to ensure they fully comply with key directives and the contracted and actual hours worked are appropriate. We have invested to ensure our stores are COVID-19 safe and compete effectively in ensuing a safe environment for our colleagues and customers.
- We constantly optimise our estate ensuring that we are running the most profitable portfolio of stores.
- We target our capital resources at the very best returns in order to deliver the best payback and operational advantage. We tender all significant contracts to ensure we get the best deals.

Availability of funding/cash

The main financial risks are the availability of appropriate liquidity and covenant headroom to meet business needs for trading and investment. The shape of trading during COVID-19 has varied greatly in volume and mix reinforcing the need for flexibility and headroom with all funding arrangements.

- We produce daily cash forecasts to manage short-term liquidity. We use forward projections of financial performance to evaluate and manage covenant and liquidity headroom over longer periods.
- We have engaged with our banking partners to ensure that all facets of our facilities are aligned to our strategic objectives and have sufficient headroom to weather short-term changes in trading. We provide financial performance information and forecasts to our banking group and meet them on a regular basis.
- There is a full working capital programme in place, to support the cash position through review of stock levels, ordering processes and supplier terms.
- We engage proactively with strategic suppliers to retain their trading confidence in the business.
- The programme of estate optimisation targets a level of proceeds from the sale of stores to further improve the cash position and improve profitability.
- The team actively monitors utility prices and interest rates to aid planning and to use appropriate instruments to lock in favourable prices.
- We engage with credit insurers to support our suppliers' credit insurance on their exposure to McColl's.

Principal risks
continued

Maintained

Increased

Decreased

Links to strategic priorities

1 Strong customer offer

2 Easy to run stores

3 Improving our stores

4 A great place to work

Area	Strategic vision (Increased; 1 2 3 4)	Macroeconomic factors (Decreased; 1)
Risk	If the Board either pursues an unsuccessful strategy or does not communicate and implement its strategy effectively, business performance and reputation may suffer. The Board must fully take account of environmental, sustainability and social governance matters, including diversity, when setting the vision for the business.	All our revenue is generated in the UK. Any deterioration in the UK economy and consumer confidence could affect spending and cost of goods, which in turn would impact our sales and profitability. COVID-19 represents the most dramatic shift in the macroeconomic environment in our lifetimes. The business has needed to operate crisis management process to react to the short- term challenges but also recognise longer-term trends from the pandemic that will be with us for years to come.
Mitigation	• Our strategic development is led by an experienced Board, Executive and Senior Leadership Team. • An annual strategic review takes place alongside our budget-setting process to validate the direction set supported by appropriate external advisers. We monitor external developments and consumer behaviours which impact the strategy. • The McColl's strategy is widely communicated and understood across the business. Budgets are developed and signed up to within the strategic framework set by the Board. • Business plans are developed, monitored and reviewed against strategic KPIs with a newly created Programme Management function and dedicated Transformation Director to operationalise. • Senior Management are incentivised with performance-related rewards to deliver our strategic goals.	• We sell food and household essentials which are considered to be less discretionary than other competing spend areas. We have refined our proposition to sell a more sustainable mix of products in grocery whilst de-emphasising declining categories such as tobacco. • We offer a wide range of services, such as Post Office and 'last mile' internet package collection/delivery which helps sustain footfall. • The majority of stores are local and community based, with higher exposure to regular and repeat footfall. • Our flexible business model allows us to respond to changes in customer behaviour, for example, by adapting our ranges, pricing and promotion on a local level. • We are growing our range of own brand products through the rollout of Safeway and Morrisons. • We are working with third parties to ensure our ranging, pricing and promotions are flexible enough to react to dramatic changes in short-term trading driven by COVID-19 lockdowns. • Post the UK exiting from the EU, the business has continued to work with Morrisons and all its supply partners to ensure availability is maintained.

3 4

Health & Safety, Regulation and Reputation

The business is required to operate within all laws and regulations. The Board actively engages to ensure it is fulfilling all of its responsibilities to its customers, colleagues, the local communities in which it operates and the broader environment. Where the business identifies a gap in compliance with any regulation we put in place recovery programmes to recover the situations as rapidly as practical. The COVID-19 pandemic has overlaid new challenges within health and safety further enhancing the need to ensure a safe operating environment for our colleagues and customers. The business actively monitors and manages factors that would impact its reputation and brand.

- We have revised and retendered our maintenance supplier's infrastructure and reporting capability to ensure all compliance activities are undertaken and evidenced.
- We have recently conducted a thorough review of our structures for all field-based roles and have put in place a dedicated Risk & Compliance Team.
- We have established a business continuity forum which meets twice a week to ensure COVID-19 safety measures are actively adhered to. The Committee has the authority to change operating and ranging practices to take account of colleague and customer safety.
- Specific risks are targeted and comprehensively addressed in programmes across the estate.
- The Risk oversight committee has been reinvigorated with refined tracking of progress to compliance with all key legislation under the leadership of a dedicated Head of Risk and direct reporting into the Board.
- The businesses PR is actively monitored and managed and external expert suppliers are engaged in ensuring the Company protects its reputation and supports appropriate environmental and social policies in keeping with its values as a community retailer.
- Regulation around products with high fat, sugar and salt, minimum alcohol pricing, sugar tax and anti-smoking regulation is constantly being updated. The business uses its links to lobbying and industry representation organisations to ensure its voice is heard with lawmakers.
- We liaise with the appropriate regulator such as primary trading standards authority and fire authority to proactively sign off the business stance on all key issues.
- We actively monitor government and regulatory announcements on food safety, environment and broader health and safety to ensure our policies and procedures are up to date.

3 4

Crime & colleague welfare

We need to provide and maintain a healthy environment for our colleagues and customers. Failure to do so restricts the ability to recruit new colleagues and impacts negatively to the willingness of customers to frequent our stores. The COVID-19 pandemic has introduced a new set of challenges for our colleagues to seek to ensure customers comply with COVID regulations.

- We monitor, on a weekly basis, key incidents impacting colleague welfare. We offer comprehensive training to ensure our colleagues have the tools for the job.
- Stores are categorised by security and safety risk, with measures deployed accordingly; ranging from physical security to internal asset protection devices.
- The Group's Health, Safety and Compliance Committee meets regularly, and specifically considers colleague safety and available options to provide heightened assurance to colleagues and deter anti-social behaviour in our stores.
- We provide effective PPE in store and in our support centre and follow best practice to protect our colleagues as best we can from COVID-19 infection.
- We provide clear guidelines for colleagues on how to react to non-compliance to social distancing and make customers aware of the policies with our shops.
- Latest technological advancements are considered by the Health, Safety and Compliance Committee to further enhance safety and security, ranging from 'staff safe' audio connectivity to 'staff cam' visual recording deterrents.
- We have launched a range of ways for colleagues to interact and communicate with each other and the leadership of the business. Colleague feedback and suggestions are considered and responded to in order to maintain a positive environment. We actively monitor the mental health of our colleagues who are working from home and not able to interact in the working environment. We endeavour to support our colleagues through the range of challenges presented by the restriction of the pandemic.
- We recognise the increasing threat of cyber security and have an established cyber policy which is reviewed regularly.

Viability Statement

Assessing the Group's longer-term prospects and viability

The Directors have assessed the prospects of the Group over a five year period which coincides with the Group's strategic review period. The latest plan has been updated through to 2024, with 2020 being considered the first year of the five year 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. Mitigating actions include accessing applicable government reliefs, seeking additional income from suppliers, deferring payment of suppliers and cost reduction activity, reduce or suspend capital expenditure, re-assess potential dividend pay-outs and make further asset disposals.

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 which, after revision on 26 February 2021, runs through to February 2024, strong track record of operational cash inflow and revised long-term forecasts.

Additionally, the Directors have considered the impact of government and legislative changes primarily Brexit and concluded that whilst uncertainty exists, the business has sufficient options available to mitigate these risks. Finally, it is noted that even in the event of a very severe impact on the business through continued food deflation and cost inflation, the business could implement the mitigating actions highlighted above.

Based on this assessment, the Directors have a reasonable expectation that the Group will have sufficient resources to continue in operation and meet its liabilities as they fall due over the period to November 2024.

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

Angus Porter
Non-Executive Chairman

Chairman's introduction

Angus Porter
Chairman

> **In a year of significant challenges and leadership changes the Board has worked hard to ensure that the governance of the business has continued to be of high quality.**

This is the first year that the Company is reporting against the UK Corporate Governance Code published by the FRC in July 2018. It is the opinion of the Board that the Company has been compliant with all the applicable provisions of the Code throughout the year under review.

The Board has overall responsibility for establishing the Company's purpose, values, and strategy to promote the long-term success of the Company for the benefit of its members and stakeholders. In addition, we provide leadership to the business including monitoring the business's overall financial performance, ensuring effective corporate governance, succession planning and stakeholder engagement. The Board is also responsible for ensuring that effective internal control and risk management systems are in place.

The Board recognises a wider duty to a broad community of stakeholders whose support is essential, and that the business has an impact on colleagues, customers, shareholders, suppliers and the communities in which it operates. Throughout the year, the Board has ensured that we fully consider all stakeholder groups in every decision that we make, listening to any concerns and responding quickly wherever we can.

The Board ensures that the Group achieves its objectives in a way that is supported by the right culture and behaviours. It is responsible for ensuring that its activities reflect the culture we wish to instil in colleagues to drive the right behaviours. During the year, the Board was satisfied that the policy, practices and behaviour of the Board and employees were aligned with the Company's purpose, values and strategy.

An additional challenge for all boards over the last year has been to adapt to the challenges presented by the pandemic. I am pleased that our Board has adapted well to conducting meetings remotely, and whilst we have missed elements of face-to-face interaction, we have been encouraged by how the new ways of working have encouraged more frequent, focused conversations as a complement to formal Board meetings. We plan to continue to incorporate such meetings into our ways of working even when life returns to normality.

Approved by the Board and signed on its behalf:

Angus Porter
Non-Executive Chairman

Compliance with the UK Corporate Governance Code

Leadership and Company purpose (including shareholder relations)

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

Read more on pages 50 to 52

Division of responsibilities

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

Read more on pages 54 to 55

Composition, succession and evaluation

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

Read more on pages 56 to 59

Audit, Risk and Internal control

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

Read more on pages 60 to 64

Remuneration

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

Read more on pages 64 to 83

Leadership and Company purpose
Board of Directors

Board Changes
During the year, we had a number of changes at Board level, both Executive and Non-Executive.

As announced in last year's Annual Report, Dave Thomas retired as Chief Operating Officer after 23 years with the Company. Dave ceased to be a Director in January 2020, although remained in a consultative capacity until 6 April 2020. Robbie Bell left the business on 30 June 2020. Robbie was succeeded by Giles David who joined the Board as Chief Financial Officer on 1 June 2020. Richard Crampton, who joined the Group as Chief Commercial Officer in September 2019, was appointed to the Board, also with effect from 1 June 2020, in recognition of the valuable contribution he has made since he joined.

Sharon Brown, Chair of the Audit & Risk Committee stepped down at the end of June. Sharon was succeeded by Dominic Lavelle, who joined the Board with effect from 18 May 2020, and became Audit & Risk Committee Chair on 1 July 2020. The final change in the year was the the appointment of Benedict Smith, who joined the Board as a Non-Executive Director with effect from 1 July 2020.

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

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

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

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

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

1 Member of the Audit & Risk Committee.
2 Member of the Remuneration Committee.
3 Member of the Nomination Committee.

2.
Jonathan Miller
Chief Executive[3]

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

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

Experience: Jonathan has played a key role in the development of the business over a career spanning 30 years. He has extensive experience of corporate transactions, wholesale supply arrangements and business strategy.

3.
Richard Crampton
Chief Commercial Officer

Current appointment: Richard joined as Chief Commercial Officer in September 2019 and joined the Board on 1 June 2020.

Key strengths: Richard has extensive experience in convenience and food retail.

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

4.
Giles David
Chief Financial Officer

Current appointment: Giles was appointed Chief Financial Officer on 1 June 2020.

Key strengths: Giles has extensive experience in senior financial roles, including 15 years as a Chief Financial Officer.

Experience: Giles has experience in consumer, tech, retail and hospitality businesses and was previously Chief Financial Officer at Casual Dining Group, a position he was appointed to in 2017. He is a Fellow of the Chartered Institute of Management Accountants.

5.
Georgina Harvey
Senior Independent Director[1, 2, 3]

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

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

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

Other directorships: Georgina is also an Independent Non-Executive Director of Superdry plc and Capita plc.

6.
Jens Hofma
Independent Non-Executive Director[1, 2, 3]

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

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

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

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

7.
Dominic Lavelle
Independent Non-Executive Director[1, 2, 3]

Current appointment: Dominic was appointed as an Independent Non-Executive Director on 18 May 2020 and became Chair of the Company's Audit & Risk Committee on 1 July 2020.

Key strengths: Dominic has broad corporate, commercial and strategic experience.

Experience: Dominic has worked as a main board director and Chief Financial Officer at a number of UK quoted companies, with experience in the retail, building, construction, support services, property and technology sectors.

Other directorships: Dominic is currently a Non-Executive Director and Chair of the Audit Committee of FIH group plc and also Fulcrum Utility Services Limited, and a Director of Steenbok Newco 10 SARL.

8.
Benedict Smith
Independent Non-Executive Director[1, 2, 3]

Current appointment: Benedict was appointed as an Independent Non-Executive Director on 1 July 2020.

Key strengths: Benedict has a significant amount of experience in financial management and balance sheet restructuring.

Experience: Benedict was Interim Group CFO of Dennis Publishing Group and has held Group CFO positions at Hunter Boot, GAME Digital, Harrods and Spirit Group.

Other directorships: Benedict is currently Interim CFO at Superdry plc.

Leadership and Company purpose
Board of Directors continued

Executive management
There have been a number of changes to the Executive team in the year, which continues to be led by Jonathan Miller.

1.
Jonathan Miller
Chief Executive

Read more on page 51

2.
Giles David
Chief Financial Officer[1]

Read more on page 51

3.
Richard Crampton
Chief Commercial Officer[1]

Read more on page 51

4.
Karen Bird (McEwan)
Colleague and Operations Director

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

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

Engaging with stakeholders

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

McColl's has sought to continue with its investor relations activities, although these have been impacted by the pandemic, consequently no analyst store visits have been possible and the majority of meetings with investors and investor presentations have been held remotely.

The Board receives regular reports on the investor relations programme and, as part of this, shareholder views are fed back to the Board.

Specific consultations are undertaken from time-to-time with our major shareholders where deemed necessary, as was the case this year with the proposed remuneration policy, further details of which are contained in the Report of the Remuneration Committee. The Chairman also has direct dialogue with some of the major shareholders. In addition, during the year the Chairman has been actively involved in discussions with the banking syndicate and the Company's external auditor.

The Board is conscious that the views and interests of other stakeholders in the business are important and engaging with those other stakeholders will have continued focus going forward.

The Board recognises the importance of colleague engagement. During the year a colleague engagement plan was launched, further details of which are on page 18.

Jens Hofma is the Non-Executive Director that leads on colleague engagement, working closely with the Colleague Team. Jens actively participates with colleague forums and has been involved in some of the initiatives that McColl's runs for colleagues such as Women at McColl's.

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

The Board recognises that our shareholders are a key stakeholder group, so engaging with them and hearing their views are important. The Annual General Meeting normally provides an essential opportunity for shareholders to meet directly with our Directors and, in particular, the Chairs of our Committees. As a result of social distancing guidance our Annual General Meeting planned for April 2020 at the registered office was adjourned and reconvened at a later date in May, being held remotely with shareholders able to register to attend by telephone. Shareholders were encouraged to vote in advance and submit questions which were addressed directly, rather than in the AGM forum.

We publicise the outcome of proxy votes received in advance of general meetings.

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

Investor store visits

We recognise that store visits are a great way for investors to see the business close up and get valuable insight into how we operate. Visits provide an opportunity to meet some of the wider management team and see how we execute our strategic plans. Unfortunately, no such visits have been possible in the year due to social distancing guidance as a result of the pandemic but we intend to resume these as soon as practicably possible.

Division of responsibilities

McColl's is led by an effective Board, which is responsible for delivering long-term success in the business
The Board comprises an independent Chairman, Angus Porter; four independent Non-Executive Directors; Georgina Harvey, Jens Hofma, Dominic Lavelle and Benedict Smith; and three Executive Directors: Jonathan Miller, Chief Executive Officer, Giles David, Chief Financial Officer and Richard Crampton, Chief Commercial Officer. The experience of the Board is detailed in the biographies on pages 50 and 51.

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

The responsibilities of the Board and the Executive are clearly defined and no individual has unfettered powers of decision
The Chief Executive Officer is responsible for delivering the Group's strategy and for its operational performance. The Chief Executive Officer is supported in carrying out their responsibilities by the Chief Financial Officer, the Chief Commercial Officer and the Colleague and Operations Director.

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

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

The schedule is periodically reviewed, most recently in November 2020. Some of the key matters it covers include:

- Strategy and values
- Annual budget and business performance
- Major acquisitions and disposals and new business developments
- Risk appetite, risk management and internal controls
- Shareholder communications
- Capital structure, borrowings and treasury policy
- Dividend payments and recommendations
- Key Group entity structure
- Board and other senior appointments
- Corporate governance matters and delegations
- Group policies
- Pensions and other legal matters

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

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

Where delegations overlap, the final decision is taken by the Board as a whole.

The Senior Leadership Team, a wide cross-functional group of senior colleagues from across the business, supports the Executive Team in delivery of the Company's strategy. The Senior Leadership Team is supported by other specific operational committees within the business which help ensure that strategic actions are disseminated and managed, that progress and issues are appropriately reported and escalated, and that management are accountable for the performance of their areas of responsibility.

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

The Chairman is responsible for leading the Board and ensuring the Board is effective in all aspects of its role
Specific roles have been delegated to the Chairman. The Chairman worked closely with the Chief Executive on the appointment of the new Chief Financial Officer in June 2020 and also lead the searches which culminated in the appointment of Dominic Lavelle as Audit & Risk Committee Chair, and Benedict Smith.

The Chairman is responsible for leading the Group's governance and the operation of the Board, which includes setting the Board agenda, leading discussions and decision-making. The Chairman's role is to actively promote a culture of openness and debate by facilitating the effective contribution of the Independent Non-Executive Directors. He is available to discuss matters with shareholders and is responsible for ensuring that the Board is kept well informed about shareholder views. The Chairman also leads the annual evaluation process to assess the effectiveness of the Board and its Committees. Further details of the Board evaluation are provided on page 57.

The Senior Independent Director leads an annual review of the Chairman's performance, with Directors meeting to discuss performance in his absence.

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

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

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

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

The Board reviews performance against the strategy on an ongoing basis with an in-depth annual review examining the approach, priorities and expectations. Having set the strategic priorities, the Board monitors and incentivises their delivery (whether short or long-term) on a continual basis, regularly reviewing the controls and resources we have in place, the risks faced by the business and how we are managing those risks.

The Board receives relevant reports and background presentations from both internal and external parties to provide context for its consideration and debate of management's strategic proposals.

Separate reports by the Board's three main Committees – the Nomination Committee, the Audit & Risk Committee and the Remuneration Committee – are provided on pages 58 to 83.

Composition, succession and evaluation

The McColl's Board has a strong balance of skills, experience, independence and knowledge of the business
The Board has a strong balance of skills, experience and knowledge which was further strengthened with the Director changes made during the year with the addition of Dominic Lavelle and Benedict Smith as Non-Executive Directors and Richard Crampton and Giles David as Chief Commercial Officer and Chief Financial Officer. Details of the experience, background and skills of individual Directors can be found on pages 50 to 51.

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

Our Board recruitment processes are formal, rigorous and transparent
Our policy is not to set a quota or target for Board diversity, but we are fully committed to transparent and robust practices to identify the individual best suited to any vacancy. Recruitment is based on an assessment of the skills, experience, qualifications and other attributes sought and we support this principle being applied throughout the Group. 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 59 and in relation to our wider organisation, on pages 37 and 38.

Attendance at meetings

	Board	Audit & Risk[1]	Remuneration[2]	Nomination[3]
Angus Porter	9/9	–	5/5	2/2
Jonathan Miller	9/9	–	–	2/2
Dave Thomas[4]	–	–	–	–
Giles David[5]	4/4	–	–	–
Richard Crampton[6]	9/9	–	–	–
Robbie Bell[7]	5/5	–	–	–
Georgina Harvey	9/9	5/5	5/5	2/2
Sharon Brown[8]	5/5	2/2	5/5	1/1
Jens Hofma	9/9	5/5	5/5	2/2
Dominic Lavelle[9]	4/4	4/4	3/5	1/1
Benedict Smith[10]	3/3	3/3	3/3	1/1

1 Angus Porter, Jonathan Miller, Robbie Bell, Dave Thomas, Richard Crampton and Giles David attended meetings of the Audit & Risk Committee by invitation.
2 Jonathan Miller, Robbie Bell, Dave Thomas, Richard Crampton and Giles David attended meetings of the Remuneration Committee by invitation.
3 The meeting usually held in November to consider pre-year-end matters was postponed until January 2021.
4 Dave Thomas ceased to be a Director on 24 January 2020.
5 Giles David was appointed Chief Financial Officer on 1 June 2020.
6 Richard Crampton joined the Board on 1 June 2020, having previously been appointed Chief Commercial Officer in September 2019.
7 Robbie Bell ceased to be a Director on 30 June 2020.
8 Sharon Brown ceased to be a Director on 30 June 2020.
9 Dominic Lavelle was appointed a Director on 18 May 2020.
10 Benedict Smith was appointed a Director on 1 July 2020.

In terms of Board recruitment activity during the year, Redgrave Partners were engaged for the recruitment of a Chief Financial Officer to replace Robbie Bell. Redgrave Partners ensured the search encompassed a wide pool of potential candidates, who were assessed against objective criteria to identify someone with the necessary skills. Further details about this process, which was led by our Nomination Committee, are provided on page 58. As advised last year, Nurole Limited were engaged for the recruitment of an Audit & Risk Committee Chair to succeed Sharon Brown which culminated in the appointment of Dominic Lavelle. Benedict Smith was appointed following an internally managed search.

Our Directors are required to dedicate sufficient time to their responsibilities
The commitment of our Directors to their roles, including the time committed by our Non-Executive Directors, is a crucial factor in ensuring that our skilled Board is able to lead the business effectively and build sustainable value for our shareholders. Non-Executive Directors' letters of appointment define their duties and, taking account of these, the Nomination Committee has reviewed the time commitment required of our Non-Executive Directors. Further details regarding this can be found on page 59.

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

New Directors receive a formal induction and ongoing development activities apply to the whole Board
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. The talents of our Board members can be put to best use when we ensure that they are properly informed. This is particularly important following a new appointment to the Board

and, accordingly, all new Directors undergo an induction process that is described on page 59. However, to perform their duties as well as possible, all Directors also need ongoing development.

Arrangements are in place to provide Directors with good quality information

Directors, and in particular Non-Executive Directors who are not involved in the business on a day-to-day basis, must receive high-quality, relevant information in a timely manner so that they can make appropriate decisions for the business. Meeting agendas need to prioritise salient matters and ensure that the Board is considering the right issues at appropriate times. Reports must be thorough so that Directors arrive at meetings well briefed and ready to dedicate the valuable time the Board have together to challenging and testing rationales, risks and alternatives, for example, as opposed to seeking background information and facts that could readily have been addressed in the original papers. The Company Secretary plays a key role at McColl's in ensuring that this is the case. The Directors of any business can face difficult issues from time to time and it is important that they always feel they are able to address those issues with the appropriate knowledge and advice at their disposal. Accordingly, all Directors, having notified the Chairman in the first instance, are able to take independent professional advice at the Company's expense if they feel such advice is necessary in the furtherance of their duties. No Director felt it necessary to take such individual advice during 2020. Directors also have access to the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters, and who is also available to any Director who wishes to seek their counsel.

A Board evaluation has been conducted

Given the changes in composition of the Board and the different environment as a result of the pandemic, the Board considered an internal evaluation appropriate for 2020, rather than an external evaluation as undertaken in the prior year. The evaluation used an online questionnaire approach, facilitated by the Company Secretary, for the Board and each of its Committees. Responses were collated and discussed as a collective with the Chairman also holding individual discussions with each of the Board members, who were invited to discuss their own individual contributions to the Board. A number of actions have been identified for improvement, including greater engagement between the Non-Executive Directors, the Executive Team and relevant Senior Managers, in between meetings, with smaller sub-groups meeting more frequently to discuss key topics.

The performance of the Chairman was also evaluated, in a process led by Georgina Harvey, as the Company's Senior Independent Director. The process concluded that the Chairman continues to provide effective leadership.

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 20 May 2021, all current Directors have been unanimously recommended by the Board for election, in the case of those Directors appointed during the year, or re-election, following an assessment of individual performance. 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.

See more information
Page 59

Board evaluation process

Internally facilitated

Completion of online surveys → **Collation of results** → **Consideration of findings and actions agreed**

Composition, succession and evaluation continued
Nomination Committee report

Angus Porter
Nomination Committee Chair

> **2020 saw a number of changes to the Board, and whilst we said farewell to a number of Directors who gave valuable service to the Company, we are confident that the changes made, which include further strengthening of the Board with the appointment of an additional NED, leave us well placed to meet the challenges ahead.**

Dear shareholder

I am pleased to present the 2020 Report of the Nomination Committee.

Committee composition and effectiveness

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

As part of the Board's performance evaluation conducted during the year, the Committee also reviewed its own performance. The results of this exercise will continue to shape the future activities of the Committee with a focus on diversity and inclusion, talent and succession.

Typically, there are at least two scheduled Committee meetings, held during the year with additional sub-committee meetings or calls as required dealing with items such as formalising appointments to the Board. However, the timing of meetings, and their being held remotely, resulted in the November 2020 meeting being postponed until January 2021. The items covered at these meetings are detailed below.

	Meeting attendance	
Angus Porter Chairman of the Board *(considered independent on appointment)*	Feb	Jan
Sharon Brown[1] Nomination Committee Member *Independent Non-Executive Director*	Feb	
Georgina Harvey Nomination Committee Member *Senior Independent Director*	Feb	Jan
Jens Hofma Nomination Committee Member *Independent Non-Executive Director*	Feb	Jan
Dominic Lavelle[2] Nomination Committee Member *Independent Non-Executive Director*		Jan
Benedict Smith[3] Nomination Committee Member *Independent Non-Executive Director*		Jan
Jonathan Miller Chief Executive	Feb	Jan

1 Ceased to be a Director on 30 June 2020.
2 Appointed a Director on 18 May 2020.
3 Appointed a Director on 1 July 2020.

The Nomination Committee's responsibilities and activities

The Nomination Committee's responsibilities are set out in full in the Committee's terms of reference, available from www.mccollsplc.co.uk/committees.

There have been a number of Board changes during the year. It was announced in October 2019 that Sharon Brown would be stepping down. Nurole Limited were selected as part of the recruitment process which resulted in the appointment of Dominic Lavelle, who joined the Board in May 2020 and succeeded Sharon as Audit & Risk Committee Chair on 1 July 2020.

Following the resignation of Robbie Bell, Redgrave Partners were selected as the executive selection agent for a new Chief Financial Officer, culminating in the appointment of Giles David. Redgrave Partners are signatories to the Voluntary Code of Conduct for Executive Search Firms which sets out best practice in relation to addressing gender diversity in executive recruitment. Both agents, Nurole and Redgrave, are independent of the Company.

Richard Crampton and Benedict Smith were also appointed to the Board during the year, Richard in recognition of the valuable contribution he has made since joining the business as Chief Commercial Officer in September 2019 and the additional responsibilities he has taken on since Dave Thomas left the business, so no agency was involved. Benedict was appointed on 1 July 2020 following an internally managed search.

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

Meeting date[1]	Key agenda items
Feb 2020	• review of Non-Executive Directors independence • consideration of suitability of Directors for re-election/election at the AGM • performance evaluation
Jan 2021	• review of Non-Executive Directors' time commitment • approval of Nomination Committee terms of reference • consideration of the diversity and inclusion plan

1 February 2020 and January 2021 (postponed from November 2020)

Composition of the Board and its Committees

The composition of our Board is fully compliant with the Code's requirement that apply to FTSE 350 companies, although with the Board changes during the year our gender diversity has reduced.

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

Performance evaluation

The Committee considered its own performance and reviewed the outcomes of the internally facilitated Board evaluation process as a whole in January 2021.

Independence, interests and commitment

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

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

Directors' interests are reviewed at the start of each Board meeting. All interests have been appropriately disclosed and authorised and consequently the Board has confirmed that it considers all Non-Executive Directors to be independent. All Directors are proposed for re-election or election at the Company's Annual General Meeting to be held on 20 May 2021.

Induction and Board development

The Director induction is a formal process that involves providing background information about the business and its regulatory environment through, for example, the sharing of reports and governance documents. Face-to-face meetings are arranged with other Directors, key personnel within the business and its advisers, and site visits are also undertaken, although all of these have been impacted by the pandemic. Giles David, Dominic Lavelle and Benedict Smith all went through the induction process during the year which is considered to be adequate.

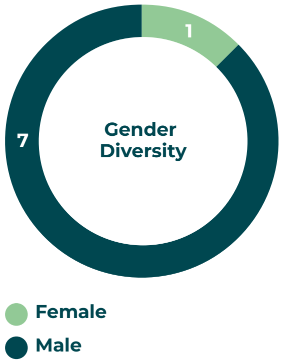
The ongoing development of Board members is a priority and regular in-depth reviews are undertaken to ensure that the Non-Executive Directors have a full understanding of the business, its specific functional strategies and projects, changes to the regulatory environment and market developments.

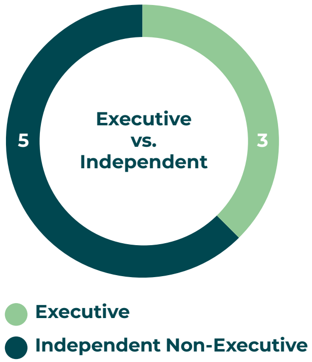
Succession planning, talent management and diversity

The Board and Nomination Committee are committed to ensuring that inclusion and diversity, are fully supported at Board level and throughout the business. There are a number of programmes which seek to identify and nurture talent, supporting future succession within the business. In addition, there is an ongoing plan for diversity and inclusion, the purpose of which is to make the business a truly diverse and inclusive organisation which will result in higher colleague engagement and commitment, greater innovation and creativity, improved decision-making and better customer and colleague insight. Succession planning and talent management, together with diversity and inclusion are ongoing areas of focus.

We recognise that an organisation that embraces difference will benefit from the range of perspectives brought by a variety of backgrounds and other influences although it is not the Board's policy to establish a quota of women for appointment. All appointments to the Board are based upon an assessment of the skills, qualifications and experience of individuals.

Board Diversity





A number of wider initiatives exist within the business to support colleagues in achieving their potential and aspirations. Some of these initiatives are aimed at ensuring that we provide good support to women, whatever stage they are at in their life and career, to succeed in the workplace. As a business, McColl's is a significant employer of women. Like many other organisations, women at McColl's are under-represented at senior management levels although it is positive news that more than half our stores are managed by women. We are pleased with the ongoing progress in this area and the appointment of more women to senior management positions in the business.

Further detail about our colleague engagement and initiatives and plans to support and develop colleagues can be found on pages 26 and 27.

Details of our gender pay gap are provided on page 37.

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

Angus Porter
Nomination Committee Chair

* The Chairman was deemed independent on appointment.

Audit, Risk and Internal control

The McColl's Board recognises its duty to present a fair, balanced and understandable assessment of the Group's position and prospects
The Annual Report and financial statements, together with other published information, provide important disclosures that enable shareholders and other readers to assess the performance, strategy and business model of the Company. The Group has thorough assurance processes in place in respect of the preparation, verification and approval of periodic financial reports, including:

- a system of financial and other internal controls,
- the involvement of qualified, professional colleagues with an appropriate level of experience (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 42 and 43.

These processes provide the Board with reasonable assurance 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 management is described on pages 42 to 47 and includes a summary of the principal risks facing the Group and details of how these risks are mitigated. These principal risks, which could threaten our business model, performance, solvency or liquidity, have been agreed following a robust assessment.

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. Since July 2020, this Committee has been chaired by Dominic Lavelle, who has recent and relevant financial experience. A separate report on behalf of the Audit & Risk Committee is provided on pages 61 to 64. Sharon Brown, Dominic's predecessor, also had recent and relevant financial experience.

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

Audit & Risk Committee report

Dominic Lavelle
Audit & Risk
Committee Chair

Planning the year ahead helps ensure that less time critical matters can be spread evenly across meetings so that adequate time can be provided at meetings for full discussion.

Dear shareholder

I am pleased to present the Audit & Risk Committee's report for the year ended 29 November 2020.

The Audit & Risk Committee leads the Board's focus on matters of risk, as well as the integrity of the Group's financial reporting. As a Committee we remain mindful of the risks and pitfalls that a developing business can face, particularly in the current situation with a global pandemic. Our responsibility is to ensure that controls are sufficiently robust and behaviours within the business are appropriate. During the year, the Committee has been active in ensuring its responsibilities are carefully discharged. The Committee's report which follows provides information on how we have done so.

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

Dominic Lavelle
Audit & Risk Committee Chair

Committee composition and effectiveness

Dominic Lavelle succeeded Sharon Brown as Chair of the Audit & Risk Committee on 1 July 2020, having joined the Board in May 2020. He is joined by three Independent Non-Executive Directors: Georgina Harvey, Jens Hofma and Benedict Smith. Angus Porter and the Executive Team attend meetings by invitation.

The Audit & Risk Committee reviewed its own performance as part of the annual evaluation process. The review concluded that the Committee operates effectively.

The Committee also confirmed that the collective financial and sector experience of its members is deemed to be appropriate, relevant and sufficiently recent to enable the Committee to fully discharge its responsibilities.

	Meeting attendance
Sharon Brown[1] *Audit & Risk Committee Chair*	Jan, Feb
Georgina Harvey *Audit & Risk Committee Member* *Senior Independent Director*	Jan, Feb, Jul, Oct, Nov
Jens Hofma *Audit & Risk Committee Member* *Independent Non-Executive Director*	Jan, Feb, Jul, Oct, Nov
Dominic Lavelle[2] *Audit & Risk Committee Chair* *Independent Non-Executive Director* *Previous experience as a Finance Director*	Jul, Oct, Nov
Benedict Smith[3] *Audit & Risk Committee Member* *Independent Non-Executive Director*	Jul, Oct, Nov

1 Ceased to be a Director on 30 June 2020.
2 Appointed a Director on 18 May 2020.
3 Appointed a Director on 1 July 2020.

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

Audit, Risk and Internal control continued

Audit, Risk Committee report continued

Audit & Risk Committee's responsibilities

The Audit & Risk Committee is responsible for providing 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, such as their independence.

The Committee is responsible for making recommendations to the Board on a number of different matters which include the appointment of the Company's external Auditor and approval of the Group's financial disclosures, including the Annual Report and Accounts and the Interim Financial Statements.

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

The Committee undertook a review of its terms of reference during the year with a number of changes made to align them with best practice. A copy of the Committee's terms of reference is available on the McColl's website at www.mccollsplc.co.uk/committees.

Audit & Risk Committee's activities

The Committee has an extensive remit and therefore it is vital that the Committee's time is organised effectively in order to cover its responsibilities. 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. Planning the year ahead helps ensure that less time-critical matters can be spread evenly across meetings so that adequate time can be provided at meetings for full discussion. The way in which the Audit & Risk Committee divided its time during 2020 is summarised in the table of key agenda items although this was impacted by meetings being held remotely.

During the year, the Committee considered emerging risks and mitigations.

Meeting date	Key agenda items
Jan	• reviewed the draft Annual Report and Accounts 2019 and related matters • reviewed the performance evaluation of the Committee
Feb	• considered year-end external audit outcomes • approved the Annual Report and Accounts 2019 and related matters • considered the external Auditor independence, objectivity and reappointment • assessed the principal risk disclosures • approved a Group guarantee for subsidiary companies
Jul	• considered half year external audit review outcomes • approved the half year 2020 announcement and related matters
Oct	• approved the 2020 year-end audit plan
Nov	• reviewed the terms of reference • reviewed financial and internal controls and risk management systems • reviewed incidents of compliance, fraud, whistle-blowing and bribery • considered the need for an internal audit function • considered cyber security • considered the risk register • reviewed key accounting policies • reviewed policies on related party transactions, employment of former employees of the external Auditor, speaking up in confidence (whistle-blowing), anti-bribery • reviewed the policy on provision of non-audit services by the 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 Chair, Executive Directors, external Audit Partner and others, including members of the Finance Team, so that reports can be discussed and challenged.

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

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

McColl's does not currently have an internal audit function. The Committee reviews annually whether it would be appropriate for such an internal audit function to be established. During the year, the Committee received a report on the existing controls within the business and, after discussion, again concluded that it was not necessary to establish an internal audit function. This decision will be reviewed again during 2021.

After each Committee meeting, actions are clearly identified, tracked and reported back to the Committee as progress is made in completing them. The Committee Chair reports to the Board on the main items discussed at each meeting, including recommendations on any items requiring further consideration and decision by the Board.

Non-audit services

The assurance provided by the external audit process is key to ensuring confidence in our financial reporting. The Committee therefore regards the continued independence of the external Auditor as vitally important. The Group has a clear and robust policy relating to the provision of non-audit services by the external Auditor which is reviewed annually by the Committee. 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.

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

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

FRC Review

In respect of the Audit Quality Review inspection by the Financial Reporting Council (FRC) of the external Auditor's 2019 audit work, the Committee are satisfied with the quality of the 2020 external audit work. A few modifications were made by the external Auditor to their audit approach, which have been considered by the Committee as an appropriate response to the FRC's findings.

Auditor reappointment

BDO LLP were appointed external Auditor in 2019 following a formal tender process. The Audit & Risk Committee are recommending the re-appointment of BDO at the forthcoming Annual General Meeting to be held in May 2021.

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 Committee were satisfied with the significant accounting judgements made in preparing them.

Treatment of supplier income

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

Presentation and classification of results

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

Audit, Risk and Internal control continued

IFRS 16
The Group adopted IFRS 16 from 25 November 2019, using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17.

The Committee has considered the accounting treatment and disclosure in respect of the transition to IFRS 16 to ensure it is accurate and appropriate. Notes 6 and 21 contain a reconciliation of the IFRS 16 adjustments impacting EBITDA and Net Debt.

Going Concern
The Committee, in considering going concern have considered a number of factors, including financial assumptions and estimates, current and prior performance and macroeconomic factors. The Committee also considered the banking facilities available to the Group.

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

Conclusion
The Committee examined, at the request of the Board, the Annual Report to determine whether it was fair, balanced and understandable. The Committee did this by gaining an understanding of the drafting and preparation process and the level of review and challenge introduced to ensure balance and accuracy. After its review of the process, consideration of management and auditor papers on the financial statements and the Annual Report and its own review of the Annual Report, the Committee concluded that the Annual Report was fair, balanced and understandable and recommended that the Board approve it on those terms.

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:

Dominic Lavelle

Audit & Risk Committee Chair

Remuneration

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

The Directors' Remuneration Report describes in detail our approach to:

- Executive Directors' remuneration, the different elements that make up their remuneration package, the targets on which performance elements are based, and termination arrangements. One of the key factors of which the Remuneration Committee takes account when it is considering potential changes to Executive remuneration is the pay and conditions that prevail across the wider group and industry; and
- Chairman and Non-Executive Director fees. Fees reflect responsibility levels and the time commitment required of them. Non-Executive Directors do not receive any performance-related benefits. There have been no changes to the fees of Non-Executive Directors during the year.

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

The 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 in advance of the 2021 Annual General Meeting at which a revised remuneration policy will be put to shareholders for approval. The Remuneration Committee's duties are set out in full in the Committee's terms of reference (available from www.mccollsplc.co.uk/committees). The Committee Report describes in more detail how the Committee discharges these duties.

Remuneration continued
Annual statement

Georgina Harvey
Remuneration Committee Chair

> **This year we consulted on a new Remuneration policy which will be put to shareholders at this year's AGM.**

Dear shareholder
I am pleased to present the Directors' Remuneration Report for the financial period ended 29 November 2020. This report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410"), Schedule 8, as amended, and the principles of the prevailing UK Corporate Governance Code. The report is split into three sections:

- This Annual Statement summarising the work of the Committee, our approach to remuneration and an 'at a glance' summary of Executive Director remuneration;
- The Directors' Remuneration Policy, which sets out a proposed new policy given that the current shareholder approved Policy will shortly reach the end of its three-year life; and
- The Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement the Policy in 2021.

Accordingly, at our 2021 AGM, there will be the normal annual advisory vote on our Directors' Remuneration Report and a vote to approve our new Directors' Remuneration Policy. In addition, shareholders will be asked to approve amendments to the rules of the Long Term Incentive Plan (LTIP) which has been updated to reflect the proposed changes to the Remuneration Policy.

Work of the Committee during 2020
The Committee addressed the following main activities during the year:

- Agreeing the performance against the targets for the 2019 annual bonus awards;
- Setting the targets for the 2020 annual bonus;
- Agreeing the performance against the targets for the 2018 LTIP awards and determining vesting levels;
- Agreeing the award levels and performance targets for the 2020 LTIP awards;
- Agreeing the remuneration arrangements for joiners and leavers; and
- Agreeing the Chairman's fee and Executive Directors' base salaries for 2020.

In addition, the Committee has sought to ensure that the current and proposed Policy and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code:

- **Clarity** – The current and proposed Policy is understood by our senior Executive team and we have sought to articulate it clearly to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).
- **Simplicity** – The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Executive remuneration policies and practices are straightforward to communicate and operate.
- **Risk** – Our Policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via: the balanced use of both short and long term incentive plans which employ a blend of financial, non-financial and shareholder return targets; the significant role played by equity in our incentive plans; and malus and clawback provisions.
- **Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits.
- **Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded.
- **Alignment to culture** – Our executive pay policies are aligned to culture through the use of metrics in both the annual bonus and LTIP that measure how we perform against our KPIs.

Pay and Performance for 2020
Whilst a number of bonus objectives were achieved in 2020, no bonus was payable taking into account the underlying performance of the business due to the challenges faced. In addition, the LTIP awards granted in 2018 based on EPS and relative TSR will lapse in full in 2021.

Discretion
The Committee is satisfied that the Remuneration Policy operated as intended in terms of Group performance and quantum and as such, no discretion has been exercised in respect of remuneration for 2020.

Remuneration Policy Review
Following a review of the current remuneration policy, given that it will shortly reach the end of its three-year shareholder approved life, the following changes are proposed:

- The maximum pension contribution rate of 20% of salary will be removed. Going forwards, pension provision for incumbent Executive Directors and new employees promoted to the Board will be aligned, in percentage of salary terms, to the general workforce contribution rate (currently 3% of salary, as per the pension provision for the Chief Commercial Officer and Chief Financial Officer);
- The exceptional LTIP award limit of 250% of salary will be removed, leaving a single 150% of salary annual LTIP grant limit, given that 150% of salary is considered sufficient for the next three-year Policy period;
- A post-cessation shareholding guideline will be introduced. Going forward, Executive Directors will need to retain shares equal to 100% of the in-post shareholding guideline up until the second anniversary of cessation;
- Malus and clawback triggers in the bonus and LTIP will be enhanced, including the addition of corporate failure and insolvency triggers; and
- Minor changes will be made to the Policy wording in respect of the annual bonus and LTIP performance metrics to increase the flexibility to refine metrics and weightings during the Policy Period to align with the Group's strategy where appropriate.

Major shareholders and representative bodies were consulted on the proposed changes in advance, with the majority of responses being supportive.

Implementation of the Remuneration Policy for Executive Directors for 2021
A summary of the proposed approach to the implementation of the Remuneration Policy is as follows:

- No changes are proposed to the base salaries of Executive Directors;
- The Chief Executive's pension provision (currently 22.8% of salary) will be reduced by 4% of salary per annum until a pension of 3% of salary is achieved in line with the workforce provision (and the Chief Commercial Officer and Chief Financial Officer's pension provision). No compensation will be offered to reflect the reduction in remuneration. While the Committee is aware of the Investment Association's 31 December 2022 deadline, the proposed approach above is considered by the Committee to be an appropriate compromise in the circumstances given the c.20% of salary reduction to total remuneration that is required;
- Annual bonuses will continue to be capped at 100% of salary with a majority measured against financial performance and a minority based on personal/strategic targets; and
- The LTIP award for 2021 is expected to be granted in May 2021. Given the prevailing share price, award levels will be below the normal 150% of salary award level. Performance metrics are expected to be based on EPS and relative TSR for the majority of the award and it is envisaged that a new store-related strategic measure will be introduced for a minority of the award. The targets have not yet been agreed although they will be set prior to the grant date (which is expected to be shortly after the 2021 AGM) and disclosed in the RNS issued shortly following grant.

Yours sincerely,

Georgina Harvey
Remuneration Committee Chair

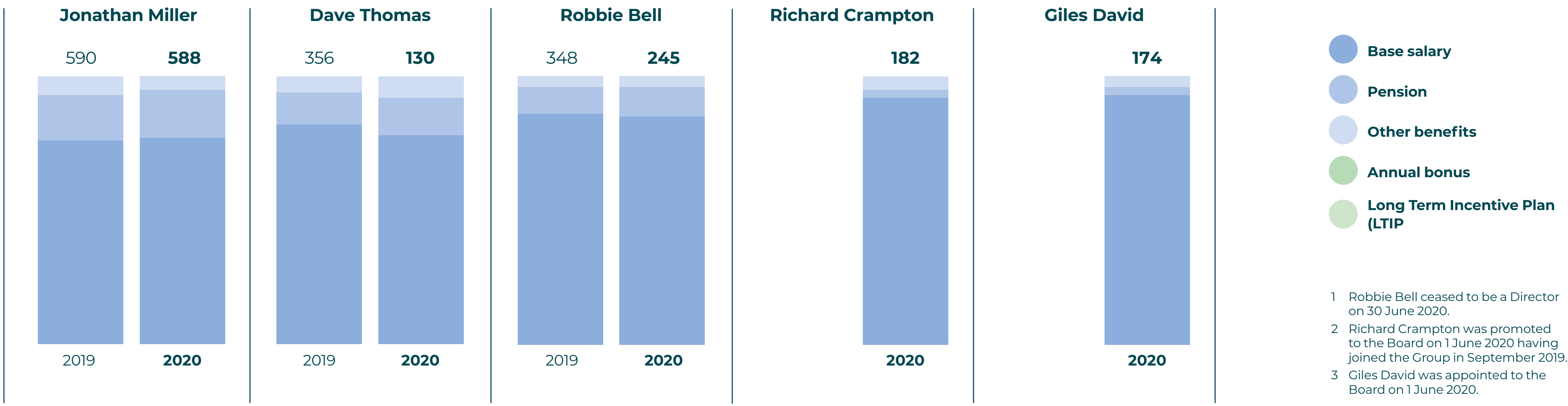
Remuneration continued
At a glance

The following is a summary of the key components of Executive Directors' remuneration and their single figure total remuneration for the financial period ended 29 November 2020.

Key components

	Fixed Pay			Variable Pay	
	Basic Salary	**Pension**	**Other benefits**	**Annual bonus**	**Long Term Incentive Plan (LTIP)**
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.	To incentivise focus on achievement of stretch financial targets as well as the delivery of key strategic priorities for the year.	To align the interests of Executives with shareholders in growing the value of the business over the long term.

Single figure remuneration of Executive Directors (£'000)



1 Robbie Bell ceased to be a Director on 30 June 2020.
2 Richard Crampton was promoted to the Board on 1 June 2020 having joined the Group in September 2019.
3 Giles David was appointed to the Board on 1 June 2020.

These figures are described in more detail on page 76.

Directors' remuneration policy

This section of the report sets out the Company's Directors' Remuneration Policy which will be put to shareholders by way of a binding vote at the 2021 AGM. The policy will apply for the three years from the date of approval.

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

Summary Policy table
A summary of key components of the remuneration policy is as follows:

	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.	Participation in the Group's defined contribution pension scheme and/or a salary supplement.	Benefits currently include the provision of a car or car allowance, fuel, private medical insurance and life assurance. Reasonable relocation, travel and subsistence allowances and other benefits may be provided based on individual circumstances.
Maximum opportunity	Executive Directors' salary increases will normally be in line with those for the wider employee population. However, larger changes to salary may be made where there is a change in role or responsibilities or a significant market misalignment.	Pension benefits will be aligned to the general workforce excluding legacy arrangements for the current Chief Executive where pension will be reduced to the workforce level over time.	These benefits are set at a level that is comparable to market practice. The Committee retains the discretion to amend benefits in exceptional circumstances or in circumstances where factors outside of the Group's control have materially changed (e.g. increases in insurance premiums).
Performance metrics	Individual and Group performance is taken into account when determining appropriate salaries.	None.	None.

Variable Pay

	Annual Bonus	Long Term Incentive Plan (LTIP)
Purpose and link to strategy	To focus Executive Directors on achieving stretching financial/operational/personal/strategic targets. 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.
Operation	Performance measures and targets are set prior to or shortly after the start of the financial period. At the end of the financial period, the Remuneration Committee will determine the extent to which the targets have been achieved. One-third of any bonus award will be deferred into shares that must be retained for a period of three years, with the remainder paid in cash. The Committee has discretion to reduce the bonus in the event of serious financial misstatement or gross misconduct or corporate failure/insolvency. The Committee may also 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 or corporate failure/insolvency. In cases of gross misconduct, the Committee may also 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 and holding period on shares that vest.
Maximum opportunity	100% of salary 10% and 50% of maximum will be payable for threshold and on target performance respectively.	150% of salary.
Performance metrics	Performance metrics will be linked to financial, operational, personal and/or strategic targets. 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.	Performance metrics will be linked to share price, financial, operational and/or strategic targets. The Committee has discretion to adjust the formulaic LTIP award within the limits of the plan, to ensure alignment of pay with the underlying performance of the business.

Other arrangements

	Shareholding guidelines	Non-Executive Directors' fees
Purpose and link to strategy	To align Directors' interests with the long-term interests of shareholders.	To reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the Non-Executive Directors.
Operation	In employment: Executive Directors will be required to build up and retain a minimum shareholding in the Company. Post-cessation: Executive Directors will be required to retain a shareholding for two years post-cessation of employment.	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 Chairs 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	In employment: 200% of salary Post-cessation: 100% of the in-employment guideline for two years (or actual shareholding if lower) excluding: (i) own shares purchased (including any shares in respect of the IPO); and (ii) shares vesting from any share award granted prior to the 2021 AGM and shares in respect of any buy out awards.	There is no prescribed individual maximum fee but there is an aggregate limit of £500,000.
Performance metrics	None.	None.

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. A profit metric is considered to be the best measure of the Group's annual financial performance and will continue to determine the majority (if not all) of the annual bonus. The profit target may be supplemented by an element based on personal, operational and/or strategic performance measures which are selected annually to reflect the Group's key strategic priorities for the financial period ahead.

For the LTIP which incentivises delivery of longer-term success, performance targets will be based on financial (e.g. EPS), share price (e.g. absolute or relative Total Shareholder Return), operational and/or strategic-based targets.

The Committee aims to set stretching but achievable targets, taking account of a range of reference points, including broker forecasts (where relevant) and the Group's strategic plan. Threshold vesting for the TSR element is set at median ranking with the stretch target set at upper quartile or more. These targets are expected to capture a range of good to excellent performance for the Group.

Differences in remuneration policy operated for other employees
Senior management's remuneration has the same components as set out in the Policy, being basic salary, annual bonus, pension, life assurance and other benefit provision. They may also be invited to participate in the LTIP (performance shares and/or restricted shares) or alternatively the Company's Share Option Plan or other incentive arrangements as appropriate.

Annual bonus arrangements normally 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.

All colleagues receive a basic salary and all eligible colleagues are automatically invited to enrol into a pension scheme.

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

Assumptions

	Minimum	On-Target	Maximum	Maximum with share price growth
Basic salary	Current salary levels for 2020/21			
Benefits	Estimated annual value			
Pension	18.8% of salary for the CEO, 3% of salary for the CCO and CFO			
Bonus	0% of salary	50% of salary	100% of salary	100% of salary
LTIP	0% of salary	75% of salary*	150% of salary*	150% of salary* (increased by 50%)

* 2021 LTIP award levels will be reduced to reflect the prevailing share price.


Base salary
Bonus
LTIP
£2,000,000
£1,500,000
£1,000,000
£500,000
£569,000
100%
£1,132,000
50%
20%
30%
£1,696,000
33%
27%
40%
£2,034,000
28%
22%
50%
£363,000
100%
£782,000
46%
21%
33%
£1,201,000
30%
28%
42%
£1,452,000
25%
23%
52%
£351,000
100%
£757,000
46%
21%
33%
£1,163,000
30%
28%
42%
£1,407,000
25%
23%
52%
Minimum
On-target
Maximum
Maximum with share price growth
Minimum
On-target
Maximum
Maximum with share price growth
Minimum
On-target
Maximum
Maximum with share price growth
Chief Executive Officer
Chief Commercial Officer
Chief Financial Officer

Directors' remuneration policy continued

Approach to remuneration for new Director appointments

When recruiting or appointing a new Executive Director, the 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 in line with that offered to the general workforce.	Workforce aligned
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

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.

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

Service contracts and exit payment policy

Non-Executive Directors

The Chairman, Angus Porter, was appointed as a Non-Executive Director on 1 April 2016. Appointment dates for the other Non-Executive Directors are as follows: Georgina Harvey (7 February 2014), Jens Hofma (1 July 2017), Dominic Lavelle (18 May 2020) and Benedict Smith (1 July 2020).

All Non-Executive letters of appointment set out the terms of the individual's appointment and are available for inspection at the Company's registered office and at the Annual General Meeting. They are not eligible to participate in the annual bonus or any equity schemes, nor do they receive any additional pension or benefits (other than out of pocket expenses directly incurred in the performance of their role) on top of their standard fees disclosed. Non-Executive Directors typically have a notice period of one month and receive no compensation on termination.

Executive Directors

Jonathan Miller, Richard Crampton and Giles David entered into service agreements with the Company on 1 April 2016, 1 June 2020 and 1 June 2020 respectively.

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

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

The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the Executive's contractual terms, the circumstances of termination and any duty to mitigate. In addition, legal fees and outplacement support may be provided.

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

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

Consideration of employment conditions elsewhere in the Group

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

Consideration of shareholder views

The Committee considers shareholder feedback carefully when reviewing remuneration. As part of its work to propose the new Remuneration Policy for approval at the 2021 Annual General Meeting, it took advice on current best practice and institutional shareholder guidelines. The Committee also undertook an active consultation exercise with its major shareholders and the main representative bodies.

Remuneration continued
Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 29 November 2020 and sets out how we intend to implement our remuneration policy for the 2021 financial year. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the 2021 AGM.

Remuneration Committee composition

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

Meeting attendance during the year was as follows:

	Meeting attendance
Georgina Harvey *Remuneration Committee Chair* *Senior Independent Director*	Jan, Feb, Jul, Sep, Nov
Sharon Brown *Remuneration Committee member* *Independent Non-Executive Director*	Jan, Feb
Jens Hofma *Remuneration Committee Member* *Independent Non-Executive Director*	Jan, Feb, Jul, Sep, Nov
Dominic Lavelle *Remuneration Committee Member* *Independent Non-Executive Director*	Jul, Sep, Nov
Benedict Smith *Remuneration Committee Member* *Independent Non-Executive Director*	Jul, Sep, Nov
Angus Porter *Remuneration Committee member* *Chairman of the Board (considered independent on appointment)*	Jan, Feb, Jul, Sep, Nov

Committee responsibilities

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

FIT were appointed as the Committee's principal external adviser in 2018 and continue to assist the Committee in their work. FIT's fees for advice provided to the Remuneration Committee for the year under review were £64k (exc. VAT) based on time and materials. FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found at www.remunerationconsultantsgroup.com.

Committee activities

During the 2020 financial year, the Committee met formally five times to consider the following remuneration matters:

Meeting date	Key agenda items
Jan	• considered Executive Directors' salaries • considered 2019 annual bonus outturn • considered 2018 LTIP and CSOP vesting • considered 2020 LTIP framework • reviewed gender pay gap reporting • considered corporate governance updates
Feb	• determined 2019 annual bonus outturn • determined 2018 LTIP and CSOP vesting • considered 2020 LTIP award targets • considered 2020 bonus targets • approved the gender pay gap report • evaluated the Committee's performance as part of Board evaluation
Jul	• considered the sharesave scheme • reviewed draft CEO pay ratio data
Sep	• considered remuneration policy proposals • agreed the delay in launch of the sharesave scheme • considered corporate governance updates
Nov	• approved the terms of reference • approved the policy on Directors' expenses • reviewed potential 2020 bonus outturn • reviewed progress against targets on existing LTIP and CSOP awards • considered colleague/workforce pay and benefits and changes over the previous 12 months • considered corporate governance updates

Making sure the Committee is well informed

In considering remuneration arrangements, 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, including peer group practice, and pay and conditions in place for the wider workforce. Examples of the information that may be provided to the Committee, when making key decisions, is set out in the following table.

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

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, as was the case this year.

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 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.

Remuneration continued
Annual report on remuneration continued

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 29 November 2020 and the prior period:

	Salary		Pension Benefits[6]		Taxable Benefits[7]		Annual Bonus[8]		LTIP[9]		Total		Total Fixed		Total Variable	
£'000	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Jonathan Miller	**451**	451	**103**	103	**34**	36	**–**	–	**–**	–	**588**	590	**588**	590	**–**	–
Richard Crampton[1]	**168**	–	**5**	–	**9**	–	**–**	–	**–**	–	**182**	–	**182**	–	**–**	–
Giles David[2]	**162**	–	**5**	–	**8**	–	**–**	–	**–**	–	**175**	–	**175**	–	**–**	–
Former Directors																
Robbie Bell[3]	**209**	298	**26**	36	**10**	14	**–**	–	**–**	–	**245**	348	**245**	348	**–**	–
Simon Fuller[4]	**–**	68	**–**	10	**–**	4	**–**	–	**–**	–	**–**	82	**–**	82	**–**	–
Dave Thomas[5]	**102**	293	**18**	44	**10**	19	**–**	–	**–**	–	**130**	356	**130**	356	**–**	–

1 Appointed to the Board on 1 June 2020.
2 Appointed to the Board on 1 June 2020.
3 Appointed to the Board on 17 January 2019 and ceased to be a Director on 30 June 2020.
4 Ceased to be a Director on 22 February 2019.
5 Retired from the Board on 24 January 2020.
6 Pension benefits comprise pension contributions and/or salary supplement payments.
7 Taxable benefits include healthcare and a car or car allowance.
8 Further details of the 2020 annual bonus are provided on page 77.
9 No vesting has been assumed in respect of the 2018 LTIP awards vesting in 2021.

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 29 November 2020.

	Fee		Taxable Benefit[1]		Total	
£'000	**2020**	2019	**2020**	2019	**2020**	2019
Angus Porter	**145**	145	**1**	1	**146**	146
Sharon Brown[2]	**31**	53	**2**	5	**33**	58
Georgina Harvey	**58**	58	**–**	–	**58**	58
Jens Hofma	**45**	45	**1**	1	**46**	46
Dominic Lavelle[3]	**29**	–	**–**	–	**29**	–
Benedict Smith[4]	**18**	–	**–**	–	**18**	–

1 Taxable benefits include nominal travel expenses to and from Company meetings and tax incurred on those expenses.
2 Sharon Brown stepped down from the Board on 30 June 2020.
3 Dominic Lavelle was appointed to the Board on 18 May 2020.
4 Benedict Smith was appointed to the Board on 1 July 2020.

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

Basic annual salary (audited)

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

Executive Director	1 January 2021	1 January 2020 (or appointment if later)	% change
Jonathan Miller	£450,840	£450,840	0%
Richard Crampton	£335,000	£335,000	0%
Giles David	£325,000	£325,000	0%

Richard Crampton was promoted to the Board as Chief Commercial Officer on 1 June 2020 on a salary of £335,000. This was a new position on the Board and the salary level, which reflects Richard's experience in the role, was benchmarked appropriately at the time of appointment.

Giles David was appointed Chief Financial Officer on 1 June 2020 on a salary of £325,000. The salary of the previous Chief Financial Officer was £340,000.

Executive Directors' pension arrangements (audited)

Jonathan Miller received a salary supplement in lieu of pension for 2020 equal to 22.8% of basic salary. This will be reduced by 4% of salary per annum until a pension of 3% of salary is achieved in line with the workforce provision (and the CCO and CFO's pension provision). No compensation will be offered to reflect the reduction in remuneration. While the Committee is aware of the Investment Association's 31 December 2022 deadline, the proposed approach above is considered by the Committee to be an appropriate compromise in the circumstances given the c.20% of salary reduction to total remuneration that is required.

Richard Crampton and Giles David received a combination of salary supplement in lieu of pension and pension contributions equivalent to 3% of base salary.

Dave Thomas received a salary supplement in lieu of pension equivalent to 15% of his basic salary and Robbie Bell received a combination of salary supplement in lieu of pension and pension contributions equivalent, in aggregate, to 12% of his basic salary until they stepped down from the Board.

Annual bonus (audited)

The Group operates an annual performance related bonus scheme for a number of Senior Managers including Executive Directors. For the 2020 financial period, annual bonuses for the Executive Directors were based on operating profit, and other key strategic performance measures.

The maximum total bonus potential for 2020 was 100% of salary for Executive Directors. The targets, and achievement against them, were as follows:

Measure	Weighting (% of salary)	Threshold	Target	Stretch	Achievement	Payout
Adjusted operating profit[1]	60%	£13.7	£16.3m	£18.8m	< £13.7m	0%
Working Capital Improvement	15%	£4m	–	£7.5m	< £4.0m	n/a[2]
LFL Sales growth	10%	0.5%	–	2%	13%	n/a[2]
Trial Store Proposition	15%	Establish and set up	Present learnings to Board	Demonstrate deployment of learnings	21 Morrisons Daily stores opened	n/a[2]
Total	100%					0%[2]

1 Before bonus, profit on asset disposals and adjusting items.
2 Since the threshold operating profit target (including bonus accrual) was not reached, no bonus is payable against any of the strategic targets.

Remuneration continued
Annual report on remuneration continued

Anticipated value of 2018 LTIP Awards (audited)

The LTIP values included in the single figure table above relate to awards granted on 21 March 2018 and 15 August 2018, which vest on 21 March 2021 and 15 August 2021 respectively. The 2018 awards, which were granted in two tranches in connection with increasing the award levels from 100% to 150% of salary at the 2018 AGM, were dependent on EPS and TSR performance measured over the three year period ended 29 November 2020.

Under the EPS performance target (70% of awards), the vesting level is as follows:

Performance target	Threshold EPS	Maximum EPS	Actual EPS	Vesting % (max 100%)
Cumulative 3 Year Adjusted EPS – 21 March 2018	60.4p	71.9p	13.1p	0%
Cumulative 3 Year Adjusted EPS – 15 August 2018	64.5p	71.9p	13.1p	0%

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

Performance target	Threshold TSR	Maximum TSR	Actual TSR	Vesting % (max 100%)
v FTSE All Share General Retailers, Food & Drugs Retailers	-8.5%	41.3%	Below median	0%

As a result of EPS (70% of awards) and TSR (30% of awards) performance, the gross value of LTIP share awards expected to vest in 2021 is as follows:

Performance target	Total shares under award	Proportion to vest based on EPS (70%)	Proportion to vest based on TSR (30%)	Number of shares to vest	Value (£'000)
Jonathan Miller	364,240	0%	0%	0	0

LTIP awards granted in 2020

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

Executive	Date of grant	Proportion of salary	Maximum shares awarded	EPS (50% of awards)	TSR (50% of awards)	Underpin
Jonathan Miller	6 April 2020	31%	500,933	25% of this part of an award vests for three-year EPS growth of 7% per annum increasing pro-rata to 100% vesting for three-year EPS growth of 18% per annum, measured to the period ending November 2022	25% of this part of an award vests for median performance increasing pro-rata to 100% vesting for upper quartile against the constituents of the FTSE All Share General Retailers and FTSE All Share Food & Drugs Retailers, measured over the three years from 6 April 2020	In addition, for the LTIP awards to become exercisable, the Committee must be satisfied that the formulaic LTIP outcome is a genuine reflection of the underlying performance of the business
Robbie Bell[1]	6 April 2020	61%	755,556			
Giles David	16 September 2020	41%	600,000			

1 Awards granted to Robbie Bell lapsed on cessation of employment.

A post vesting period of two years will apply.

In addition to the above, Richard Crampton was granted an award over 500,000 shares under the LTIP prior to his appointment to the Board. These awards continue to vest based on the TSR (for 25% of the awards) and EPS targets (for 25% of the awards) set out above and a continued service element only (for 50% of awards).

Outstanding LTIP Awards

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

Executive Director	Date of grant	Number of shares	Share price[1] (pence)	Face value (£'000)	Face value (% salary)	Vesting for threshold performance[2,3,4] (% of maximum)
Jonathan Miller	21 March 2018	196,017	230	451	100	25
	15 August 2018	168,223	134	225	50	25
	2 May 2019	364,240	84	306	68	25
	6 April 2020	500,933	28	138	31	25
Richard Crampton	6 April 2020	500,000	28	138	61	25
Giles David	16 September 2020	600,000	22	134	41	25
Dave Thomas[5]	21 March 2018	127,630	230	294	100	25
	15 August 2018	109,533	134	147	50	25
	2 May 2019	237,163	84	199	68	25
Robbie Bell[6]	2 May 2019	505,350	84	425	125	25
	6 April 2020	755,556	28	209	61	25

1 Call Price per Award Share: £0.001.
2 March 2018 LTIP EPS performance condition range is 60.4 pence to 71.9 pence (70% of awards), TSR versus retailer comparator group (30% of awards). August 2018 LTIP EPS perfomance condition is 64.5 pence to 71.9 pence (70% of awards), TSR versus retailer comparator group (30% of awards). The performance period of both awards ends on 29 November 2020.
3 2019 LTIP EPS performance condition growth range is 7% p.a. to 18% p.a. (50% of awards), TSR versus retailer comparator group (50% of awards). The performance period ends on the third anniversary of grant.
4 Details of the 2020 LTIP performance conditions/period are set out in the section above.
5 Following Dave Thomas' retirement, outstanding LTIP awards will continue to vest at the normal vesting dates subject to time pro-rating and performance.
6 Following Robbie Bell's resignation, outstanding LTIP awards lapsed on cessation of employment.

Remuneration continued
Annual report on remuneration continued

Directors' shareholdings and interest in shares (audited)

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

The table below sets out each Director's interests in McColl's shares and share options as at 29 November 2020.

	Options held[3]				Shares held[3]			
Director	Unvested and subject to deferral	Unvested and subject to performance	Vested but not exercised	Unvested and subject to continued employment	Owned outright	Current shareholding (% of salary/fee[1])	Shareholding requirement (% of salary/fee)	Guideline met?
Executive Directors								
Jonathan Miller[2]	–	1,229,413	–	–	11,683,068	794	200	Yes
Richard Crampton	–	500,000	–	–	–	–	200	No
Giles David	–	600,000	–	–	125,000	12	200	No
Non Executive Directors								
Angus Porter	n/a	n/a	n/a	n/a	80,814	17	n/a	n/a
Georgina Harvey	n/a	n/a	n/a	n/a	10,471	6	n/a	n/a
Jens Hofma	n/a	n/a	n/a	n/a	91,000	62	n/a	n/a
Dominic Lavelle	n/a	n/a	n/a	n/a	50,000	29	n/a	n/a
Benedict Smith	n/a	n/a	n/a	n/a	–	–	n/a	n/a

1 Based on closing share price of £0.3065 at 27 November 2020 (the last trading day before the year-end) and prevailing salaries/fees on 29 November 2020.
2 The ordinary shares held by Jonathan Miller include shares held beneficially via holdings of connected persons.
3 There have been no changes in the Directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this report.

Non-Executive Director fees (audited)

Non-Executive Director fees are as follows:

	From 1 February 2021	From 1 February 2020
Chairman	**£145,000**	£145,000
Base fee	**£45,000**	£45,000
Additional fee for Senior Independent Director	**£5,000**	£5,000
Additional fee for Audit & Risk Committee Chair	**£8,000**	£8,000
Additional fee for Remuneration Committee Chair	**£8,000**	£8,000

Payments for loss of office (audited)

Dave Thomas

As announced last year, Dave Thomas retired from the role of Chief Operating Officer and also from the Board on 24 January 2020 and remained employed with the Company until 6 April 2020 in order to ensure a smooth handover. Dave continued to receive his basic salary, benefits and pension until cessation of employment totalling £130,000 and was subsequently paid the remainder of his 12 month notice period totalling £293,000. In respect of incentive awards:

- he received no bonus for 2019 and was not be eligible for a 2020 bonus; and
- LTIPs will vest at the normal vesting dates, subject to performance and time pro-rating.

Robbie Bell

As per the announcement on 6 May 2020 in respect of Robbie Bell's resignation, Robbie Bell left the Group on 30 June 2020 following a handover period. Robbie continued to receive his base salary, benefits and pension provision up to 30 June 2020 but received no further payments thereafter. He ceased to be entitled to receive any further bonus payments or share awards at resignation and his LTIP awards lapsed in full.

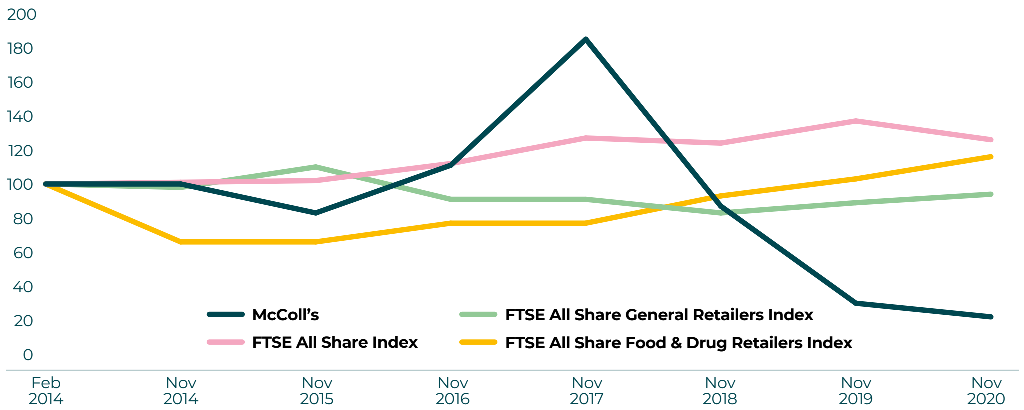
Payments to previous Directors (audited)

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

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

Total shareholder return

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



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

Chief Executive single figure of remuneration

	James Lancaster				Jonathan Miller[1]				
	2013	2014	2015	2016	2016	2017	2018	2019	2020
Single figure of remuneration (£'000)	834	3,199	840	339	504	750	591	590	587
Annual bonus outcome (% of max)	0%	0%	0%	39.4%	39.4%	15.0%	0%	0%	0%
LTIP vesting (% of max)	n/a	n/a	n/a	n/a	n/a	30.0%	0%[2]	0%	0%

1 Jonathan Miller was appointed Chief Executive upon the retirement of James Lancaster from that position on 1 April 2016.
2 The Remuneration Committee used its discretion to reduce the formulaic vesting of 29% to zero.

Remuneration continued
Annual report on remuneration continued

CEO pay ratio
The data below shows how the CEO's single figure remuneration for 2020 compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	46 : 1	34 : 1	34 : 1

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Total pay and benefits[1]	£12,792	£17,077	£17,389

1 Salary is equal to total pay and benefits

The Company is reporting based on the Option C methodology due to the number of payrolls that it operates and the need for manual calculations that would be required under Option A or B.

To ascertain a salary figure to compare to the CEO, each colleagues hourly rate is grossed up to a full time salary amount. Colleagues are then ranked lowest to highest with everyone assigned a number in rank order. This allows for the selection of the 25th, median and 75th percentile salary. For completeness, under 16s Home News Delivery colleagues are also included in the colleague figures.

Percentage change in remuneration levels
The table below shows change in base compensation, benefits and annual bonus for the Board Directors in the 2020 financial year, compared to the average for all employees:

	Base salary/fee	Benefits	Annual bonus
Executive Directors			
Jonathan Miller	0%	-18%	0%
Richard Crampton	N/A	N/A	N/A
Giles David	N/A	N/A	N/A
Non-Executive Directors			
Georgina Harvey	0%	N/A	N/A
Jens Hofma	0%	N/A	N/A
Dominic Lavelle	N/A	N/A	N/A
Benedict Smith	N/A	N/A	N/A
Angus Porter	N/A	N/A	N/A
Sharon Brown	0%	N/A	N/A
Employee Population	5%	0%	0%

Distribution statement
Below shows, for the current and preceding financial period, the actual expenditure and change in total remuneration paid to or receivable by colleagues and distributions to shareholders.

	Change	2020	2019
Employment remuneration	- £7m	**£184m**	£191m
Distribution to shareholders	- £2.2m	**nil**	£2.2m

Statement of shareholder voting
The following table shows the results of the binding vote on the remuneration policy at the 2018 Annual General Meeting and the advisory vote on the 2019 Annual Statement and Annual Report on Remuneration at the 2020 Annual General Meeting.

		For		Against	Withheld
Votes	Number	%	Number	%	Number
Annual Statement and Annual Report on Remuneration (2020 AGM)	66,137,724	99.96	27,895	0.04	81,813
Remuneration policy (2018 AGM)	85,683,168	86.08	13,850,649	13.92	1,668,070

Shareholder consultations
The Remuneration Committee welcomes feedback from shareholders in respect of our Remuneration Policy and its implementation. Noting that the current Policy will shortly reach the end of its three year shareholder approved life, the Committee reviewed the Policy during 2020 and consulted with major shareholders and the main representative bodies on the proposed changes set out in the Remuneration Policy Report. The majority of those consulted expressed their support.

Implementation of the Remuneration Policy for 2021

The proposed implementation of the Policy for 2021 is as follows:

- No changes are proposed to the base salaries of Executive Directors;
- The CEO's pension provision (currently 22.8% of salary) will be reduced by 4% of salary per annum until a pension of 3% of salary is achieved in line with the workforce provision (and the CCO and CFO's pension provision). No compensation will be offered to reflect the reduction in remuneration. While the Committee is aware of the Investment Association's 31 December 2022 deadline, the proposed approach above is considered by the Committee to be an appropriate compromise in the circumstances given the c.20% of salary reduction to total remuneration that is required;
- Annual bonuses will continue to be capped at 100% of salary with a majority measured against financial performance and a minority based on personal/strategic targets; and
- The LTIP award for 2021 is expected to be granted in May 2021. Given the prevailing share price, award levels will be below the normal 150% of salary award level. Performance metrics are expected to be based on EPS and relative TSR for the majority of the award and it is envisaged that a new store-related strategic measure will be introduced for a minority of the award. The targets have not yet been agreed although they will be set prior to the grant date (which is expected to be shortly after the 2021 AGM) and disclosed in the RNS issued shortly following grant.

Approved by the Remuneration Committee and signed on its behalf:

Georgina Harvey
Chair of the Remuneration Committee

Directors' report

McColl's Retail Group plc (the 'Company' or 'McColl's', or 'Group') operates more than 1,265 convenience and newsagent stores offering a wide range of products and services to neighbourhoods across the United Kingdom.

Our principal activities are described in more detail in the Strategic report on pages 2 to 48

Governance at McColl's

Corporate governance

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

The Board's full commitment to the Code is described in the Corporate Governance report, together with the memberships, remits and activities of the Nomination, Audit & Risk and Remuneration Committees, all of which are set out on pages 58 to 83 and form part of this Directors' report.

Directors

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

Director	Position	Appointment date[1]
Angus Porter	Non-Executive Chairman	1 April 2016
Jonathan Miller	Chief Executive	3 February 2014
Robbie Bell[2]	Chief Financial Officer	17 January 2019
Giles David	Chief Financial Officer	1 June 2020
Dave Thomas[3]	Chief Operating Officer	3 February 2014
Richard Crampton	Chief Commercial Officer	1 June 2020
Georgina Harvey	Senior Independent Director Remuneration Committee Chair	7 February 2014
Sharon Brown[4]	Independent Non-Executive Director Audit & Risk Committee Chair	7 February 2014
Jens Hofma	Independent Non-Executive Director	1 July 2017
Dominic Lavelle	Independent Non-Executive Director Audit & Risk Committee Chair	18 May 2020
Benedict Smith	Independent Non-Executive Director	1 July 2020

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

2 Robbie Bell resigned as a Director and left the business on 30 June 2020 following a period of handover to his successor, Giles David.

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

4 Sharon Brown resigned as a Non-Executive Director on 30 June 2020.

Powers of Directors

The general powers of the Directors are set out in article 102 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 reviews disclosed interests at each formal meeting. 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 59.

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 73.

Directors' indemnities and liability insurance

As is standard practice for listed companies, the Company has granted a third party indemnity to each of its Directors against any liability that attaches to them in defending proceedings brought against them to the fullest extent permitted under English law. The Company also maintains Directors' and officers' indemnity insurance cover for any legal action brought against its Directors.

Disclosures required under Listing Rule 9.8.4

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

McColl's shareholders

Share Capital

Details of the share capital from 25 November 2019 to 29 November 2020 are shown in note 24 of the financial statements. The nominal value of the total issued ordinary shares of 0.1 pence each in the capital of the Company at the start of the year was £115,193.90 (being divided into 115,193,909 fully paid ordinary shares) and at the end of the year was £115,304.40, (being divided into 115,304,400 fully paid ordinary shares).

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

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

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

Shareholders' rights

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

Restrictions on transfers of securities

As at 29 November 2020, the ordinary shares are freely transferable with the following specific exception.

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

Substantial share holdings

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

As at the financial year-end and as of 22 March 2021, 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.

	29 November 2020		22 March 2021	
Shareholder	Number of shares	% interest in shares	Number of shares	% interest in shares
Aberforth Partners LLP	15,120,277	13.13%	15,120,277	13.13%
Jonathan Miller[1]	11,683,068	10.13%	11,683,068	10.13%
Klarus Capital Limited	11,399,500	9.90%	11,399,500	9.90%
FIL Limited	6,713,277	5.82%	6,713,277	5.82%
Premier Miton Group plc	6,300,000	5.47%	6,300,000	5.47%
Chelverton Asset Management	5,950,000	5.17%	5,950,000	5.17%
FMR LLC	5,779,091	5.01%	5,779,091	5.01%
Laxey Partners Ltd	3,867,360	3.36%	3,867,360	3.36%
CI Investments Inc	3,600,000	3.13%	3,600,000	3.13%
Jerry Zucker Revocable Trust	3,500,000	3.04%	3,500,000	3.04%

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

Directors' interests

There is a shareholding guideline within the Remuneration Policy that encourages Executive Directors to establish and hold McColl's shares equivalent in value to 200% of salary. The Directors are not required to hold shares in the Company under the articles or under their letters of appointment or service agreements. All of the current Directors hold McColl's shares, with the exception of Richard Crampton and Benedict Smith. Details of Directors' shareholdings can be found in the Remuneration Report on page 80.

Directors' report continued

McColl's stakeholders

Colleague engagement
Further information about our colleague engagement is provided on pages 18.

Corporate responsibility and the environment
The Company's sustainability review, including information about our greenhouse gas emissions and approach to corporate responsibility, is set out on pages 37 and 41.

We have defined four corporate values to inform the way the business, through its colleagues, operates and behaves.

Our values are:

Simple and consistent

Customer first

Caring and compassionate

Community champions

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

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

Financial matters

External Auditor
BDO LLP have given their independent report on the financial statements to the shareholders of the Company on pages 90 to 96.

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
It was announced on 1 March 2021 that terms have been agreed on a new supply arrangement with Morrisons, under which Morrisons will supply the entire McColl's estate for a further three year period to January 2027. In addition, Morrisons will support on the conversion of 300 McColl's convenience stores to the Morrisons Daily fascia and format.

It was also announced that the Group's banking arrangements have been amended to offer improved headroom against covenants, a realigned amortisation schedule and an extended maturity date to February 2024.

Further details of both arrangements can be found in the Strategic report.

Financial risk management
The Company manages its risks to ensure that the Group's performance is not adversely affected by its exposure to financial risks resulting from its operation and sources of finance. Financial risk management objectives and policies, including information on financial risks that materially affect the Group can be found in note 26 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 42 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 97 to 136. Furthermore, notes 18, 20 and 26 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.

Base case within the long-term plan and budget

The key assumptions within the budget for the 2021 financial year produce moderate sales growth and margin improvement from the change in the supply base which will allow McColl's to supply improved ranges and make changes in space allocation while taking advantage of a general market growth trend towards convenience retailing. The cost base has been modelled assuming limited increments for inflation. These improvements have been assumed to continue into the following financial year.

Conditions, circumstances and developments resulting from the COVID-19 pandemic

As a result of the Covid-19 pandemic, the Group experienced changes to its activities with changes to the mix of customer purchases to lower margin products, higher sales growth rates, some stores experiencing temporary closures, disruption to the supply of some products and greater staff sickness levels. The overall impact was to reduce profitability and change the working capital profile of the business. To offset those impacts, action was taken to reduce costs, refine the proposition and access some government reliefs.

In addition, the Group has sought changes to its core financial facilities supplied by a syndicate of banks that resulted in the Group signing, in February 2021, an amended credit facility agreement, which provides improved headroom against the covenants. The updated facility consists of a £100m Revolving Credit Facility and an amortising £67.5m term loan (originally £100m initially being repaid at £2.5m per quarter). At the end of the period, the Group had drawn down £112.5m (2019: £129.5m) of its facilities. The Group also signed an extension of its agreement with Morrisons broadening and expanding this key supplier relationship.

Downside scenario

In considering going concern, the Directors' main alternative scenario has been to apply a sensitivity to the long-term forecast. This scenario included considering a short-term reduction in sales and pressures on gross margin. The overall going concern scenario the Company has modelled included a reversal in sales on a two year LFL basis after the easing of COVID-19 measures to an increase of 2% and a slow-down of our store closure programme. Under this scenario, the short-term impact is that the level of headroom under the Group's financial covenants is tighter than under the main long term plan assumptions.

Further mitigations are available that have not been modelled such as accessing further government reliefs, reducing store costs, further constraining capital and other expenditure, accessing further sources of finance and seeking an easing of the existing requirements of the Group's financing arrangements.

Stress-testing

In considering the potential risk to the Group, consideration has been given to the key factors that could have an impact on the Group's financial performance and liquidity. The two areas that are likely to have the largest impact in this regard are sales performance and margin. Based on our stress-testing, significant movements in these measures from historic norms would be required before the Group became unable to pay its liabilities as they fell due. This is before the mitigations outlined above which could be used to reduce the impact and provide further liquidity for the Group.

Assessment of applicability of the going concern assumption

The Directors have made their assessment of the applicability of the going concern assumption after consideration of various scenarios covering the sensitivity of assumptions and management actions to mitigate, and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council ("FRC") in September 2014. It also takes into account the FRC's June 2020 publication on COVID-19 – Going Concern, Risk and Viability.

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

Directors' report continued

Annual General Meeting (AGM)

Our 2021 AGM

The Board welcomes the opportunity to meet and engage with shareholders at the AGM which will be held on 20 May 2021 at 1.30pm at the Registered Office, Ground Floor West, One London Road, Brentwood, Essex CM14 4QW. The Chairman of the Board and the Chairs of each of its Committees will attend the AGM to answer questions from shareholders.

Angus Porter, Georgina Harvey, Jens Hofma and Jonathan Miller will be standing for re-election at the AGM. Dominic Lavelle, Giles David, Richard Crampton and Benedict Smith will be standing for election, having been appointed subsequent to the 2020 AGM.

The notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report and Accounts.

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

Appointment and retirement of Directors

Following recommendation of the Nomination Committee, all current Directors will stand for re-election or election at the Company's AGM. This practice 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 49 to 57 and the Nomination Committee report on pages 58 and 59.

Reappointment of Auditor

BDO LLP have indicated their willingness to continue as the Company's Auditor. Accordingly, a resolution to reappoint BDO LLP as Auditor of the Company and the Group will be proposed at the 2021 AGM. Further details regarding the re-appointment of the Auditor may be found in the Audit & Risk Committee Report on page 63.

Political donations

Further to shareholder approval at the 2020 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 29 November 2020 (2019: £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 2021 AGM to avoid any inadvertent breach of the regulatory requirements that might occur if a wide interpretation of political donation were to be applied to, for example, some of the Group's community support activities.

Authority to allot shares

The Company was granted a general authority by its shareholders at the 2020 AGM to allot shares pursuant to a rights issue up to an aggregate nominal amount of £76,795. The Company also received authority to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £38,397. As at the date of this report, no shares have been issued under these authorities. These authorities will expire at the conclusion of the 2021 AGM unless revoked, varied or renewed prior to that meeting.

Resolutions will be proposed at the 2021 AGM to renew these authorities.

Authority for the Company to purchase its own shares

A resolution was passed at the 2020 AGM authorising the Company to purchase up to approximately 10% of its ordinary shares (11,519,390 ordinary shares) at the Directors' discretion. At the date of this report, no ordinary shares have been purchased under this authority. A similar resolution will be proposed at the 2021 AGM which will, if approved, replace the existing authority and will lapse at the conclusion of the 2022 AGM.

Disapplication of pre-emption rights

At the 2020 AGM the Board noted the proportion of votes cast against Resolutions in respect of the disapplication of pre-emption rights and disapplication of pre-emption rights in relation to an acquisition or capital investment. The Board have concluded that, as the majority of shareholders are in support, renewal of the authorities in relation to the disapplication of pre-emption rights and also the disapplication of pre-emption rights in connection with an acquisition or capital investment will again be put to shareholders at the Annual General Meeting in 2021.

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

Renewal of the Group's Long Term Incentive Plan

The Company is seeking authority from shareholders to continue to operate the McColl's Retail Group Long Term Incentive Plan for a period of ten years from the 2021 AGM. This is a revised and updated version of the existing plan that has been operated by the Company for the benefit of selected employees since the IPO in 2014.

A summary of the principal terms of the Plan is set out in the AGM Notice of Meeting.

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

By order of the Board

Rachel Peat
Company Secretary
22 March 2021

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK GAAP subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' report, a Strategic report and Director's Remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibilities pursuant to DTR4
The Directors confirm to the best of their knowledge:

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

Jonathan Miller
Chief Executive
22 March 2021

Giles David
Chief Financial Officer
22 March 2021

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

Opinion

We have audited the financial statements of McColl's Retail Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 53 week period ended 29 November 2020 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated and Parent Company statements of changes in equity, Consolidated statement of cash flows, Parent Company balance sheet and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 29 November 2020 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

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

- the Directors' confirmation set out on page 60 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks;
- the disclosures in the annual report set out on pages 42 to 47 that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on pages 86 and 87 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 48 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

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

Key audit matter	How we addressed the matter in our audit
Supplier income The cost of sales accounting policy, which includes the treatment of supplier income, is outlined in note 2 and note 3 to the financial statements. Supplier income including incentives, rebates and discounts is generated from commercial agreements with suppliers. This represents a deduction to cost of sales which is material to the Group financial statements. We identified a key audit matter relating to the supplier income arrangements for the reasons set out below. Whilst a significant element of income generated from volume based over-rider arrangements has been settled at 29 November 2020, management judgement is required within the process of estimating the level of supplier income as at the balance sheet date for arrangements that either span two financial periods or where the income has not been fully settled by the period end date. This requires both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to which the arrangements apply. In accordance with the auditing standards and in view of the judgements involved above, as well as management being in a position to be able to override controls, we have presumed a risk of fraud within this area.	Our audit procedures to address this risk included, but were not limited to: • We reviewed the design and implementation of controls over supplier income, taking reliance on the operating effectiveness of controls over the existence, accuracy and valuation of volume based over-riders and margin support through verification that a formal authorised contractual agreement is entered into for each of these supplier arrangements • We performed detailed substantive testing over a sample of arrangements in the year through verification of the arrangement to supplier correspondence and recalculation of the amounts recognised as income and the value of income accrued at the balance sheet date • We confirmed the ability to recover accrued income and invoiced receivables for the sample selected through cash received post year end • To address the fraud risk, we performed detailed cut-off testing to verify that supplier arrangements are recorded in the correct period and verified a sample of manual journal postings throughout the year to underlying documentation to prove validity of the journal • For non-coterminous rebate agreements we challenged management on the forecast outturn estimated at the balance sheet date and reviewed post year end trading to compare against estimates made • We performed data integrity checks on the spreadsheets utilised to manage supplier arrangements by agreeing data to underlying information • We considered the completeness of supplier income by reference to income recognised in the prior year across the various categories of income by supplier and comparison to amounts recognised as income across the categories for those suppliers in the current year. **Key observations:** The results of our detailed testing in respect of supplier income at the period end were satisfactory with management estimates found to be appropriate.

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

Key audit matter	How we addressed the matter in our audit
Impairment of goodwill The Group's accounting policies are disclosed in note 2. The determination of the extent to which goodwill may or may not be impaired involves the use of estimates which are subject to a high degree of estimation uncertainty. Goodwill impairment is included as a key estimation uncertainty in note 3. As at 29 November 2020, the Group held £151.8m of goodwill, net of impairment charges made in previous periods of £102.8m, as disclosed in note 13. Management performed a full impairment assessment for goodwill to determine if the carrying value of goodwill is supported. No impairment charge was considered necessary against goodwill this year. The key assumptions applied by the Directors in the impairment reviews are: • cash flow forecasts in the context of the going concern review, including assumptions of future growth, gross margin and store costs; and • discount rates. We considered this to be a key audit matter as the value of goodwill is supported by forecasts of future cash flows of the business. There is inherent uncertainty within these forecasts arising from changing industry and economic conditions and thus significant management judgement and assumptions are required.	Our audit procedures to address this risk included, but were not limited to: • We evaluated and challenged management's impairment models by: – challenging management's assessment of the Cash Generating Units (CGUs) being assessed for impairment – reviewing management's workings for mechanical accuracy and compliance with the requirements of relevant accounting standards – assessing the discount rate used within the impairment calculation and ensuring the rate applied lay within an acceptable range determined with the assistance of internal valuation specialists – checking historical financial information against budget to assess accuracy of the budgeting process and preparation of cash flow forecasts – reviewing estimates employed by the Directors within the cash flow forecasts to underlying information to assess reasonableness and achievability – reviewing management's sensitivity analysis on the inputs applied and considering whether these sensitivities were appropriate for the business • We reviewed the disclosures in the annual report, to assess whether they are appropriate and in line with the requirements of the relevant accounting standards. **Key observations:** Following the completion of our work, we consider the Directors' assessment of the impairment of goodwill to be appropriate.

Key audit matter	How we addressed the matter in our audit
Going concern The Group's disclosure on application of the going concern basis of preparation for the financial statements is included in the Directors' Report on page 86 and note 2 to the financial statements. The Group is reliant on its finance facilities to ensure that it can meet its liabilities as they fall due. Due to the ongoing effects of the COVID-19 pandemic, there is an increased risk that the business may fail to comply with the required covenant conditions which may affect the Group's ability to operate as a going concern. Management has prepared estimates of future trading performance and costs and the impact of this performance on future covenant requirements and liquidity. In completing this model management have included the ongoing effects of the COVID-19 pandemic and the expected impact this will have on the Group's cash flows. Management has also prepared a downside scenario for the business plan that models changes in the forecast performance to test how resilient the business is to reasonably possible events, including an analysis of what mitigating actions may be required to rectify forecast loss of headroom.	Our audit procedures to address this risk included, but were not limited to: • We obtained management's assessment that supports the Board's conclusions with respect to the disclosures provided around going concern and viability; • We considered the consistency of management's cash flow forecasts with other areas of the audit, such as the impairment model; • We challenged the rationale for the assumptions utilised in the forecasts, using our knowledge of the business, the sector and wider commentary available from competitors and peers; • We considered the appropriateness of management's forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy and understanding management's consideration of downside sensitivity analysis; • We obtained an understanding of the financing facilities, including the nature of the facilities, repayment terms, covenants and attached conditions as well as amendments to the facilities prior to the Directors' approval of the financial statements; • We assessed the facility and covenant headroom calculations, and re-performed sensitivities on management's base case and downside scenarios; and • We reviewed the wording of the going concern disclosures, and assessed its consistency with management's forecasts.

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

Our application of materiality

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

The materiality for the Group was set at £1,000,000 (2019: £750,000) and was determined with reference to the benchmark of the Group's revenue of which it represents 0.08% (2019 – 0.06%). We consider that revenue is the most stable period on period measure for determining materiality, this reflects the overall size of the business, and the interests of the users of the financial statements.

Materiality for the Parent Company was set at £750,000 (2019: £745,000) and was determined with reference to the benchmark of net assets of which it represents 1.5% (2019: 1.5%). An asset based materiality was considered appropriate for the Parent Company as this is a holding company with few transactions.

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

Performance materiality for the Group was set at 70% (2019: 65%) of materiality at £700,000 (2019: £487.500). The Parent Company performance materiality was set at £525,000 (2019: £484,000), which is 70% (2019: 65%) of Parent Company materiality. This was considered appropriate given the aggregation of the planned testing approach and the testing of the Group as one component which minimised the risk of additional unadjusted misstatements.

We agreed with the Audit and Risk Committee that we would report to them all audit differences in excess of £50,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group Audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements.

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

The capability of the audit to detect irregularities including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding and accumulated knowledge of the Group and the sector in which it operates we considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, International accounting standards, the UK Companies Act 2006 and the UK Corporate Governance Code; those that relate to the payment of employees; and industry related such as compliance with health and safety and food hygiene legislation. All team members were briefed to ensure they were aware of any relevant regulations in relation to their work.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Our audit procedures included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the Group's defined benefit pension scheme liabilities, accounting for leases, the estimation within supplier income, and within impairment models utilised to assess goodwill impairment;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or including specific keywords
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud
- Review of minutes of Board meetings throughout the period; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

Other information

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit and Risk Committee reporting – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and 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.

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

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were appointed by the Directors on 25 April 2019 to audit the financial statements for the 52 week period ended 24 November 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the periods ended 24 November 2019 and 29 November 2020.

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

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

Use of our report

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

Gary Harding (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK
22 March 2021

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

Consolidated income statement

Consolidated income statement for the 53 week period from 25 November 2019 to 29 November 2020

		53 weeks to 29 November 2020			52 weeks to 24 November 2019[1]		
	Note	**Adjusted 2020 £m**	**Adjusting items 2020 Note 5 £m**	**Total 2020 £m**	Adjusted 2019 £m	Adjusting items 2019 Note 5 £m	Total 2019 £m
Revenue	4	**1,258.1**	**–**	**1,258.1**	1,218.7	–	1,218.7
Cost of sales		**(957.2)**	**–**	**(957.2)**	(903.0)	–	(903.0)
Gross profit		**300.9**	**–**	**300.9**	315.7	–	315.7
Administrative expenses		**(286.8)**	**(4.0)**	**(290.8)**	(306.6)	(99.8)	(406.4)
Other operating income	4	**4.6**	**–**	**4.6**	6.3	–	6.3
Losses arising on property-related items		**–**	**(2.4)**	**(2.4)**	–	(6.0)	(6.0)
Operating profit/(loss)	6	**18.7**	**(6.4)**	**12.3**	15.4	(105.8)	(90.4)
Finance income	8	**0.1**	**–**	**0.1**	–	–	–
Finance costs[2]	8	**(17.7)**	**–**	**(17.7)**	(8.0)	(0.2)	(8.2)
Profit/(loss) before tax		**1.1**	**(6.4)**	**(5.3)**	7.4	(106.0)	(98.6)
Income tax receipt/(expense)	9	**(0.4)**	**3.0**	**2.6**	(0.9)	3.6	2.7
Profit/(loss) for the period		**0.7**	**(3.4)**	**(2.7)**	6.5	(102.4)	(95.9)
Earnings/(losses) per share (pence)	11	**0.6**		**(2.3)**	5.6		(83.3)
Diluted earnings/(losses) per share (pence)	11	**0.6**		**(2.3)**	5.6		(83.3)

Notes:

1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

2 Finance costs in the 53 week period ended 29 November 2020 includes £9.1m of additional finance charges in relation to the adoption of IFRS 16. See note 14.
The above results were derived from continuing operations.

Consolidated statement of comprehensive income

Consolidated income statement for the 53 week period from 25 November 2019 to 29 November 2020

	Note	**2020 £m**	2019[1] £m
Loss for the period		**(2.7)**	(95.9)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit pension scheme	27	**(5.6)**	(5.8)
Deferred tax on defined benefit pension scheme	9	**0.6**	0.7
Corporation tax on defined benefit pension scheme	9	**0.3**	0.3
		(4.7)	(4.8)
Total comprehensive loss for the period		**(7.4)**	(100.7)

The loss and total comprehensive loss are attributable to the owners of the Parent Company

Financial statements continued

Consolidated statement of financial position

Consolidated statement of financial position for the 53 week period from 25 November 2019 to 29 November 2020

	Note	2020 £m	2019[1] £m
Assets			
Non-current assets			
Property, plant and equipment[2]	12	**245.3**	77.1
Intangible assets	13	**159.6**	156.9
Deferred tax assets	23	**3.5**	1.4
Retirement benefit asset	27	**9.0**	11.5
Total non-current assets		**417.4**	246.9
Current assets			
Inventories	16	**77.8**	86.4
Trade and other receivables	17	**41.6**	39.0
Income tax asset		**2.3**	0.9
Cash and cash equivalents	18	**23.2**	37.0
Total current assets		**144.9**	163.3
Total assets		**562.3**	410.2
Equity and liabilities			
Current liabilities			
Trade and other payables	19	**(215.3)**	(215.5)
Loans and borrowings[3]	20	**(32.3)**	(11.2)
Provisions	22	**(0.9)**	(2.5)
Total current liabilities		**(248.5)**	(229.2)
Net current liabilities		**(103.6)**	(65.9)
Non-current liabilities			
Loans and borrowings[3]	20	**(272.7)**	(119.9)
Other payables	19	**(7.3)**	(10.8)
Provisions	22	**(5.3)**	(3.2)
Deferred tax liabilities	23	**(3.5)**	(4.8)
Retirement benefit obligations	27	**(5.1)**	(3.6)
Total non-current liabilities		**(293.9)**	(142.3)
Total liabilities		**(542.4)**	(371.5)
Net assets		**19.9**	38.7

	Note	2020 £m	2019[1] £m
Equity			
Share capital	24	**(0.1)**	(0.1)
Share premium	24	**(12.6)**	(12.6)
Retained earnings		**(7.2)**	(26.0)
Equity attributable to owners of the Company		**(19.9)**	(38.7)

Notes:

1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

2 Property, plant and equipment as at 29 November 2020 include £173.5m of additional right of use assets as a result of adopting IFRS 16. See note 14.

3 Loans and borrowings as at 29 November 2020 include £21.3m of additional current lease liabilities and £170.9m of additional non-current lease liabilities as a result of adopting IFRS 16. See note 14.

These financial statements of McColl's Retail Group plc registered number 08783477 were approved and authorised for issue by the Board on 22 March 2021 and signed on its behalf by:

Giles David
Director

Consolidated statement of changes in equity

for the 53 week period from 25 November 2019 to 29 November 2020

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 25 November 2019 – before adoption of IFRS 16		**0.1**	**12.6**	**26.0**	**38.7**
Adoption of IFRS 16		**–**	**–**	**(14.0)**	**(14.0)**
Deferred tax on items relating to the adoption of IFRS 16		**–**	**–**	**2.4**	**2.4**
At 25 November 2019 – after adoption of IFRS 16		**0.1**	**12.6**	**14.4**	**27.1**
Loss for the period		**–**	**–**	**(2.7)**	**(2.7)**
Remeasurement of defined benefit pension scheme		**–**	**–**	**(4.7)**	**(4.7)**
Total comprehensive income loss		**–**	**–**	**(7.4)**	**(7.4)**
Contributions by and distributions to owners					
Share-based payment transactions	28	**–**	**–**	**0.2**	**0.2**
At 29 November 2020		**0.1**	**12.6**	**7.2**	**19.9**

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 26 November 2018		0.1	12.6	128.8	141.5
Loss for the period		–	–	(95.9)	(95.9)
Remeasurement of defined benefit pension scheme		–	–	(4.8)	(4.8)
Total comprehensive income loss		–	–	(100.7)	(100.7)
Contributions by and distributions to owners					
Dividends	10	–	–	(2.2)	(2.2)
Share-based payment transactions	28	–	–	0.1	0.1
At 24 November 2019		0.1	12.6	26.0	38.7

The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

Financial statements continued

Consolidated statement of cash flows

for the 53 week period from 25 November 2019 to 29 November 2020

	Note	**53 weeks to 29 November 2020[2] £m**	52 weeks to 24 November 2019[1] £m
Cash flows from operating activities			
Loss for the period		**(2.7)**	(95.9)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	**39.0**	16.7
Profit on disposal of property plant and equipment		**(2.0)**	(1.5)
Profit from disposals of investments		**–**	(0.1)
Finance income		**(0.1)**	–
Finance costs		**17.7**	8.2
Share-based payment transactions		**0.2**	0.1
Income tax credit	9	**(2.6)**	(2.7)
Impairment losses		**0.3**	101.3
		49.8	26.1
Decrease/(increase) in inventories		**8.6**	(6.6)
(Increase)/decrease in trade and other receivables		**(1.2)**	2.9
(Decrease)/increase in trade and other payables		**(4.3)**	0.6
Decrease in retirement benefit obligation net of actuarial changes		**(1.6)**	(1.8)
Decrease in provisions		**(3.4)**	–
Cash generated from operations		**47.9**	21.2
Income taxes received/(paid)		**1.1**	(1.2)
Net cash flow from operating activities		**49.0**	20.0
Cash flows from investing activities			
Interest received		**0.1**	–
Acquisition of property plant and equipment		**(17.3)**	(14.4)
Proceeds from sale of property plant and equipment		**11.7**	11.5
Acquisition of businesses, net of cash acquired	15	**(0.3)**	(1.2)
Proceeds from investment disposals		**–**	0.1
Net cash flows used in investing activities		**(5.8)**	(4.0)

	Note	**53 weeks to 29 November 2020[2] £m**	52 weeks to 24 November 2019[1] £m
Cash flows from financing activities			
Interest paid		**(7.0)**	(7.4)
Drawdown of bank borrowing	21	**–**	4.0
Repayment of bank borrowings	21	**(18.2)**	–
Repayment of lease liabilities	21	**(22.6)**	(1.7)
Interest payments on lease liabilities		**(9.2)**	(0.2)
Dividends paid	10	**–**	(2.2)
Net cash flows used in financing activities		**(57.0)**	(7.5)
Net (decrease)/increase in cash and cash equivalents		**(13.8)**	8.5
Cash and cash equivalents at beginning of period		**37.0**	28.5
Cash and cash equivalents at end of period		**23.2**	37.0

Notes:

1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

2 On adopting IFRS 16: Leases, new accounting for right-of-use assets and lease liabilities led to increases in depreciation and interest expense. The result of these changes for the 53 week period ended 29 November 2020, was to increase operating cash inflows before movements in working capital by £30.6m. Interest paid increased by £9.1m and cash outflows in respect of the capital element of lease rental payments by £21.5m for the 53 week period ended 29 November 2020, excluding motor vehicles £0.1m interest and £1.1m lease rental payments as motor vehicles leases were covered by finance leases under IAS 17 and therefore unaffected by the adoption of IFRS 16. Overall, there was no change in the net decrease in cash and cash equivalents as a result of these changes.

Notes to the financial statements

for the 53 week period from 25 November 2019 to 29 November 2020

1 General information

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

McColl's Retail Group plc
Ground Floor West
One London Road
Brentwood
Essex
CM14 4QW
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 2020 consolidate the financial statements of McColl's Retail Group plc (the "Company") and all its subsidiary undertakings (together, "the Group") drawn up to 29 November 2020. The Group's accounting period covers the 53 weeks ended 29 November 2020. The prior period was a 52 week period ended 24 November 2019. Acquisitions are accounted for under the acquisition method of accounting.

The Group financial statements have been prepared on the going concern basis and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with international financial reporting standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and have accordingly adopted the going concern basis in preparing the financial statements. The Directors, in considering going concern have considered a number of factors, including financial assumptions and estimates, current and prior performance and macroeconomic factors, including the ongoing effects of the COVID-19 pandemic and the expected impact this will have on the Group's cash flows. The Directors also considered the banking facilities available to the Group. The Group's going concern position is set out in the Directors' report section on pages 86 and 87.

The consolidated financial information is presented in sterling, the Group's functional currency. In the current period the Group has changed the rounding from thousands to millions to make the financial statements less encumbered with numbers and therefore easier for the user to read.

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

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

Basis of measurement

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 29 November 2020.

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

Business combinations

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

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

Changes in accounting policy

Adoption of new IFRSs

The following new standards, interpretations and amendments to standards are mandatory for the Group for the first time for the period ended 29 November 2020:

- IFRIC 23 'Uncertainty over income tax treatments'
- IAS 19 'Employee Benefits'
- IFRS 16 'Leases'

Financial statements continued

Notes to the financial statements continued

for the 53 week period from 25 November 2019 to 29 November 2020

2 Accounting policies continued

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and has become effective for the Group for the period beginning 25 November 2019. The interpretation covers how the Group accounts for taxation, where there is some uncertainty over whether treatments in the tax return will be accepted by HM Revenue & Customs. The Group does not have uncertainties in its tax returns and therefore this interpretation has had no impact on the financial statements.

IAS 19 'Employee Benefits'

An amendment to IAS 19 'Employee Benefits' was published in February 2018 and has become effective for the Group for the period beginning 25 November 2019. The amendment applies prospectively in connection with accounting for plan amendments, curtailments and settlements. The amendment requires entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. There has been no change to the retirement plans and therefore this amendment has had no impact on the financial statements.

IFRS 16 'Leases'

IFRS 16 'Leases' was published in January 2016 and has become effective for the Group for the period beginning 25 November 2019. The standard replaces IAS 17 and introduced a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective transition approach, the-right-of use assets are measured on a lease-by-lease basis at either the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses) or retrospectively as if IFRS 16 had always applied. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations.

The Group leases many assets including properties, cars and other equipment. As a lessee, the Group previously classified leases as operating leases or finance leases based on its assessment (under IAS 17) of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, except for short-term leases and leases of low-value-assets.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured in accordance with the accounting policy as set out below under accounting policy for leases, using the Group's incremental borrowing rates as at 25 November 2019 which ranged from 4.42% to 4.86%. The weighted average rate used at 25 November 2019 was 4.46%. For any new contracts entered into on or after 25 November 2019, the Group applied the accounting policy as set out below.

On transition to IFRS 16, the Group has used the following practical expedients permitted by the standard:

- The Group is not required to re-assess whether existing contracts contain a lease on transition and instead it will apply the IFRS 16 definition of a lease to contracts entered (or changed) on or after the date of initial application (25 November 2019). For all other contracts, the Group has retained the assessment made under IAS 17/IFRIC 4.
- Apply a single discount rate to a portfolio of leases with similar characteristics.
- Perform an onerous lease assessment under IAS 37 that is recognised immediately before the date of initial application instead of an IAS 36 impairment review.
- Exclude initial indirect costs from measurement of right-of-use asset at the date of initial application.
- Not recognise contracts as leases when the term ends within 12 months of the date of initial application.
- Use hindsight where appropriate, such as in the determination of each lease's term.

The impact on the financial statements on the adoption of IFRS 16 is set out below and in note 14.

The impact on the balance sheet on transition

	Note	£m[1]
Net assets at 24 November 2019		38.7
Right of use assets	12	200.5
Lease liabilities	14	(217.1)
Sublease receivables		2.0
Prepayments		(1.6)
Accruals		0.2
Provisions (Onerous leases)	22	2.0
Deferred tax asset	23	2.4
Net assets at 25 November 2019		27.1

Note:

1 Motor vehicles right-of-use assets and lease liabilities are not included in the impact of adoption of IFRS 16: Leases as motor vehicles were all held under finance leases under IAS 17: Leases and the adoption of IFRS 16: leases has not had an impact to the financial statements in relation to these motor vehicles leases.

2 Accounting policies continued

The table below shows a reconciliation from the total operating lease commitment as disclosed at 24 November 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	2020[1] £m
Operating lease commitment at 24 November 2019	282.9
Discounted using incremental borrowing rate	(61.6)
Recognition exemption for leases of low-value assets/leases with less than 52 weeks before expiry	(4.2)
Total lease liabilities recognised on 25 November 2019	217.1

Note:

1 Motor vehicles right-of-use assets and lease liabilities are not included in the impact of adoption of IFRS 16: Leases as motor vehicles were all held under finance leases under IAS 17: Leases and the adoption of IFRS 16: leases has not had an impact to the financial statements in relation to these motor vehicles leases.

New standards, interpretations and amendments not yet effective

Amendments to References to the Conceptual Framework in IFRS Standards;

IFRS 3 Business Combinations: amendment to definition of a business;

IAS 1 and IAS 8: amendment to definition of material;

IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.

The adoption of the above standards and interpretations is not expected to lead to any material changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Alternative Performance Measures

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

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

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

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

Revenue recognition

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

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

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

Cost of sales

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

Adjusting items

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

Financial statements continued

Notes to the financial statements continued

for the 53 week period from 25 November 2019 to 29 November 2020

2 Accounting policies continued

IAS 19 'Employee Benefits'

Other operating income

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

Tax

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

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

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

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

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

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

Property, plant and equipment

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

Depreciation

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

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

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

Fixed asset impairments

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

2 Accounting policies continued

Intangible assets impairment

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

Non-current assets held for sale

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

Leases

Definition of a lease

At inception of a contract the Group assesses whether a contract is or contains a lease.

A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets key criteria which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.
- The Group has the right to direct the use of the asset.

Right-of-use assets

At lease commencement date, the Group recognises a right-of-use asset on the balance sheet. The right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and any adjustment for re-measurement. The initial cost is made up of:

- Initial lease liabilities recognised.
- Plus any payments made in advance of the lease commencement date for the right to use the asset (net of any incentives received).
- Plus any initial direct costs incurred by the Group.
- Plus an estimate of any costs to dismantle, remove and restore the asset at the end of the lease.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. On the statement of financial position, right-of-use assets are included in property, plant and equipment.

Lease liabilities

At lease commencement, the lease liability is measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If the rate cannot be readily determined, the Group will use its incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (or in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

On the statement of financial position lease liabilities have been included in loans and borrowings.

Subsequent measurement

The liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or income statement if the right-of-use asset is already reduced to zero.

Sub-lease accounting

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. For sub-leases that fall under IFRS 16 definition the Group will:

- Derecognise the right-of-use asset or part therefore that has been sublet and recognise as a receivable the net investment in the sub-lease.
- Recognise any difference between the right-of-use asset and net investment in sub-lease in the income statement.
- Retain the lease liability relating to the head lease in the statement of financial position.
- The receivable is subject to testing for impairment under the requirements of IFRS 9 'Financial instruments'.

Financial statements continued

Notes to the financial statements continued
for the 53 week period from 25 November 2019 to 29 November 2020

2 Accounting policies continued

IAS 19 'Employee Benefits'
Short-term leases and leases of low value assets
Short-term leases and low value assets payments are recognised as an expense in the income statement.

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 Group as a seller-lessee applies IFRS 15 'Revenue from contracts with customers' to determine whether a sale has occurred. If it is determined that a sale has not occurred the Group will continue to recognise the asset and recognise a financial liability for consideration received under IFRS 9.

If however as is generally the case for the Group, it is established under IFRS 15 that a sale has occurred at fair value the Group as a seller-lessee will:

- Recognise a right-of-use asset to replace the previously held asset measured at the proportion of the previous asset's carrying amount which is retained for use by the Group.
- Recognise a lease liability as the present value of the lease payments in the same way as stated above for leases.
- The gain on disposal is limited to the portion of the asset sold/retained by the buyer.

Following initial recognition, the lease treatment is consistent with leases accounting policy described above.

Lease income
Lease income consists of rentals from sub-tenant agreements and is recognised as earned in other income.

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

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

Other intangible assets
Other intangible assets includes computer software. Computer software is stated at cost less accumulated amortisation and any provision for impairment and includes; externally acquired computer software and software licences and costs relating to the development of computer software for internal use. The internally generated software is recognised when an approval has been agreed to develop software for internal use for which function and benefit has been identified and expenditure incurred. The expenditure incurred in relation to the development of such software to prepare it for use are capitalised and amortised on a straight-line basis over their useful economic lives of five years. In the statement of financial position they are included within intangible assets.

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

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

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

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

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

Trade and other 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.

2 Accounting policies continued

Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their transaction cost. Included within trade and other payables is deferred rebates which are amounts relating to commercial income received in advance. These are released and recognised in the income statement according to the terms of the specific supplier agreement.

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

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 recognises provisions for onerous contracts when a store is closed and the Group believes the unavoidable costs of meeting or exiting the contract exceeds the economic benefits to be received under the contract.

Dilapidations

The Group provides for property dilapidations, where appropriate, based on the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms. Dilapidations for leases are added to the right-of-use asset at the commencement of the lease and depreciated over the lease term.

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 25 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 Groups' shareholders.

Defined contribution pension obligation

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

Defined benefit pension obligation

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

Defined benefit scheme surpluses and deficits are measured at:

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

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

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

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2 Accounting policies continued

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

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

Further information on pensions is disclosed in note 27.

IAS 19 'Employee Benefits'
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.

Further detail is provided in note 28.

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

Amortised cost
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 expected credit loss. The Group operate a hold to collect model.

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

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

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

Financial liabilities
The Group classifies its financial liabilities as 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 26.

Government grants and assistance
The Group accounts for government grants on an accrual basis and recognised when the Group is assured that it will comply with the conditions attached and the grants will be received. In the income statement government grants are netted to the expense they relate to and if there is no related expense it is presented as other income. Grants related to assets are deducted from the carrying value of the asset.

2 Accounting policies continued

In addition, the Group discloses in the notes to the accounts the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the Group has directly benefitted. The Group will also disclose any unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note 30.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates causing material adjustments in the following year's results.

Critical accounting judgements

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

Adjusting items

During the year certain items are identified and separately disclosed as adjusting items. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 5 provides information on all of the items disclosed as adjusting in the current year financial statements.

Sources of estimation uncertainty

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

Impairment

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's four year internal forecasts. The forecasts are extrapolated to perpetuity using the long-term growth rate. Key estimates and sensitivities for impairment of assets are disclosed in note 12 and 13.

Supplier income

Supplier income is recognised as a credit within cost of sales. For some sources of supplier income, management is required to make estimates in determining the amount and timing of recognition of income. These estimates are based on documented evidence of agreements with suppliers.

In determining the amount of volume-related allowances recognised in any period, management estimate whether the Group will meet contractual target volumes, based on historical and forecast performance. Estimation is limited to purchases for the final month of the year for those contracts that run on a calendar year basis and therefore incongruent with the financial year end in November. The estimation is done based on run rates of performance through the year.

Once purchases are estimated the amount due is based on contractual terms based on the level of purchases.

For promotional funding relating to investment in the customer offer by a supplier, there is limited estimation required as funding is pre-agreed and collected throughout the year shortly after promotions have ended.

Accrued income makes up 54.1% (2019: 55.0%) of the supplier rebates receivables at the balance sheet date. Whilst accrued income involves management estimation, actual results are unlikely to be materially different to the carrying amount on the balance sheet.

Pension

The liabilities of the defined benefit pension schemes operated by the Group are determined using methods relying on the actuarial estimates and assumptions, including rates of increase in pensionable salaries and pensions, net defined benefit asset or liability, life expectancies and discount rates. Details of the key assumptions are set out in note 27. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions and the recognition of any surplus. Changes in the assumptions used may have a significant effect on the Group statement of comprehensive income and the Group statement of financial position.

Leases

The Group uses incremental borrowing rates for discounting lease liability. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on government bond rates; a credit risk adjustment based on the Group's current borrowing margins; and lease specific adjustments based on terms of the lease.

An increase of incremental borrowing rate by 50pbs would reduce lease liabilities and right-of-use assets by £6.7m, depreciation by £0.7m but increase interest expense by £0.8m.

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.

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4 Revenue and other income continued

The analysis of the Group's revenue for the period from continuing operations is as follows:

	Note	**2020 £m**	2019 £m
Revenue			
Sale of goods		**1,258.1**	1,218.7
Other operating income			
Property rental income	14	**1.9**	3.0
ATM commission and other income		**2.0**	3.3
Government grants	30	**0.7**	–
		4.6	6.3
Finance income	8	**0.1**	–
		1,262.8	1,225.0

5 Adjusting items

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

	2020 £m	2019 £m
Administrative expenses		
Fines[a]	**0.5**	0.6
Business reorganisation[b]	**3.4**	0.6
Goodwill impairment[c]	**–**	98.6
Defined benefit pension scheme – past service cost[h]	**0.1**	–
Administrative expenses – total	**4.0**	99.8
(Profits)/losses arising on property-related items		
Sale of head office[d]	**(3.4)**	–
Sale and leaseback[e]	**–**	(3.3)
Store optimisation programme[f]	**5.5**	6.6
Fixed asset impairment[g]	**0.3**	2.7
Losses arising on property-related items – total	**2.4**	6.0
Finance costs		
Store optimisation programme[f]	**–**	0.2
Tax effect on adjusting items	**(3.0)**	(3.6)
	3.4	102.4

a. Fines
A provision of £0.5m has been included in relation to a potential health and safety fine and associated legal fees (2019: £0.6m). The net cash outflow for the period was £0.4m for a historical asbestos claim included in last year's provision and £nil for this year's provision (2019: £0.2m).

b. Business reorganisation
The Group has been reviewing its organisational structure leading to additional costs of £3.4m (2019: £0.6m) associated with the restructuring, predominantly the cost of redundancies and executive recruitment fees. This has resulted in a net cash outflow of £3.4m (2019: £0.6m).

c. Goodwill impairment
Management have assessed goodwill impairment at the end of the year according to IAS 36. In assessing impairment management have used value in use as it was higher than the market value of the business. In 2019, the value in use cash flows were lower than the aggregate of the Group's total assets and therefore indicating impairment which resulted in goodwill being impaired. Further information can be found in note 13. There was no cash flow impact in the year from this adjustment.

d. Sale of head office
The Group completed the sale of its Head office in Q4 2020. Total proceeds from the sale were £7.3m (net gain on disposal £3.4m). £2.3m had been received by the year-end, with the remaining balance expected to be received by end of March 2021.

e. Sale and leaseback
Historically, the Group has undertaken a number of sale and leaseback transactions on its freehold property. In line with the accounting policy for adjusting items, management concluded that the profits relating to the sale and leaseback of property were significant and therefore not in line with the Group's normal business activities and should therefore be treated as adjusting. No leaseback transactions were concluded in the current period, resulting in a net cash flow of £nil (2019: £8.6m inflow).

f. Store optimisation programme
Management has undertaken a store optimisation program resulting in a material number of store closures. Costs associated with the closures have been classified as adjusting due to the one-off nature of the closure programme. Included in the costs are net book value write off and other costs in relation to store closure net of any proceeds received. The net cash outflow was £0.4m (2019: £0.6m).

g. Fixed asset impairment
Management has assessed the value in use cash flow of each branch against the carrying value of its assets, and as a result of the impairment review an impairment charge was recognised in the year. The impairment was split between a charge for right-of-use assets £4.6m and a credit of £4.3m for owned property, plant and equipment. There was no cash impact from this adjustment in this or the preceding year. Further information can be found in note 12.

5 Adjusting items continued

h. Defined benefit pension scheme – past service cost

Management has classified the amount for Guaranteed Minimum Pension (GMP) equalisation as an adjusting item due to its non-recurring nature. In October 2018, the High Court ruled that Lloyds Banking Group was required to equalise the pension benefits for the effect of unequal GMP between men and women, dating back to 1990. A further UK High Court judgement was made on 20 November 2020 relating to the GMPs for historic transfers out of occupational pension schemes requiring those to be treated in the same way. The Group has complied with these rulings and they will be treated for IAS 19 purposes as plan amendments that will result in an increase in the pension liabilities and a corresponding past service cost in the income statement. There was no cash impact from this adjustment in the current or preceding year.

6 Operating profit

Arrived at after charging/(crediting)

	Note	**2020 £m**	2019 £m
Depreciation of owned property, plant and equipment	12	**12.5**	15.8
Depreciation of right-of-use assets	12	**25.5**	–
Amortisation of intangible assets	13	**1.0**	0.8
Write-down of inventory recognised as an expense		**19.2**	17.6
Operating lease expense – property		**4.8**	37.0
Profit on disposal of property, plant and equipment		**(2.0)**	(1.5)
Intangible assets impairment		**–**	98.6
Impairment of property, plant and equipment	12	**0.3**	2.7
Cost of inventories recognised as an expense		**950.0**	928.3

The analysis of the auditors' remuneration is as follows:

	2020 £m	2019 £m
Audit fees		
Audit of Group	**0.3**	0.3

Adjusted EBITDA and operating profit excluding property-related items

In order to provide shareholders with a measure of the underlying performance of the business which is more aligned with the way that management monitor and manage the business, the Group makes adjustments to profit before tax. Adjusting items relate to costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded from the Group's adjusted profit before tax measure due to their size and nature in order to better reflect management's view of the performance of the Group. The Group also adjust for share-based payments as a non cash item. The adjusted profit before tax measure (profit before adjusting items) is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Details of adjusting items are set out in note 5.

Adjusted EBITDA excluding property-related items and share-based payments		
Operating profit before adjusting items	**18.7**	15.4
Depreciation and amortisation	**39.0**	16.6
Share-based payments	**0.2**	0.1
Total Adjusted EBITDA	**57.9**	32.1
IFRS 16 Impact (see glossary)	*28.8*	–
Pre IFRS 16 Adjusted EBITDA	*29.1*	*32.1*

7 Employee costs

The aggregate payroll costs were as follows:

Wages and salaries	**165.0**	171.3
Social security costs	**15.8**	16.6
Pension costs, defined contribution scheme	**3.1**	3.0
Share-based payment expenses	**0.2**	0.1
	184.1	191.0

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

Retailing	**17,714**	18,857
Central administration	**475**	457
	18,189	19,314

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8 Finance income and costs

	2020 £m	2019 £m
Finance income		
Other finance income	**0.1**	–
Finance costs		
Interest on bank overdrafts and borrowings	**(7.3)**	(7.3)
Lease liability finance costs	**(9.2)**	(0.2)
Amortisation of loan issue costs	**(0.9)**	(0.5)
Unwinding of the discount in provisions	**(0.2)**	–
Other finance costs	**(0.1)**	(0.2)
Total finance costs	**(17.7)**	(8.2)
Net finance costs	**(17.6)**	(8.2)

9 Income tax

	2020 £m	2019 £m
Income statement		
Current tax :		
Current tax on profit for the period	**0.3**	0.5
Adjustments in respect of prior periods	**(2.5)**	(0.6)
	(2.2)	(0.1)
Deferred tax :		
Origination and reversal of temporary differences	**0.8**	(2.5)
Arising from change in tax rate	**(0.1)**	0.3
Adjustments in respect of prior periods	**(1.1)**	(0.4)
	(0.4)	(2.6)
Income tax credit for the period	**(2.6)**	(2.7)
Other comprehensive income		
Deferred tax in respect of actuarial valuation of retirement benefits	**(0.6)**	(0.7)
Corporation tax in respect of actuarial valuation of retirement benefits	**(0.3)**	(0.3)
	(0.9)	(1.0)

The differences are reconciled below:

Loss before tax	**(5.3)**	(98.6)
Tax on profit calculated at standard rate for 2020 of 19.00% (2019: 19.00%)	**(1.0)**	(18.7)
Fixed Assets	**(0.6)**	–
Expenses not deductible	**0.3**	0.4
Decrease from tax losses for which no deferred tax asset was recognised	**2.2**	–
Goodwill impairment	**–**	16.7
Adjustments in respect of prior years	**(3.6)**	(1.0)
Arising from change in rate of tax	**(0.1)**	0.3
Exempt amounts	**0.2**	0.7
Disposal of business combination assets	**–**	(1.1)
Total tax credit	**(2.6)**	(2.7)

On 17 March 2020, the UK corporation tax rate prevailing after 1 April 2020 was amended to remain at 19% rather than reducing to 17.0% as previously enacted in the Finance Act 2016

The tax credit for the 53 week period was £2.6m (2019: £2.7m) representing a rate of 49.1% (2019: 2.7%). The comparable effective rate of tax in 2020 excluding the impact of non-deductible adjusting items was 36.4% (2019: 12.4%). The difference between the current and statutory rate of 19.0% in the period is due principally to prior year adjustment for losses carried back and adjustments in respect of prior years.

9 Income tax continued

Amounts recognised in other comprehensive income

	2020			2019		
	Before tax £m	**Tax benefit £m**	**Net of tax £m**	Before tax £m	Tax benefit £m	Net of tax £m
Remeasurements of post-employment benefit obligations	**(5.6)**	**0.9**	**(4.7)**	(5.8)	1.0	(4.8)

10 Dividends

	2020 £m	2019 £m
Interim 2020 dividend of £nil (2019: 1.3p) per ordinary share	**–**	1.5
Final 2019 dividend of £nil (2018: 0.6 p) per ordinary share	**–**	0.7
	–	2.2

The Directors are not proposing a final 2020 dividend (2019: nil). The Group is restricted from paying a dividend until certain conditions are satisfied in its banking facilities, including achieving a Group leverage below 1.75x EBITDA.

11 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit/(loss) for the period attributable to shareholders by the weighted average number of shares.

	2020	2019
Basic weighted average number of shares	**115,213,677**	115,177,335
Diluted weighted average number of shares	**115,236,841**	115,296,380
Loss attributable to ordinary shareholders (£m)	**(2.7)**	(95.9)
Basic losses per share	**(2.3)p**	(83.3)p
Anti-diluting losses per share	**(2.3)p**	(83.3)p
Adjusted earnings per share:		
Loss attributable to ordinary shareholders (£m)	**(2.7)**	(95.9)
Adjusting items (£m) (note 5)	**6.4**	106.0
Tax effect of adjustments (£m)	**(3.0)**	(3.6)
Profit after tax and before adjusting items (£m)	**0.7**	6.5
Basic adjusted earnings per share	**0.6p**	5.6p
Diluted adjusted earnings per share	**0.6p**	5.6p

The difference between the basic and diluted average number of shares represents the dilutive effect of share options in existence. As 2020 and 2019 have an overall loss the shares are not diluting.

The diluted weighted average number of ordinary shares is calculated using the following:

	2020 No.	2019 No.
Ordinary shares in issue at the start of the period	**115,193,909**	115,173,515
Effects of shares issued during the period	**19,768**	3,820
Basic weighted average number of ordinary shares in issue during the year	**115,213,677**	115,177,335
Effect of shares to be issued under the Long Term Incentive Plan (LTIP)	**23,164**	119,045
Diluted weighted average number of ordinary shares at the end of the period	**115,236,841**	115,296,380

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12 Property, plant and equipment

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets Motor vehicles £m	Right of use assets Land & buildings £m	Total £m
Cost or valuation					
At 26 November 2018	58.0	126.9	–	–	184.9
Additions	3.2	9.4	–	–	12.6
Acquired through business combinations	0.4	0.1	–	–	0.5
Disposals	(8.4)	(4.7)	–	–	(13.1)
Transfers to other intangible assets	(0.3)	–	–	–	(0.3)
At 24 November 2019	52.9	131.7	–	–	184.6
At 25 November 2019	52.9	131.7	–	–	184.6
Right-of-use assets on transition	–	(7.1)	7.1	200.5	200.5
Additions	4.6	9.0	0.3	13.1	27.0
Disposals	(9.6)	(10.7)	(2.0)	(12.2)	(34.5)
At 29 November 2020	**47.9**	**122.9**	**5.4**	**201.4**	**377.6**
Depreciation					
At 26 November 2018	21.3	71.2	–	–	92.5
Charge for period	4.6	11.2	–	–	15.8
Eliminated on disposal	(0.3)	(2.8)	–	–	(3.1)
Impairment	1.8	0.9	–	–	2.7
Transfers to other intangible assets	(0.4)	–	–	–	(0.4)
At 24 November 2019	27.0	80.5	–	–	107.5
At 25 November 2019	27.0	80.5	–	–	107.5
Right-of-use assets on transition	–	(4.3)	4.3	–	–
Charge for the period	3.4	9.1	1.3	24.2	38.0
Eliminated on disposal	(4.6)	(6.1)	(1.9)	(0.9)	(13.5)
Impairment	(0.6)	(3.7)	–	4.6	0.3
At 29 November 2020	**25.2**	**75.5**	**3.7**	**27.9**	**132.3**
Carrying amount					
At 29 November 2020	**22.7**	**47.4**	**1.7**	**173.5**	**245.3**
At 24 November 2019	25.9	51.2	–	–	77.1

During the year, the Group entered into no sale and leaseback transactions in relation to property, plant and equipment, (2019: £5.3m net book value of freehold land and buildings disposed).

For impairment testing the Group classes each branch as a CGU (cash generating unit). Each CGU was tested for impairment at the period end date. Management recognise an impairment where the recoverable amount of the CGU does not exceed its carrying value at the balance sheet date. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use (VIU).

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a four-year period, which has been approved by the Directors. Cash flows beyond this period are extrapolated using a long-term growth rate of 2.0% and discounted with a pre-tax weighted average cost of capital (WACC) of 11.7% (2019: 11.5%).

The annual impairment testing resulted in an impairment of £0.3m (2019: £2.7m) against branch property, plant and equipment assets (PPE).

Sensitivity analysis

The Group has carried out sensitivity analysis for impairment of branch PPE on the key assumptions.

Change in discount rate: a 0.5% increase in WACC would increase impairment by £0.3m while a 0.5% reduction in WACC would reduce impairment by £0.2m.

Forecast cash flows: a reduction of cash flows of 3% for all stores would increase impairment by £0.2m.

13 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost or valuation			
At 26 November 2018	253.6	9.4	263.0
Additions	0.7	2.9	3.6
Transfers from property, plant and equipment	–	0.3	0.3
At 24 November 2019	254.3	12.6	266.9
At 25 November 2019	254.3	12.6	266.9
Additions	0.3	3.4	3.7
At 29 November 2020	**254.6**	**16.0**	**270.6**
Amortisation			
At 26 November 2018	4.2	6.0	10.2
Amortisation charge	–	0.8	0.8
Impairment	98.6	–	98.6
Transfers from property, plant and equipment	–	0.4	0.4
At 24 November 2019	102.8	7.2	110.0
At 25 November 2019	102.8	7.2	110.0
Amortisation charge	–	1.0	1.0
At 29 November 2020	**102.8**	**8.2**	**111.0**
Carrying amount			
At 29 November 2020	**151.8**	**7.8**	**159.6**
At 24 November 2019	151.5	5.4	156.9

Amortisation expenses of £1.0m (2019: 0.8m) are included in administrative expenses.

Goodwill acquired in a business combination is not amortised, but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. An impairment is recognised where the carrying amount is more than the recoverable amount of the CGU. The recoverable amount is the higher of the fair value less costs to sell and the value in use (VIU) of the CGU. For the purpose of goodwill, in line with the accounting policy, the business manages and makes decisions based on one CGU and therefore impairment is assessed on that single group. Management has used the value in use of the CGU as the recoverable amount as it was higher than total enterprise value. The value in use was calculated as a discounted cash flow model and management has determined the values assigned to each of the key assumptions.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a four-year period, which has been approved by the Directors. Cash flows beyond this period are extrapolated using a long-term growth rate of 2% and discounted with a pre-tax weighted average cost of capital (WACC) of 11.7% (2019: 11.5%).

Free cash flows are derived from the long-term plan (LTP) and any benefit from future new business and the associated expenditure to acquire the new business is excluded.

The LTP has taken into consideration the future business environment and the impact of the COVID-19 pandemic. The Group has experienced high LFL sales growth during the pandemic and decreased margins which have been reversed over the forecast period as normal trading conditions are expected by the end of the first year of the forecast period. The main estimates included in cash flow forecasts are growth of revenue and increase in costs such as minimum wage increases. Revenue growth has been assumed at an average of 1.0% annual growth for the four year period. Wage inflation is assumed at 3.0% per annum whilst general cost inflation is assumed at an average annual growth rate of 2.0%.

The recoverable amount per value in use calculations was £355.8m versus the CGU's carrying amount of £340.6m creating a headroom of £15.2m, and therefore no impairment has been recorded.

No goodwill impairment losses were recognised in the year (2019: £98.6m).

Sensitivity analysis

Change in discount rate

The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions including a 50bps change in WACC, which would reduce the headroom to £0.1m.

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13 Intangible assets continued

Forecast cash flows
Management have conducted sensitivity analysis on the CGUs VIU by reducing the anticipated future cash flows. A reduction in cash flows of 3% would reduce the headroom to £2.0m.

14 Leases

The Group leases many of its store properties and previously classified them as operating leases. From 25 November 2019, the Group adopted IFRS 16: Leases and now recognises the majority of these leases on the balance sheet. The policy of recognition and measurement, and the impact on the balance sheet on transition is set out in note 2 accounting policies.

The Group as a lessee

Right-of-use assets
The Group includes right-of-use assets as part of property, plant and equipment in the balance sheet. Their carrying value as at 29 November 2020 was £175.2m. See note 12.

Lease liabilities
The Group includes lease liabilities in loans and borrowings in the balance sheet. The carrying amounts of lease liabilities as at 29 November 2020 are set out below:

Lease liabilities

	2020 Land & Buildings £m	2020 Motor vehicles £m	2020 Total £m	2019[1] Total £m
At 25 November 2019	**(217.1)**	**(2.6)**	**(219.7)**	
Additions	**(9.5)**	**(0.3)**	**(9.8)**	
Interest	**(9.1)**	**(0.1)**	**(9.2)**	
Payment	**30.6**	**1.2**	**31.8**	
Disposals	**12.9**	**0.2**	**13.1**	
At 29 November 2020	**(192.2)**	**(1.6)**	**(193.8)**	
Current liabilities	**(21.3)**	**(1.0)**	**(22.3)**	(1.2)
Non-current liabilities	**(170.9)**	**(0.6)**	**(171.5)**	(1.4)
Total lease liabilities	**(192.2)**	**(1.6)**	**(193.8)**	(2.6)

Note:
1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

Maturity analysis – contractual undiscounted lease payments

	2020 £m	2019 £m
Amounts due within one year	**(29.6)**	(1.3)
Amounts due within two to five years	**(94.4)**	(1.4)
Amounts due within six to ten years	**(81.5)**	–
Amounts due after ten years	**(39.2)**	–
	(244.7)	(2.7)

Amounts recognised in the Group income statement

	2020 £m
Depreciation charge on right-of-use assets – land and buildings	**24.2**
Depreciation charge on right-of-use assets – motor vehicles	**1.3**
Interest expense (included in finance cost)	**9.2**
Expense included in administrative expenses for short-term leases	**4.8**
Expense included in administrative expenses for low value leases	**–**

Amounts recognised in the Group cash flow statement
The implementation of IFRS 16 does not impact cash flows but has impacted the presentation of cash flow statements as re-categorisation between operating and financing activities.

On adopting IFRS 16: Leases, new accounting for right-of-use assets and lease liabilities led to increases in depreciation and interest expense. The result of these changes for the 53 week period ended 29 November 2020, was to increase operating cash inflows before movements in working capital by £30.6m. Interest paid increased by £9.1m and cash outflows in respect of the capital element of lease rental payments by £21.5m for the 53 week period ended 29 November 2020, excluding motor vehicles £0.1m interest and £1.1m lease rental payments as motor vehicles leases were covered by finance leases under IAS 17 and therefore unaffected by adoption of IFRS 16. Overall, there was no change in the net decrease in cash and cash equivalents as a result of these changes.

The total cash outflow for leases in 2020 was £37.0m including short-term leases.

Future possible cash outflows not included in the lease liability
The Group's future rental increases linked to index or rate are not included in lease liabilities until the change is effective. In calculating its lease liability, the Group has assumed that it does not exercise any break clauses present in any store leases. The Group does not have any leases that have been signed but not yet commenced.

14 Leases continued

The Group as a lessor

The Group sublets leased properties under either finance or operating leases.

Amounts recognised in the Group income statement

	2020 £m	2019 £m
Finance lease – sublease interest income	**0.1**	–
Operating lease – rental income	**1.9**	3.0
	2.0	3.0

Finance lease

	2020 £m	2019 £m
Finance lease – sublease receivable	**1.6**	–

15 Business Combinations

During the period, the Group made one trade and asset acquisition, which is not considered material to the Group. The trade goodwill acquired represents the established reputation of the business and is not expected to be deductible for tax purposes. The cash consideration for this acquisition and the assets acquired are summarised as follows:

	2020 £m	2019 £m
Tangible fixed assets	**–**	0.6
Goodwill	**0.3**	0.7
Dilapidations and off-profile stock provision	**–**	(0.1)
Cash consideration	**0.3**	1.2

16 Inventories

	2020 £m	2019 £m
Finished goods and goods for resale	**77.8**	86.4

Included in inventory is a provision of £2.8m (2019: £2.1m).

17 Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**3.1**	2.7
Supplier rebates	**21.1**	22.3
Prepayments	**5.5**	7.3
Other receivables	**11.9**	6.7
Total current trade and other receivables	**41.6**	39.0

Impairment of debtors

The table below presents the balance and movements in the provision for impairment of trade and other receivables.

	2020 £m	2019 £m
At the beginning of the year	**0.6**	0.4
Amounts written off	**(0.5)**	–
Increase in allowance charged to Group income statement	**1.0**	0.2
At the end of the year	**1.1**	0.6

Ageing of past due but not impaired receivables

	2020 £m	2019 £m
31 to 60 days	**0.2**	0.4
61 to 90 days	**–**	0.1
Greater than 90 days	**0.2**	0.3
	0.4	0.8

Supplier rebates past due but not impaired receivables

	2020 £m	2019 £m
31 to 60 days	**1.2**	1.3
61 to 90 days	**0.1**	0.2
Greater than 90 days	**0.9**	2.2
	2.2	3.7

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for the 53 week period from 25 November 2019 to 29 November 2020

18 Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**23.2**	37.0

19 Trade and other payables

	2020 £m	2019 £m
Current		
Trade payables	**156.6**	175.0
Accrued expenses	**30.1**	26.0
Holiday pay accrual	**2.2**	1.2
Social security and other taxes	**17.3**	7.0
Other payables	**4.7**	1.5
Accrued interest	**0.6**	0.3
Deferred rebates and lease premiums*	**3.8**	4.5
	215.3	215.5

	2020 £m	2019 £m
Non-current		
Deferred rebates & lease premiums*	**7.3**	10.8
	7.3	10.8

* The amounts of lease premiums reported as liabilities prior to the adoption of IFRS 16 Leases have not been included in the right-of-use asset at transition as the practical expedient for modified retrospective transition approach has been adopted in this regard.

Trade payables and accrued expenses 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. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

20 Loans and borrowings

	Note	2020 £m	2019[1] £m
Current			
Bank borrowings – margin + Libor% term loan		**10.0**	10.0
Lease Liabilities	14	**22.3**	1.2
		32.3	11.2

	Note	2020 £m	2019 £m
Non-current			
Bank borrowings – margin + Libor% term loan		**57.5**	67.5
Bank borrowings – margin + Libor% revolving credit facility		**45.0**	52.0
Unamortised issue costs		**(1.3)**	(1.0)
Lease liabilities	14	**171.5**	1.4
		272.7	119.9

The long-term bank borrowings are secured on Group assets.

During the year, the margin on the term loan and revolving credit facility ranged between 3.25% and 4.25% in line with the banking facility agreement.

The Group's term loan and the revolving credit facility have attached covenants on leverage which are assessed quarterly and the Group was compliant with all assessments in the year.

The Group renewed its bank facility in February 2021 made up of an amortising term loan of £67.5m and a £100m revolving facility (see Note 31). The current facility drawn as at 29 November 2020 is £112.5m (2019: £129.5m). The maximum drawdown in the year was £75.0m for the term loan and £65.0m for the revolving credit facility.

20 Loans and borrowings continued

Details of loans and lease liabilities repayable in the future are as follows:

	2020 £m	2019[1] £m
Bank loans		
Term loan and revolving credit facility available until February 2024	**102.5**	119.5
Lease Liabilities		
Amounts due within two to five years	**70.6**	1.4
Amounts due within six to ten years	**67.3**	–
Amounts due after ten years	**33.6**	–
	171.5	1.4
	274.0	120.9

Note:
1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

21 Net debt note

	Note	2020 £m	2019[1] £m
Cash at bank and in hand	18	**23.2**	37.0
		23.2	37.0
Term Loan and revolving credit facility available until February 2024		**(112.5)**	(129.5)
Less: unamortised issue costs		**1.3**	1.0
		(111.2)	(128.5)
Lease liabilities		**(193.8)**	(2.6)
Net debt		**(281.8)**	(94.1)
Lease liabilities – impact of adoption of IFRS 16	*14*	*192.2*	–
Net debt before the adoption of IFRS 16		*(89.6)*	*(94.1)*

	2019 £m	IFRS 16 adoption £m	Cash flow £m	Amortisation of issue costs £m	Leases additions £m	Leases disposals £m	Non-current to current movements £m	2020 £m
Bank borrowings								
Current	(10.0)	–	10.0	–	–	–	(10.0)	**(10.0)**
Non-current	(118.5)	–	8.2	(0.9)	–	–	10.0	**(101.2)**
	(128.5)	–	18.2	(0.9)	–	–	–	**(111.2)**
Lease liabilities								
Current	(1.2)	(22.9)	22.6	–	(0.9)	2.0	(21.9)	**(22.3)**
Non-current	(1.4)	(194.2)	–	–	(8.9)	11.1	21.9	**(171.5)**
	(2.6)	(217.1)	22.6	–	(9.8)	13.1	–	**(193.8)**
Arising from financing activities	(131.1)	(217.1)	40.8	(0.9)	(9.8)	13.1	–	**(305.0)**
Cash and short-term deposits	37.0	–	(13.8)	–	–	–	–	**23.2**
Net debt	(94.1)	(217.1)	27.0	(0.9)	(9.8)	13.1	–	**(281.8)**

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21 Net debt note continued

	2018 £m	Cash flow £m	Amortisation of issue costs £m	Leases additions £m	Leases disposals £m	Non-current to current movements £m	2019 £m
Bank borrowings							
Current	(10.0)	10.0	–	–	–	(10.0)	(10.0)
Non-current	(114.0)	(14.0)	(0.5)	–	–	10.0	(118.5)
	(124.0)	(4.0)	(0.5)	–	–	–	(128.5)
Lease liabilities							
Current	(2.1)	1.7	–	(0.3)	–	(0.5)	(1.2)
Non-current	(1.0)	–	–	(0.9)	–	0.5	(1.4)
	(3.1)	1.7	–	(1.2)	–	–	(2.6)
Arising from financing activities	(127.1)	(2.3)	(0.5)	(1.2)	–	–	(131.1)
Cash and short-term deposits	28.5	8.5	–	–	–	–	37.0
Net debt	(98.6)	6.2	(0.5)	(1.2)	–	–	(94.1)

Interest and finance costs in the period

	Note	**2020 £m**	2019[1] £m
Current bank borrowings		**0.9**	0.6
Non-current bank borrowings		**5.7**	5.9
Current leases		**1.0**	0.1
Non-current leases		**8.2**	0.1
Other finance costs		**1.9**	1.5
Total	8	**17.7**	8.2

Note:

1 The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated. See note 2.

22 Provisions

	Note	**Dilapidations £m**	**Onerous contracts £m**	**Total £m**
At 25 November 2019		3.1	2.6	5.7
Transfer to right-of-use assets	2	–	(2.0)	(2.0)
At 25 November 2019		3.1	0.6	3.7
Amounts provided		5.1	0.4	5.5
Utilised during the period		(2.6)	(0.6)	(3.2)
Unwinding of the discount in provisions		0.2	–	0.2
At 29 November 2020		**5.8**	**0.4**	**6.2**
Current liabilities		0.6	0.3	0.9
Non-current liabilities		5.2	0.1	5.3

Dilapidations

The provision includes estimates for certain properties for which the extent of the Dilapidation has not been established and include estimates of the cost at the end of the lease. The provision is added to the right-of-use asset and depreciated over the life of the lease.

Onerous contracts

When a store is closed a provision is added to the right of use asset, for the present value of the unavoidable costs of the lease net of expected benefits. The onerous lease provisions are recognised for a period of up to two years. The Group provides for rates which have not been scoped out of IAS 37 Provisions, contingent liabilities and contingent assets by the adoption of IFRS 16 Leases.

23 Deferred tax

Deferred tax

Deferred tax assets and liabilities

	Asset	Liability £m	**Net deferred tax £m**
2020			
Pension benefit obligations	–	(0.7)	**(0.7)**
Revaluation of property, plant and equipment	3.3	–	**3.3**
Revaluation of intangible assets	–	(2.8)	**(2.8)**
Other items	0.2	–	**0.2**
	3.5	(3.5)	**–**

For the period ended 29 November 2020, the Group has losses carried forward of £23.8m for which a potential deferred tax asset of £4.5m arises. The Group has made a loss in the current period and a small accounting profit is forecast for the next financial year. Management has concluded therefore, that it is not probable that there will be sufficient future taxable profits available in a relatively short timeframe to utilise all of the losses that have arisen. Consequently, the deferred tax asset recognised has been limited to £0.1m, with £4.4m remaining unrecognised.

	Asset	Liability £m	Net deferred tax £m
2019			
Pension benefit obligations	–	(1.3)	(1.3)
Revaluation of property, plant and equipment	1.3	–	1.3
Revaluation of intangible assets	–	(3.5)	(3.5)
Other items	0.1	–	0.1
	1.4	(4.8)	(3.4)

Deferred tax movement during the period:

	At 25 November 2019 £m	IFRS 16 Adoption £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	**At 29 November 2020 £m**
Pension benefit obligations	(1.3)	–	–	0.6	–	**(0.7)**
Revaluation of property, plant and equipment	1.3	2.4	(0.4)	–	–	**3.3**
Revaluation of intangible assets	(3.5)	–	0.7	–	–	**(2.8)**
Other items	0.1	–	0.1	–	–	**0.2**
Net tax assets/ (liabilities)	(3.4)	2.4	0.4	0.6	–	**–**

The deferred tax asset of £2.4m recognised on the adoption of IFRS 16 has been credited to retained earnings.

Deferred tax movement during the prior period:

	At 26 November 2018 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 24 November 2019 £m
Pension benefit obligations	(2.0)	–	0.7	–	(1.3)
Revaluation of property, plant and equipment	(0.9)	2.2	–	–	1.3
Revaluation of intangible assets	(3.9)	0.4	–	–	(3.5)
Other items	0.1	–	–	–	0.1
Net tax assets/ (liabilities)	(6.7)	2.6	0.7	–	(3.4)

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.

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23 Deferred tax continued

Deferred tax at 29 November 2020 has been measured at 19% (2019: 17%) being the tax rate enacted as at the balance sheet date expected to be effective for future periods.

The Group only recognise deferred tax assets where it is probable it will be recoverable and the temporary differences do not expire.

24 Share capital

	Number of 0.1p ordinary shares	Share capital £m	Share premium £m
At 25 November 2019	115,193,909	0.1	12.6
Shares issued during the period	110,491	–	–
At 29 November 2020	115,304,400	0.1	12.6

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid. The shares rank equally for voting purposes. On a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held. Each ordinary share ranks equally for any dividend declared. Each ordinary share ranks equally for any distributions made on a winding up of the Group. Each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves.

The Group issued 110,491 ordinary shares at 0.1 pence per share equal to the nominal value of £110 in relation to LTIP share options that had been exercised.

The Group did not acquire any of its own shares for cancellation in either the 53 weeks ended 29 November 2020 or 52 weeks ended 24 November 2019.

25 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 29 November 2020, the Group had no material contingent liabilities (2019: nil).

26 Financial instruments and risk management

Interest rate risk

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

Floating rate financial liabilities on which interest is paid bear interest at rates based on 1 month LIBOR. It is the Group's policy to consider the need for interest rate hedging on an ongoing basis. No interest rate hedging is currently in place although this is kept under review by management. Management would consider hedging if they believed interest rates were going to become volatile.

Interest rate risk profile of financial liabilities and assets

The floating rate financial liabilities comprise a sterling designated working capital facility and lease liabilities.

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

	2020 £m	2019 £m
Fixed rate financial liabilities (lease liabilities)	**(193.8)**	(2.6)
Floating rate financial liabilities (term loan and revolving credit facility)	**(112.5)**	(129.5)
Financial liabilities on which no interest is paid (trade and other payables)	**(205.3)**	(219.3)
Financial liabilities	**(511.6)**	(351.4)
Impact of adoption of IFRS 16	*(192.2)*	–
Financial liabilities before adoption of IFRS 16	*(319.4)*	*(351.4)*

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

	2020 £m	2019 £m
Financial assets on which no interest is paid (cash & cash equivalents and short-term receivables)	**57.7**	68.7
Fixed rate financial assets (sub lease receivables)	**1.6**	–
Financial assets	**59.3**	68.7

If interest rates had been 0.5% higher during the period ended 29 November 2020, with all other variables held constant, the post-tax loss for the period would have been approximately £0.7m higher (2019: £0.7m higher) 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. Daily cash forecasts covering a period of at least three financial periods are produced to assist management in monitoring the Group's cash position. In addition, management considers liquidity as part of the annual budgeting and long-term planning processes.

26 Financial instruments and risk management continued

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. Management have assessed resources and facilities available to the Group and are comfortable the Group will have enough future resources to meet its liabilities. In the period ended 29 November 2020, the Group had significant headroom within its current facilities (see note 20).

The Group operates with net current liabilities and is therefore reliant on the continued strong performance of the retail portfolio to meet its short-term liabilities. This is a well-established and proven business model. Any increase in short-term liquidity risk can be mitigated by reducing capital expenditure. The Group had significant cash resources at the year-end. The Group has recently renewed its credit facilities (see note 31).

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:

	2020 £m	2020 IFRS 16 Impact £m	2020 pre IFRS 16 £m	2019 £m
Up to three months or on demand	**204.0**	**5.8**	**198.2**	207.9
In three to twelve months	**26.3**	**15.5**	**10.8**	11.9
In more than one year but not more than two years	**122.9**	**14.0**	**108.9**	124.2
In more than two years but not more than five years	**56.7**	**56.0**	**0.7**	6.6
In more than five years	**101.7**	**100.9**	**0.8**	0.8
	511.6	**192.2**	**319.4**	351.4

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 £45.0m has been drawn at 29 November 2020 (2019: £52.0m). The maximum drawdown during the year was £65.0m, leaving headroom of £35.0m available from the facility if required.

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, rebates due from suppliers and sublease receivables.

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

	29 November 2020		24 November 2019	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial liabilities				
Trade and other short- term payables	**(198.0)**	**(198.0)**	(208.5)	(208.5)
Lease liabilities	**(193.8)**	**(193.8)**	(2.6)	(2.6)
Bank borrowings	**(112.5)**	**(112.5)**	(129.5)	(129.5)
Long-term payables	**(7.3)**	**(7.3)**	(10.8)	(10.8)
Financial Liabilities	**(511.6)**	**(511.6)**	(351.4)	(351.4)
Impact of adoption of IFRS 16	*(192.2)*	*(192.2)*	–	–
Financial liabilities before adoption of IFRS 16	*(319.4)*	*(319.4)*	*(351.4)*	*(351.4)*
Financial assets				
Short- term receivables	**34.5**	**34.5**	31.7	31.7
Sublease receivable	**1.6**	**1.6**	–	–
Cash and short- term deposits	**23.2**	**23.2**	37.0	37.0
	59.3	**59.3**	68.7	68.7

The long-term rating for all financial institution counter parties ranges from A1 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.

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26 Financial instruments and risk management continued

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

	2020 £m	2020 IFRS16 Impact £m	2020 pre IFRS 16 £m	2019 £m
Net debt	**281.8**	**192.2**	**89.6**	94.1
Total equity (as defined above)	**16.0**	**–**	**16.0**	30.9
Debt to capital ratio	**17.6**	**–**	**5.6**	3.0

27 Retirement benefit schemes
The Group accounts for pensions in accordance with IAS 19.

The Group operates two defined benefit pension schemes in the UK, the TM Group Pension Scheme and the TM Pension Plan, in addition to several defined contribution schemes which require contributions to be made to separately administered funds. Pension costs for defined contribution schemes were £3.2m (2019: £3.0m).

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

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

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

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

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

The last completed triennial full actuarial valuation of the schemes was carried out as at 31 March 2019. Deficit repair contributions were agreed at £1.5m p.a. until 30 June 2022. From 1 July 2022, deficit contributions will increase to £1.75m p.a. If the Company announces before 1 July 2022 that it will recommence paying dividends to shareholders the increase to £1.75m will be triggered from that earlier date. Contributions will increase annually in line with the Retail Prices Index excluding mortgage interest (RPIX).

The Group contributed £0.5m (2019: £0.5m) towards the costs of running the schemes.

The figures for this financial information have been based, in accordance with IAS 19, on valuations using the projected unit method.

The disclosures are based upon the preliminary valuation of the schemes which were carried out as at 31 March 2019, updated to 29 November 2020 by qualified independent actuaries. The main assumptions when valuing the assets and liabilities of the schemes under IAS 19 revised are as follows:

	Group pension schemes	
	2020 %pa	2019 %pa
RPI inflation	**2.95**	2.95
CPI inflation	**2.35**	2.05
Rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase to pensions in payment:		
5% LPI	**2.90**	2.90
2.5% LPI	**2.10**	2.10
Discount rate	**1.35**	2.00

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

	TM Group Pension Scheme		TM Pension Plan	
	2020 years	2019 years	2020 years	2019 years
Demographic assumptions				
Life expectancy of a pensioner aged 65 – male	**87.2**	86.8	**87.1**	87.0
Life expectancy of a pensioner aged 65 – female	**88.9**	88.6	**89.1**	88.6
Life expectancy at age 65 for someone aged 45 – male	**88.6**	88.2	**88.4**	88.2
Life expectancy at age 65 for someone aged 45 – female	**91.2**	90.2	**90.9**	90.1

27 Retirement benefit schemes continued

	TM Group Pension Scheme 2020 £m	TM Group Pension Scheme 2019 £m	TM Pension Plan 2020 £m	TM Pension Plan 2019 £m
Notes to the balance sheet				
Fair value of scheme assets	**89.5**	89.1	**52.2**	50.6
Present value of funded scheme obligations	**(80.5)**	(77.6)	**(57.3)**	(54.2)
Net pension asset/(liability)	**9.0**	11.5	**(5.1)**	(3.6)

On its balance sheet, the Group recognises the £9.0m surplus in respect of the TM Group Pension Scheme as the Group has an unconditional right to any surplus once the last pension benefits have been paid.

	TM Group Pension Scheme 2020 £m	TM Group Pension Scheme 2019 £m	TM Pension Plan 2020 £m	TM Pension Plan 2019 £m
Notes to the income statement				
Total service cost	**0.3**	0.2	**0.1**	0.2
Net interest	**(0.2)**	(0.4)	**0.1**	–
Past service cost including curtailments	**–**	–	**0.1**	–
Total included in 'staff costs'	**0.1**	(0.2)	**0.3**	0.2

	TM Group Pension Scheme 2020 £m	TM Group Pension Scheme 2019 £m	TM Pension Plan 2020 £m	TM Pension Plan 2019 £m
Notes to the statement of comprehensive income (SCI)				
Return on assets excluding amounts included in net interest	**3.7**	7.0	**2.1**	3.4
Gains due to changes in demographic assumptions	**0.6**	0.8	**0.3**	0.6
Losses due to changes in financial assumptions	**(6.8)**	(7.4)	**(5.5)**	(5.4)
(Losses)/gains due to plan experience	**(0.1)**	(3.5)	**0.1**	(1.3)
Total recognised in SCI	**(2.6)**	(3.1)	**(3.0)**	(2.7)

	TM Group Pension Scheme 2020 £m	TM Group Pension Scheme 2019 £m	TM Pension Plan 2020 £m	TM Pension Plan 2019 £m
Recognition of defined benefit obligation				
Opening defined benefit obligation	**77.6**	69.2	**54.2**	49.3
Service costs (admin costs)	**0.3**	0.2	**0.1**	0.2
Past service cost (incl. curtailment)	**–**	–	**0.1**	–
Interest cost on defined benefit obligation	**1.5**	2.0	**1.1**	1.3
Gains due to changes in demographic assumptions	**(0.6)**	(0.8)	**(0.3)**	(0.6)
Losses due to changes in financial assumptions	**6.8**	7.4	**5.5**	5.4
Losses/(gains) due to plan experience	**0.1**	3.6	**(0.1)**	1.3
Benefits paid including expenses	**(5.2)**	(4.0)	**(3.3)**	(2.7)
Closing defined benefit obligation	**80.5**	77.6	**57.3**	54.2

	TM Group Pension Scheme 2020 £m	TM Group Pension Scheme 2019 £m	TM Pension Plan 2020 £m	TM Pension Plan 2019 £m
Recognition of defined benefit obligation				
Opening fair value of scheme assets	**89.1**	83.3	**50.6**	47.0
Interest income on scheme assets	**1.7**	2.4	**1.0**	1.3
Employer contributions	**0.2**	0.4	**1.8**	1.6
Return on assets excluding amounts included in net interest	**3.7**	7.0	**2.1**	3.4
Benefits paid including expenses	**(5.2)**	(4.0)	**(3.3)**	(2.7)
Closing fair value of scheme assets	**89.5**	89.1	**52.2**	50.6

The Group expects to contribute £nil to the TM Group Pension Scheme and £1.8m to the TM Pension plan in the period ended 28 November 2021. These figures include deficit contributions and contributions towards scheme running costs.

Financial statements continued

Notes to the financial statements continued

for the 53 week period from 25 November 2019 to 29 November 2020

27 Retirement benefit schemes continued

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

	TM Group Pension Scheme			
	2020 £m	**2020 %**	2019 £m	2019 %
Derivatives (unquoted)	**1.3**	**1.5**	1.2	1.3
Overseas bonds (quoted)	**40.6**	**45.3**	34.6	38.8
Government bonds (quoted)	**32.9**	**36.8**	33.0	37.1
Real estate (quoted)	**2.0**	**2.2**	4.3	4.8
Cash and cash equivalents	**2.8**	**3.1**	1.3	1.5
Overseas bonds (unquoted)	**9.9**	**11.1**	14.7	16.5
	89.5	**100.0**	89.1	100.0

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

	TM Pension Plan			
	2020 £m	**2020 %**	2019 £m	2019 %
Derivatives (unquoted)	**0.6**	**1.2**	1.6	3.2
Overseas bonds (unquoted)	**7.4**	**14.2**	4.9	9.7
Government bonds (quoted)	**16.3**	**31.2**	16.8	33.2
Real estate (quoted)	**2.0**	**3.8**	4.3	8.5
Cash and cash equivalents	**2.5**	**4.8**	1.7	3.3
Infrastructure (unquoted)	**7.3**	**14.0**	7.7	15.2
Overseas bonds (quoted)	**16.1**	**30.8**	13.6	26.9
	52.2	**100.0**	50.6	100.0

The investment strategy of the schemes is driven by their liability profiles. In particular:

- The weighted average duration of the schemes' liabilities is 13 years for the TM Group Pension Scheme and 14 years for the TM Pension Plan.
- Approximately 30% of the liabilities of the TM Group Pension Scheme and 40% of the liabilities of the TM Pension Plan are in respect of deferred members, with the remaining liabilities in respect of pensioner members.
- Annual benefit payments are expected to peak in 2025 for the TM Group Pension Scheme, and in 2030 for the TM Pension Plan.

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

Policy for recognising actuarial gains and losses

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

Sensitivity analysis

	TM Group Pension Scheme		TM Pension Plan	
	Change in actuarial value of liabilities 2020 £m	Change in actuarial value of liabilities 2019 £m	**Change in actuarial value of liabilities 2020 £m**	Change in actuarial value of liabilities 2019 £m
Change in assumptions compared with 29 November 2020 and 24 November 2019 actuarial assumptions				
0.5% decrease in discount rate	**5.6**	5.3	**4.5**	4.1
1 year increase in member life expectation	**3.2**	3.1	**2.3**	2.2
0.5% decrease in inflation (including impact of pension increases)	**2.2**	2.1	**2.7**	2.6

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

28 Share-based payments

Long Term Incentive Plan (LTIP)

Scheme details and movements

The plan provides for annual awards of performance shares to eligible participants. Vesting is based on financial performance targets being achieved over a three-year period. Executive Directors' vested shares will be subject to an additional two-year holding period before being released to participants. Options are exercisable at a price of £0.001. The remuneration committee has discretion to reduce any unvested long-term incentive awards (including those in a holding period), or to vary the opportunities for future awards, in case of serious financial misstatement or gross misconduct. In extreme cases of gross misconduct, the Committee may claw back vested long-term incentive awards. Participants are eligible to receive cash or shares equal to the value of dividends that would have been paid over the vesting period on shares that vest.

28 Share-based payments continued

Awards vest on achievement of financial performance measures that include both earnings per share (EPS) and total shareholder return (TSR). EPS receives a weighting in the LTIP of at least 50%. For all grants to 2018, the weightings on EPS and TSR were 70% and 30% respectively. In 2019, the weighting was 50% for each of EPS and TSR. TSR is 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 where the threshold is not achieved. 25% of each element will vest for achievement of threshold performance under each metric, then increase on a straight-line basis to full vesting for achieving stretch performance. The Remuneration Committee has discretion to adjust the formulaic LTIP award downwards (or upwards with shareholder consultation), within the limits of the plan, to ensure alignment of pay with the underlying performance of the business.

The movements in the number of share options during the period were as follows:

	2020 Number	2019 Number
Outstanding, start of period	**3,484,649**	2,309,644
Granted during the period	**2,714,822**	1,523,813
Forfeited during the period	**(2,871,710)**	(332,238)
Exercised during the period	**(96,988)**	(16,570)
Outstanding, end of period	**3,230,773**	3,484,649

The movements in the weighted average exercise price of share options during the period were as follows:

	2020 £	2019 £
Outstanding, start of period	**1.4**	1.8
Granted during the period	**0.3**	0.9
Forfeited during the period	**1.1**	1.4
Exercised during the period	**1.5**	1.5
Outstanding, end of period	**0.7**	1.4

During the period 96,988 share options were exercised (2019: 16,570). The average market share price when share options were exercised was 29.3p (2019: 63.0p).

Outstanding share options

Details of share options outstanding at the end of the period are as follows:

	2020	2019
Weighted average exercise price (£)	**0.7**	1.4
Number of share options outstanding	**3,230,773**	3,484,649
Expected weighted average remaining life (years)	**1.9**	1.3

The contractual weighted average remaining life is 1.88 years.

The exercise price range is £0.31 to £1.52.

Fair value of options granted

The weighted average fair value per TSR unit (excluding dividends) of options granted during the period at measurement date was £0.22.

The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below:

	16 September 2020	**6 April 2020**	2 May 2019
Share price at date of grant (£)	**0.2**	**0.3**	0.9
Expected volatility (%)	**56.0**	**53.0**	42.1
Vesting period in years	**3.0**	**3.0**	3.0
Risk free interest rate (%)	**(0.1)**	**0.1**	0.8
Number of employees subject to option grant	**1.0**	**4.0**	8.0
Number of shares covered by option	**600,000**	**2,114,822**	1,523,813

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Risk free rate is the yield to maturity on the date of grant on zero-coupon UK government bond with a term commensurate with the remaining performance period at date of grant.

McColl's embedded performance is based on TSR performance banked over the period from the start of the averaging period to the date of grant.

The embedded performance of companies selected as comparators is based on the TSR performance banked by each LTIP comparator over the period from the start of the averaging period to the date of grant.

Financial statements continued

Notes to the financial statements continued
for the 53 week period from 25 November 2019 to 29 November 2020

28 Share-based payments continued

Correlation is based on an historical analysis of the average TSR correlation observed across the LTIP comparator Group as measured fortnightly over a historic period commensurate with the remaining performance period at date of grant.

The fair value of services received during the period were the tenure of employment.

IFRS2 requires that TSR-vesting shares under McColl's LTIP awards be expensed based on fair value, taking into account the probability of achieving the market-based vesting condition (relative TSR). The probability of achieving the vesting condition is influenced by the performance already delivered between the start of the share price averaging period and the date of grant. McColl's has used a Monte-Carlo simulation model to determine the grant-date fair value of performance shares for the TSR element of the scheme. Each Monte-Carlo iteration calculates the future value of a performance share by projecting forward a future TSR scenario for each of its TSR comparators. Valuations are based on the average of 10,000 iterations of the Monte-Carlo model.

Charge/credit arising from share-based payments
The total charge for the year for equity settled share-based payments was £0.2m (2019: £0.1m), which includes a reduction of £0.1m which relates to the reversal of a charge related to prior years.

The carrying value of the liability arising from share-based payments was £0.7m (2019: £0.5m).

Company share option plan (CSOP)
Scheme details and movements
The scheme began operation in August 2015. The scheme meets the criteria of an equity settled share-based payment as the entity receives goods or services as consideration for its own equity instruments (including shares or share options). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

CSOPs performance conditions are 100% TSR based, with targets which are consistent with the LTIP performance conditions. These are detailed in the Remuneration report on pages 69 to 70.

The movements in the number of CSOP share options during the period were as follows:

	2020 Number	2019 Number
Outstanding, start of period	**692,403**	531,578
Granted during the period	**585,000**	362,629
Forfeited during the period	**(432,500)**	(201,804)
Outstanding, end of period	**844,903**	692,403

The movements in the weighted average exercise price of CSOP share options during the period were as follows:

	2020	2019
Outstanding, start of period	**1.4**	1.9
Granted during the period	**0.3**	0.9
Forfeited during the period	**1.3**	1.6
Outstanding, end of period	**0.7**	1.4

No options were exercised during the period (2019: Nil).

Outstanding share options
Details of share options outstanding at the end of the period are as follows:

	2020	2019
Weighted average exercise price (£)	**0.7**	1.4
Number of share options outstanding	**844,903**	692,403
Expected weighted average remaining life (years)	**5.3**	4.3

The contractual weighted average remaining life is 5.32 years.

The exercise price range is £0.34 to £1.41.

28 Share-based payments continued

Fair value of options granted

The weighted average fair value per TSR unit of options granted during the period at measurement date was £0.12. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise. The main inputs are set out in the table below:

	6 April 2020	2 May 2019
Share price at date of grant (£)	**0.3**	0.9
Expected volatility	**52.8**	42.1
Vesting period in years	**3.0**	3.0
Expected life of option in practice in years	**3.0**	3.0
Expected dividends, expressed as a dividend yield	**3.9**	4.7
Risk-free interest rate	**0.1**	0.9
Number of employees subject to option grant	**39.0**	46.0
Number of shares covered by option	**585,000**	362,629

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. This is based on an historical analysis of the volatility of McColl's total return to shareholders as measured daily over a historic period commensurate with the remaining performance period at date of grant.

Charge/credit arising from share-based payments

The total charge for the year for CSOP equity settled share-based payments rounds in both 2020 and 2019 was nil.

The carrying value of the liability arising from share-based payments was £0.1m (2019: nil).

29 Related party transactions

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

	2020 £m	2019 £m
Salaries and other short-term employee benefits	**2.0**	1.9
Share-based payments	**0.2**	0.1
	2.2	2.0

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

30 Government assistance

As a result of the COVID-19 pandemic and subsequent UK government restrictions the Group has received government grants and assistance during the year.

	2020 £m	2019 £m
Furlough scheme	**1.3**	–
Business rates relief	**7.4**	–
COVID-19 business grant	**0.7**	–
	9.4	–

The Group benefitted from various government schemes to support businesses during the COVID-19 pandemic. Other than those listed above the Group also benefitted from £5.8m delay in payment of VAT which the Group will repay over 11 months starting in March 2021.

In the income statement, income from government assistance is netted against the expense to which the assistance relates, except for business grants which are recognised in other income as there is no related expense.

31 Subsequent events

Management has evaluated subsequent events through 22 March 2021, which is the date the consolidated financial statements were available to be issued.

In February 2021, the Group signed an amended credit facility agreement, which provides improved headroom against the covenants and extends the maturity from May 2022 to February 2024. The updated facility consists of a £100m Revolving Credit Facility and an amortising £67.5m term loan (originally £100m initially being repaid at £2.5m per quarter).

The facility has been arranged with our existing syndicate of six banks, comprising AIB Group (UK), Barclays Bank PLC, HSBC UK Bank plc, National Westminster Bank plc, Santander UK PLC, and Bank of Ireland.

The Group also announced on 1 March 2021 that terms have been agreed on a new supply arrangement with Morrisons, under which Morrisons will supply the entire McColl's estate for a further three year period to January 2027. In addition, Morrisons will support on the conversion of 300 McColl's convenience stores to the Morrisons Daily fascia and format.

Financial statements continued

Company balance sheet
29 November 2020

	Note	**29 November 2020 £m**	24 November 2019 £m
Non-current assets			
Investments	C4	**0.1**	0.1
Total non-current assets		**0.1**	0.1
Current assets			
Trade and other receivables	C5	**51.7**	49.6
Total current assets and net current assets		**51.7**	49.6
Total assets		**51.8**	49.7
Shareholders' equity			
Equity share capital	C6	**0.1**	0.1
Share premium account	C6	**12.6**	12.6
Retained earnings[1]		**39.1**	37.0
		51.8	49.7

1 Profit for year was £2.1m (2019: £2.7m)

These financial statements of McColl's Retail Group plc, registered number 08783477, were approved and authorised for issue by the Board of Directors on 22 March 2021.

Signed on behalf of the Board of Directors

Giles David
Director

Company statement of changes in equity
29 November 2020

	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
As at 25 November 2019	0.1	12.6	37.0	49.7
Shares issued	–	–	–	–
Profit for the period	–	–	2.1	2.1
As at 29 November 2020	0.1	12.6	39.1	51.8

	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
As at 26 November 2018	0.1	12.6	36.5	49.2
Shares issued	–	–	–	–
Profit for the period	–	–	2.7	2.7
Dividends paid	–	–	(2.2)	(2.2)
As at 24 November 2019	0.1	12.6	37.0	49.7

Notes to the Company financial statements

for the 53 week period from 25 November 2019 to 29 November 2020

C1. Basis of preparation

The Company's financial period is the period from 25 November 2019 to 29 November 2020.

The Parent Company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

For financial assets under IFRS 9, amounts owed to/by Group undertakings are initially recorded at fair value, which is generally the proceeds received. They are subsequently carried at amortised cost.

Provision for impairment of amounts owed by Group undertakings have been assessed based on lifetime expected credit losses. No credit loss is expected on outstanding intercompany balances, and therefore no provision has been recognised in the 53 weeks ended 29 November 2020 (2019: £nil).

The Parent Company financial statements are prepared on a going concern basis as set out in note 2 of the consolidated financial statements of the Group. The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an Income statement or a Statement of comprehensive income for the company alone.

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

C2. Significant accounting policies

Investments

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

Taxation

Current taxation

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

Deferred taxation

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

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

Financial statements continued

Notes to the Company financial statements continued

for the 53 week period from 25 November 2019 to 29 November 2020

C2. Significant 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.

C3. Staff costs including Directors' remuneration

The average number of employees (all Executive Directors of the Company) during the financial year was three (2019: three).

The Schedule 5 requirements of SI 2008/410 for Executive Directors' remuneration are included within the Remuneration report on pages 64 to 83.

C4. Investments

Shares in subsidiaries

	29 November 2020 £m	24 November 2019 £m
Cost		
Investments	0.1	0.1

The carrying value of the investment in subsidiary undertakings has been reviewed at 29 November 2020 and no impairment charge is required.

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

All subsidiaries are held by the Company unless stated. All subsidiaries are registered at the same address as McColl's Retail Group plc, except for those registered in Scotland, whose registered address is 72 Carfin Road, Motherwell, Scotland ML1 5JZ.

The following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 29 November 2020. All the following subsidiaries are included on the Group's consolidated financial statements for the period.

The Group will guarantee the debts and liabilities of the below subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006.

C4. Investments continued

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of business
Bracklands Limited	England and Wales	Ordinary shares	100.0%	Property Co
Charnwait Management Limited	England and Wales	Ordinary shares	100.0%	Retail
Clark Retail Limited	Scotland	Ordinary shares	100.0%	Retailing
Dillons Stores Limited	England and Wales	Ordinary shares	100.0%	Retailing
Forbouys Limited	England and Wales	Ordinary shares	100.0%	Dormant
Key Food Stores Limited	England and Wales	Ordinary shares	100.0%	Intermediate Holding Co
Lavells Limited	England and Wales	Ordinary shares	100.0%	Dormant
Lewis Meeson Limited	England and Wales	Ordinary shares	100.0%	Dormant
Marshell Group Limited	England and Wales	Ordinary shares	100.0%	Corporate activities
Martin McColl Limited	England and Wales	Ordinary shares	100.0%	Retailing
Martin McColl Retail Limited *	England and Wales	Ordinary shares	100.0%	Intermediate Holding Co
Martin Retail Group Limited	Scotland	Ordinary shares	100.0%	Retailing
Martin the Newsagent Limited	England and Wales	Ordinary shares	100.0%	Dormant
NSS Newsagents Retail Limited	England and Wales	Ordinary shares	100.0%	Dormant
Price Smashers Limited	England and Wales	Ordinary shares	100.0%	Intermediate Holding Co
Smile Holdings Limited	England and Wales	Ordinary shares	100.0%	Intermediate Holding Co
Smile Property Limited	England and Wales	Ordinary shares	100.0%	Dormant
Smile Stores Limited	England and Wales	Ordinary shares	100.0%	Retailing
Thistledove Limited	England and Wales	Ordinary shares	100.0%	Intermediate holding Co
TM Group Holdings Limited	England and Wales	Ordinary shares	100.0%	Predecessor Holding Co
TM Pension Trustees Limited	England and Wales	Ordinary shares	100.0%	Dormant
TM Vending Limited	England and Wales	Ordinary shares	100.0%	Corporate Activities
Tog Limited	England and Wales	Ordinary shares	100.0%	Intermediate Holding Co

* Indicates direct investment of the Company.

Financial statements continued

Notes to the Company financial statements continued

for the 53 week period from 25 November 2019 to 29 November 2020

C5. Trade and other receivables

	29 November 2020 £m	24 November 2019 £m
Amounts owed by Group undertakings (repayable on demand)	**51.7**	49.6

C6. Authorised, issued and fully paid share capital

	Number of 0.1p ordinary shares	**Share capital £m**	Share premium £m
As at 24 November 2019	115,193,909	0.1	12.6
Issued during the period	110,491	–	–
As at 29 November 2020	115,304,400	**0.1**	12.6

The Board have authorised the allotment of ordinary shares equal to the nominal value of £110, the details of which are in the Group's accounts note 24.

All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 53 weeks ending 29 November 2020 or 52 weeks ended 24 November 2019.

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

C7. Dividends paid and proposed

The Board is not recommending a final 2020 dividend (2019: £nil). The Company is restricted from paying a dividend until certain conditions are satisfied in its banking facilities, including achieving a leverage below 1.75x EBITDA.

	29 November 2020 £m	24 November 2019 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final 2019 dividend of £nil (2018: 0.60p)	**–**	0.7
Interim for 2020: £nil (2019: 1.3p)	**–**	1.5
Dividends paid	**–**	2.2
Proposed for approval by shareholders at the AGM:		
Final dividend for 2020: £nil (2019: £nil)	**–**	–

Glossary of terms

Introduction
In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs) of financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to IFRS measures and are not intended to be a substitute for IFRS measurements.

Purpose
The Directors believe that these APMs provide additional useful information on the underlying performance and position of McColl's.

APMs are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding McColl's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this period are as follows:

Like-for-like sales (LFL): This is a widely used indicator of a retailer's current trading performance and is a measure of growth in sales from stores that have been open for at least a year.

Sales from stores that have traded throughout the whole of the current and prior periods, and including VAT but excluding sales of fuel, lottery, mobile top-up, gift cards and travel tickets.

Adjusted EBITDA excluding property-related items and share-based payments: This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses, share-based payments and other adjusting items.

Property gains and losses: Are incomes and costs that arise from events and transactions in relation to the Group's property and not from the principal activity of the Group, i.e. that of an operator of convenience and newsagent stores.

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

Adjusted operating profit: Operating profit before the impact of adjusting items as explained above.

Adjusted earnings per share: Earnings per share before the impact of adjusting items.

Adjusted EBITDA pre IFRS 16: This profit measure is utilised on the same basis as the adjusted EBITDA excluding property-related items and share-based payments above. The difference is that rent expense £29.3m has been added back to administrative expenses and rental income £0.5m to other income to reverse the impact of IFRS 16. These adjustments enable a comparable profit measure to the prior period to be presented, which was prepared utilising IAS 17.

Grocery mix: This measure is the proportion of grocery sales excluding VAT as a percentage of total revenue. Grocery includes ambient, fresh, frozen and household groceries, and food-to-go, but excludes impulse categories (including confectionery, crisps and snacks, soft drinks and ice cream), general merchandise, news and magazines, and services.

Glossary of terms continued

APM	Closest equivalent IFRS measure	Note reference for reconciliation		Definition and purpose
Income statement *Revenue measures*				
Sales mix	No direct equivalent	Not applicable		The relative proportion or ratio of products sold compared to the same period in the prior year.
Like-for-like (LFL)	IFRS Revenue	Revenue YE19 Add VAT Excl. non store rev. Excl. acq/closures **LFL Sales 2019** Revenue 2020 Add VAT Excl. non store rev. Excl. acq/closures **LFL Sales 2020** **LFL%**	£1,219m £150m £(171)m £(117)m **£1,081m** £1,258m £161m £(129)m £(79)m **£1,211m** **12.0%**	Like-for-like is a measure of growth in Group sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year). It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures. It's reported on an 'including VAT' basis, which aligns with the sales measurement by the field and stores teams, whose focus is on the retail performance.
Profit measures				
Adjusted EBITDA	Operating Profit	Note 6		This profit measure shows the Group's Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for both property gains and losses, share-based payments and other adjusting items, in order to provide shareholders with a measure of true underlying performance of the business.
Basic adjusted earnings per share (EPS)	Basic earnings per share	Note 11		This relates to profit after tax before adjusting items divided by the basic weighted average number of shares, in order to provide shareholders with a measure of true underlying performance of the business.
Diluted adjusted earnings per share	Diluted earnings per share	Note 11		The difference between basic and diluted metric is the impact of the dilutive effect of share options and warrants in existence.
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	Note 21		Net debt comprises bank and other borrowings, finance lease payables, and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.

Other

Capital expenditure (Capex): The additions to property, plant and equipment and intangible assets.

Grocery lines: This includes ambient, fresh, frozen and household groceries, and food-to-go, but excludes impulse categories (including confectionery, crisps and snacks, soft drinks and ice cream), general merchandise, news and magazines, and services.

Quarter: The 'first quarter' refers to the 13-week period from 25 November 2019 to 23 February 2020, 'second quarter' refers to the 13-week period from 24 February 2020 to 24 May 2020, 'third quarter' refers to the 13-week period from 25 May 2020 to 23 August 2020 and 'fourth quarter' refers to the 14-week period from 24 August to 29 November 2020.

Profits/(losses) arising on property-related items: This relates to the Group's property activities including: gains and losses on disposal of property assets, sale and lease back of freehold interests; costs resulting from changes in the Group's store portfolio, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail operations of the business. They can be one-time in nature and can have a disproportionate impact on profit between reporting periods.

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