Preliminary audited results and trading update

Building foundations for success

26 February 2020 - McColl's Retail Group plc, the UK convenience retailer, ("McColl's" or "the Group") today announces its preliminary results for the 52 week period ended 24 November 2019 (FY19), and a trading update for the 11 week period to 9 February 2020.

FY19 review:

- Total revenue down 1.8% to £1.22bn (2018: £1.24bn), reflecting store closures and divestments as part of store optimisation programme
- Total like-for-like (LFL) sales[1] level at 0.0% (2018: down 1.4%)
- Adjusted gross margin[2] broadly level at 25.9% (2018: 26.0%), with a stronger year-on-year performance through H2
- Adjusted EBITDA[3] £32.1m (2018: £35.0m), reflecting softer market conditions through the summer, partially offset by gross margin improvement in H2
- Adjusted profit before tax[2] £7.3m (2018: £10.5m)
- One-off, non-cash goodwill impairment charge of £98.6m together with other adjusting items leading to statutory loss before tax of £98.6m (2018: profit before tax £7.9m)
- Statutory basic loss per share 83.3p (2018: profit per share 6.0p); adjusted basic earnings per share[2] 5.6p (2018: 6.7p)
- In light of the Group's deleveraging priority, the Board has reached the decision to suspend the final dividend and keep the policy under review. The Board's priority is to reduce leverage with a target of 2.0x by the end of 2022
- Net debt reduced to £94.1m (2018: £98.6m)
- Discussions with our lending banks to amend and extend the existing debt facility are well advanced, with an announcement expected shortly

Current trading and outlook:

Sales in early FY20 have been encouraging, with the Group delivering a LFL sales improvement of 0.5% for the 11 week period ended 9 February 2020. Total sales decreased by 4.2% reflecting the annualisation of the ongoing store optimisation programme.

2020 will be a transitional year with the implementation of our strategic change programme, as outlined below, and as a result we expect adjusted EBITDA for FY20 to be broadly in line with FY19.

Strategic change programme:

The Group is embarking on a customer-focused, medium-term strategic change programme addressing the opportunity of segmenting our store estate to better meet the needs of the communities we serve on a 'neighbourhood by neighbourhood' basis.

The key initiatives of the change programme are:

- **A revitalised customer offer**, informed by better insight, addressing store segmentation, range development, space allocation and value positioning;

- **A fundamental reset of the operating model** to make stores easier to operate and easier to shop, harnessing new technology, and offsetting continued inflationary pressures; and
- **Enhancing the quality of our estate** through accelerated store optimisation. Over the medium term, as a result of further divestments and net of future acquisitions, we anticipate an optimised estate of around 1,100 larger, more convenience focused stores.

We will continue to monitor and appropriately balance the capital requirements of the Group by building capital resilience and deleveraging the balance sheet through our ongoing cash management initiatives.

Jonathan Miller, Chief Executive, said:

"We have stabilised the business and refocused on retail execution in 2019, in line with our key priorities for the year. Against challenging trading conditions we have made good operational progress, whilst reducing debt and making appropriate levels of investment.

Looking ahead to FY20, we are embarking on a strategic change programme, refining our model and better tailoring our offer to the customers and communities we serve, using the learnings to build the foundations for future growth.

The fundamentals of the convenience sector remain strong and, with our improving customer proposition, I am confident in delivering sustainable returns for shareholders over the long term."

Notes:

The business uses a number of non-statutory measures (for example, LFL, adjusted EBITDA and adjusted EPS) because management believe that these – placed with equal prominence alongside other statutory measures – help to better explain the underlying performance of the business and its key dynamics. These are kept under continuous review and are defined and used consistently, or explained otherwise.

1. LFL sales reflect sales from stores that have traded throughout the current and prior financial periods, and include VAT but exclude sales of fuel, lottery, mobile phone top up and travel tickets.
2. The Group has defined and outlined the purpose of its alternative performance measures, including its key measures, in the glossary of terms.
3. Full details of adjusted EBITDA can be found in note 6 of the 2019 Annual Report and Accounts, and note 4 herein.

Results presentation

A copy of this announcement is available at www.mccollsplc.co.uk/investor.

A meeting for analysts will be held today at 9.30am at Numis Securities, London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. Access will be by invitation only. All presentation materials will be available on our website.

Enquiries

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Notes to editors

McColl's is a leading neighbourhood retailer, with an estate of over 1,400 managed convenience stores and newsagents. We operate McColl's branded convenience stores as well as newsagents branded Martin's across the UK, except in Scotland where we operate under our heritage brand, RS McColl. Our dedicated colleagues serve five million customers every week, and we are the largest operator of Post Offices in the UK.

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this announcement and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Neither we nor any of our officers, Directors or employees provide any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur and undue reliance should not be placed on these forward-looking statements which only speak as of the date of this announcement. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

No statement in this announcement is intended as a profit forecast or a profit estimate and past performance cannot be relied on as a guide to future performance. This announcement does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any securities.

Chairman's statement

Dear shareholder

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

Focus on customers, people and the fundamentals of retail

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

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

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

Continuing financial discipline

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

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

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

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

Dividends

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

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

Organising for the future

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

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

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

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

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

Looking forward

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

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

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

Angus Porter
Chairman

Chief Executive's Review - Building foundations for success

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

Period of stabilisation

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

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

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

Strengthening our team

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

Having brought in Robbie Bell, our highly experienced Chief Financial Officer, back in January, I was delighted to also welcome Richard Crampton as our new Chief Commercial Officer in September. Richard brings extensive experience in convenience and food retail to our business, and will play a key role in paving the way for our journey in 2020 and beyond. After 23 years in the business, Dave Thomas has stood down from his role as COO and I am delighted that Karen Bird will now take on operational management for stores in addition to her responsibilities as Colleague Director. Karen has extensive experience in senior operational roles within the retail sector and will be an invaluable leader as we navigate difficult economic conditions whilst seeking to implement operational, structural and cultural change within our business.

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

Strategic review

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

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

Strong customer offer

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

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

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

Easy to run stores

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

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

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

Improving our stores

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

We opened 10 new convenience stores this year, relocating some existing stores to better sites, and we will continue to explore opportunities to add new stores in 2020. We have also accelerated our store optimisation programme for underperforming stores as we continue to evolve towards a smaller, convenience focused and more profitable estate, having closed or sold 120 stores during the year.

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

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

Great place to work

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

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

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

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

Exciting times ahead

As we came into 2019, we recognised that the business needed to change – that's why we've strengthened our management structures, hired people into key roles, focused on our purpose and sharpened our strategy. With the market as competitive as ever, there will be challenges ahead, but we are well positioned and confident in our plans for long-term growth.
The convenience sector remains supportive, with lifestyle changes underpinning growth forecasts for at least the medium-term. Customers will always need top-up shops and food-for-now and later, while the convenience sector complements online ordering.

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

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

Jonathan Miller
Chief Executive Officer

<u>Financial Review – Building capital resilience</u>

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

Solid revenue performance

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

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

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

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

Gross profit margin stabilised

Gross margin before adjusting items[2] was broadly level at 25.9% (2018: 26.0%). Margin improved in the second half, year on year, as we continue to make progress, both through self-help initiatives such as improved promotional investment planning, and by working together with Morrisons. As in previous years, profit delivery was weighted towards the second half of the year due to the seasonal sales mix, and further supported by year-on-year margin improvement.

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

Good cost control mitigates cost pressures and wage inflation

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

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

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

Adjusting items

Adjusted operating profit (see note 5 of the Annual Report for the definition of adjusting items, or note 3 herein) decreased to £15.3m (2018: £18.3m).

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

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

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

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

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

Finance costs relating to the store closures included within adjusting items were £0.2m. Before adjusting items, profit before tax was £7.3m (2018: £10.5m). After adjusting items, loss before tax was £98.6m (2018: profit of £7.9m).

EBITDA (adjusted)

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

Interest and tax

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

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

Earnings per share

Basic losses per share was 83.3 pence (2018: earnings 5.95 pence). Adjusted basic earnings per share were 5.6 pence (2018: 6.7 pence).

Balance sheet and net debt

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

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

As explained in note 14, the management team has undertaken a review of certain balance sheet classifications. The 2018 balance sheet has been restated for errors in two areas. Firstly, £10m of the term loan has been disclosed as a current liability in line with the term loan agreement and repayment schedule. Secondly, a £2.6m accrual previously classified against the carrying value of inventory has been reclassified as a current liability. Neither reclassification has any impact on the statement of comprehensive income or total shareholder funds as reported in the prior year.

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

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

Pension schemes

We operate two defined benefit pension schemes, the TM Group Pension Scheme and the TM Pension Plan, both of which are closed to future accrual. The combined accounting surplus in the two defined benefit pension schemes operated by the Group decreased to £7.9m (2018: £11.9m). The last actuarial review of the two schemes in June 2017 concluded that the combined funding deficit was £12.6m, and the Group currently contributes approximately £2.1m per year, inclusive of fees and levies.

Cash flow and capital expenditure

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

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

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

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

Banking facilities

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

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

Financial outlook

We will continue to develop our customer proposition to leverage our brand recognition within the growing convenience sector. This will be combined with an equal focus on cost mitigation and cash generation; with the combined strategy to produce a growing customer proposition with a healthy and robust balance sheet and debt level.
I am very much looking forward to working with Jonathan and the team to further our strategic plans in 2020 and beyond.

Robbie Bell
Chief Financial Officer

Responsibility statement

The responsibility statement has been prepared in connection with the Company's full Annual Report for the period ended 24 November 2019. Certain parts of the annual report are not included in this announcement, as described in note 1.

We confirm that to the best of our knowledge:

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

By order of the board

Robbie Bell
25 February 2020

McColl's Retail Group

Consolidated Income Statement for the 52 week Period from 26 November 2018 to 24 November 2019

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

The above results were derived from continuing operations.

McColl's Retail Group

Consolidated Statement of Comprehensive Income for the 52 week Period from 26 November 2018 to 24 November 2019

	2019 **£ 000**	2018 £ 000
(Loss)/Profit for the period	(95,937)	6,851
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit pension scheme	(5,819)	859
Deferred tax on defined benefit pension scheme	706	(150)
Corporation tax on defined benefit pension scheme	306	-
Total comprehensive (loss)/income for the period	(100,734)	7,560

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

McColl's Retail Group

Consolidated Statement of Financial Position for the 52 week Period from 26 November 2018 to 24 November 2019

	Note	2019 £ 000	2018 Restated* £ 000
Assets			
Non-current assets			
Property, plant and equipment	8	77,113	92,314
Intangible assets	9	156,898	252,747
Deferred tax assets		1,350	97
Retirement benefit asset		11,502	14,122
Investments		-	36
Total non-current assets		246,863	359,316
Current assets			
Inventories		86,434	79,795
Trade and other receivables		39,036	41,984
Income tax asset		912	-
Cash and cash equivalents		36,999	28,547
Total current assets		163,381	150,326
Total assets		410,244	509,642
Equity and liabilities			
Current liabilities			
Trade and other payables		(215,534)	(215,986)
Loans and borrowings	10	(11,231)	(12,148)
Income tax liability		-	(673)
Provisions		(2,528)	(4,627)
Total current liabilities		(229,293)	(233,434)
Net current liabilities		(65,912)	(83,108)
Non-current liabilities			
Loans and borrowings	10	(119,887)	(114,989)
Other payables		(10,755)	(9,552)
Provisions		(3,186)	(1,042)
Deferred tax liabilities		(4,813)	(6,895)
Retirement benefit obligations		(3,645)	(2,250)
Total non-current liabilities		(142,286)	(134,728)
Total liabilities		(371,579)	(368,162)
Net assets		38,665	141,480

*see note 14

McColl's Retail Group

Consolidated Statement of Financial Position for the 52 week Period from 26 November 2018 to 24 November 2019

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

McColl's Retail Group

Consolidated Statement of Changes in Equity for the 52 week Period from 26 November 2018 to 24 November 2019

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

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

McColl's Retail Group

Consolidated Statement of Cash Flows for the 52 week Period from 26 November 2018 to 24 November 2019

	Note	**2019** **£ 000**	2018 Restated* £ 000
Cash flows from operating activities			
(Loss)/Profit for the period		(95,937)	6,851
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	4	16,676	17,054
Profit on disposal of property, plant and equipment		(1,497)	(14,994)
Profit from disposal of investments		(132)	-
Finance costs		8,203	8,017
Share-based payment transactions		121	-
Income tax (credit)/charge	5	(2,706)	1,016
Impairment losses		101,276	3,297
		26,004	21,241
Increase in inventories		(6,600)	(737)
Decrease/(increase) in trade and other receivables		2,948	(1,593)
Increase in trade and other payables		609	48,082
Decrease in retirement benefit obligation net of actuarial changes		(1,804)	(906)
Increase in provisions		45	568
Cash generated from operations		21,202	66,655
Income taxes paid		(1,205)	(4,811)
Net cash flow from operating activities		19,997	61,844
Cash flows from investing activities			
Acquisition of property, plant and equipment and other intangibles		(14,427)	(19,672)
Proceeds from sale of property, plant and equipment		11,499	27,410
Acquisition of businesses, net of cash acquired		(1,188)	(4,513)
Proceeds from investment disposals		84	-
Net cash flows from investing activities		(4,032)	3,225
Cash flows from financing activities			
Interest paid		(7,412)	(7,928)
Proceeds from issue of ordinary shares, net of issue costs		-	1
Draw down/(repayment) of bank borrowing	11	4,000	(29,000)
Payment of finance lease creditors	11	(1,741)	(1,858)
Interest payment to finance lease creditor		(172)	(148)
Dividends paid	6	(2,188)	(11,862)
Net cash flows from financing activities		(7,513)	(50,795)
Net increase in cash and cash equivalents		8,452	14,274
Cash and cash equivalents at beginning of period		28,547	14,273
Cash and cash equivalents at end of period		36,999	28,547

* see note 14

McColl's Retail Group

Notes to the Financial Statements for the 52 week Period from 26 November 2018 to 24 November 2019

1 Accounting policies

Basis of preparation

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

The Group financial statements have been prepared on the going concern basis and in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reported under IFRS. The financial information set out above does not constitute the Company's statutory accounts for the years ended 24 November 2019 or 25 November 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in March 2020.

The Group adopted IFRS 9 and IFRS 15 in the period. Management assessed the impact of the two new standards and concluded that they had no material impact to the Group. IFRS 9 has had no material impact on accounting policies or classification of financial instruments. IFRS 15 has had no material impact to the financial statements.

The Group will adopt IFRS 16 effective 25 November 2019 in the next financial year. IFRS 16 is expected to have a material impact on the financial statements, and the group will disclose in its annual accounts for year ended 24 November 2019 the likely impact.

The consolidated financial information is presented in sterling, the Group's functional currency, and has been rounded to the nearest thousand (£'000). The prior period was also a 52 week period.
The preparation of financial information in compliance with adopted IFRS requires the use of certain critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. It also requires Group management to exercise judgement in applying the Group's accounting policies.

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

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.

1 Accounting policies (continued)

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

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

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

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

The Directors have made this assessment 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 in September 2014.

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.

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, individually or, if of a similar type in aggregate, 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 3.

2 Revenue and other income

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

The analysis of the Group's revenue for the period from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Revenue		
Sale of goods	1,218,700	1,241,539
Other operating income		
Property rental income	3,004	3,249
ATM commission and other income	3,251	3,562
	6,255	6,811
	1,224,955	1,248,350

McColl's Retail Group

Notes to the Financial Statements for the 52 week Period from 26 November 2018 to 24 November 2019

3 Adjusting items

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

	2019 £ 000	2018 £ 000
Cost of Sales		
Supplier administration [a]	-	807
Supply chain transition [b]	-	621
Gross Loss	-	1,428
Administrative expenses		
Fines and compensation [c]	584	1,236
Supplier administration [a]	-	935
Supply chain transition [b]	-	4,306
Defined benefit pension scheme - past service cost [d]	-	641
Business reorganisation [h]	622	-
Goodwill impairment [i]	98,599	-
	99,805	7,118
(**Profits)/losses arising on property-related items**		
Sale and leaseback [e]	(3,257)	(11,941)
Store optimisation programme [f]	6,557	2,535
Fixed asset impairment [g]	2,677	3,297
	5,977	(6,109)
Finance Costs		
Store optimisation programme [f]	160	158
Tax effect on adjusting items	(3,608)	(1,762)
	102,334	833

a. Supplier administration

The administration of P&H, our primary supplier to c.700 newsagents and small convenience stores, on 28 November 2017 created stock availability issues in store. To address this stock availability and to minimise disruption we entered into a short-term contract with Nisa, a short-term contract with Fresh to Store, brought forward the commencement of the Morrison's contract, and introduced a new supply chain solution for tobacco, via Clipper Logistics. As such, the Group incurred additional one-off costs, which are not reflective of ongoing costs and therefore management has classified these as adjusting items. This resulted in a net cash outflow of £1.7m in 2018. There was no impact from this adjustment in the current year.

b. Supply chain transition

As a result of the integration of a new supply partner, Morrison's, material one-off costs of transitioning were incurred. These costs included £1.3m of additional payroll cost, £1.8m of marketing, £1.5m of store preparation, including costs associated with stock replacement and £0.3m of other costs. In line with the accounting policy for adjusting items, the additional costs incurred as a result of the transition are classified as adjusting items. This resulted in a net cash outflow of £4.9m in 2018. There was no impact from this adjustment in the current year.

3 Adjusting items (continued)

c. Fines and compensation

On 22 December 2017 the Group was found guilty of a health and safety breach relating to contractor works at a store and subsequently a fine of £612k was issued to the Group. This was disclosed as a contingent liability in the Annual Report 2017. Following the completion of a HMRC National Minimum Wage investigation the Group was fined £227k and paid arrears due to colleagues of £397k. Each of these fines are fully paid. Management classify these fines as adjusting items due to the non-recurring nature. A total of £1,236k for these fines was recognised in 2018. In 2019 the Group recognised £234k mainly professional fees related to the health and safety fine as well as £350k for a claim for historical asbestos related illness. The cash flow impact for the Group in 2019 was £234k

d. Past service cost

Management has classified the amount for Guaranteed Minimum Pension (GMP) equalisation as an adjusting item due to its non-recurring nature. In October 2018, the High Court ruled that Lloyds Banking Group will need to equalise pension benefits for the effect of unequal GMP between men and women, which dates back to 1990. The impact of the GMP calculation on our pensions was prepared following the C2 model. There was no cash impact from this adjustment. There was no impact from this adjustment in the current year.

e. Sale and leaseback

During the year the Group undertook a number of sale and leaseback transactions on its freehold property. In line with the accounting policy for adjusting items, management concluded that the profits relating to the sale and leaseback of property were significant and therefore not in line with ordinary business and should therefore be treated as adjusting. This resulted in a net cash inflow of £8.6m (2018: 26.7m).

f. Store optimisation programme

Management has undertaken an ongoing review of poor performing stores and have made the decision to close a material number of stores which are not economically viable to continue trading or strategically aligned. The majority of these stores are either near lease expiry or lease break date. The closure programme consists of stores which have either closed in 2019 or will close in 2020. Management has adjusted onerous lease provisions, impairment, and other costs in relation to the closures. Provisions are discounted to their present value at the reporting date, giving rise to a finance cost as the discount is unwound. Any other closures costs which cannot be reliably estimated at present, may also be adjusting in 2020. Management has classified these as adjusting due to the one-off nature of the closure programme. This resulted in a net cash outflow of £580k (2018: £861k).

g. 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. Further information can be found in note 8. There was no cash impact from this adjustment.

h. Business reorganisation

During the period the Group has been reviewing its operations, and has been focusing on improving productivity and efficiency. This has in turn led to material costs associated with restructuring, predominantly the cost of redundancies, resulting in a net cash outflow in the period of £622k.

i. Goodwill impairment

Management has assessed goodwill impairment at the end of the year according to IAS 36. In assessing impairment management has used value in use as it was higher than the market value of the business. The value in use cash flows were lower than the aggregate of the Group total assets and therefore indicating impairment which resulted in goodwill being impaired. Further information can be found in note 9. There was no cash flow impact in the year from this adjustment

4 Operating profit

Arrived at after charging/(crediting)

	Note	2019 £ 000	2018 Restated* £ 000
Depreciation and amortisation expense		16,676	17,054
Write-down of inventory recognised as an expense		17,587	16,471
Operating lease expense - property		36,961	35,868
Profit on disposal of property, plant and equipment		(1,497)	(14,994)
Impairment	8/9	101,276	3,297
Cost of inventories recognised as an expense		928,260	951,073

*restated profit on disposal of property, plant and equipment to be only proceeds less net book value

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 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 3.

	2019 £ 000	2018 £ 000
Adjusted EBITDA excluding property related items and share-based payments		
Operating profit before adjusting items	15,342	18,321
Depreciation and amortisation	16,676	17,054
Profits arising on property-related items	(39)	(416)
Share-based payments	121	-
	32,100	34,959

	2019 £ 000	2018 £ 000
Adjusted operating profit excluding property related items		
Operating profit before adjusting items	15,342	18,321
Less: Profits arising on property-related items	(39)	(416)
	15,303	17,905

5 Income tax

	2019 **£ 000**	2018 £ 000
Income statement		
Current tax:		
Current tax on profit for the period	507	2,858
Adjustments in respect of prior periods	(570)	(7)
	(63)	2,851
Deferred tax:		
Origination and reversal of temporary differences	(2,473)	(2,123)
Arising from change in tax rate	260	234
Adjustments in respect of prior periods	(430)	54
	(2,643)	(1,835)
Income tax (credit)/charge for the period	(2,706)	1,016
Equity items		
Share-based payment	14	92
Fixed assets	-	35
	14	127
Other comprehensive income		
Deferred tax in respect of actuarial valuation of retirement benefits	(706)	150
Corporation tax in respect of actuarial valuation of retirement benefits	(316)	-
	(1,022)	150

5 Income tax (continued)

The differences are reconciled below:

	2019 £ 000	2018 £ 000
(Loss)/profit before tax	(98,643)	7,867
Tax on profit calculated at standard rate for 2019 of 19.00% (2018: 19.00%)	(18,742)	1,495
Fixed assets	(10)	-
Expenses not deductible	407	817
Goodwill impairment	16,755	-
Deferred tax on share options	31	55
Adjustments in respect of prior years	(1,000)	47
Arising from change in rate of tax	260	234
Exempt amounts	721	605
Disposal of business combination assets	(1,128)	(2,237)
Total tax (credit)/charge	(2,706)	1,016

Changes to the UK corporation tax rates were enacted as part of Finance Bill 2015 on 18 November 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A subsequent change to reduce the UK corporation tax rate to 17% from 1 April 2020 was enacted as part of Finance Bill 2016 on 6 September 2016.

The tax credit for the 52 week period was £2,706,000, (2018: £1,016,000 charge) representing a rate of 2.7% (2018: 12.9%). The comparable effective rate of tax in 2019 excluding the impact of non-deductible adjusting items was 12.4% (2018: 26.6%). The difference between the current and statutory rate of 19.0% in the period is due principally to goodwill impairment which had limited tax relief.

Amounts recognised in other comprehensive income:

	2019			**2018**		
	Before tax £ 000	**Tax benefit £ 000**	**Net of tax £ 000**	**Before tax £ 000**	**Tax (expense) £ 000**	**Net of tax £ 000**
Remeasurements of post-employment benefit obligations	(5,819)	1,022	(4,797)	859	(150)	709

6 Dividends

	2019 £ 000	2018 £ 000
Interim 2019 dividend of 1.3p (2018: 3.4p) per ordinary share	1,497	3,916
Final 2018 dividend of 0.6p (2017: 6.9p) per ordinary share	691	7,946
	2,188	11,862

The Directors are not proposing a final 2019 dividend (2018: 0.6 pence)

7 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the period attributable to shareholders by the weighted average number of shares.

	2019	2018
Basic weighted average number of shares	115,177,335	115,173,145
Diluted weighted average number of shares	115,296,380	115,331,969
(Loss)/profit attributable to ordinary shareholders (£'000)	(95,937)	6,851
Basic (losses)/earnings per share	(83.30)p	5.95p
Anti-diluting (losses)/diluted earnings per share	(83.30)p	5.94p
Adjusted earnings per share:		
(Loss)/profit attributable to ordinary shareholders (£'000)	(95,937)	6,851
Adjusting items (note 3) (£’000)	105,942	2,595
Tax effect of adjustments (£’000)	(3,608)	(1,762)
Profit after tax and before adjusting items (£’000)	6,397	7,684
Basic adjusted earnings per share	5.55p	6.67p
Diluted adjusted earnings per share	5.55p	6.66p

The difference between the basic and diluted average number of shares represents the dilutive effect of share options in existence. As 2019 has an overall loss the shares are not diluting.

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

	2019	2018 As restated*
Ordinary shares in issue at the start of the period	115,173,515	115,172,774
Effects of shares issued during the period	3,820	371
Weighted average shares in issue during the year	115,177,335	115,173,145
Effect of shares to be issued for the long term incentive plan (LTIP)	119,045	158,824
Weighted average number of ordinary shares at the end of the period	115,296,380	115,331,969

*Effect of shares issued during the period are now weighted and the effect of shares to be issued for LTIPs revised.

8 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 27 November 2017	68,003	110,151	178,154
Additions	5,849	13,968	19,817
Acquired through business combinations	726	1,314	2,040
Disposals	(15,473)	1,429	(14,044)
Transfers to software	(1,133)	-	(1,133)
At 25 November 2018	57,972	126,862	184,834
At 26 November 2018	57,972	126,862	184,834
Additions	3,238	9,482	12,720
Acquired through business combinations	430	95	525
Disposals	(8,448)	(4,689)	(13,137)
Transfers to software	(290)	-	(290)
At 24 November 2019	**52,902**	**131,750**	**184,652**
Depreciation			
At 27 November 2017	17,077	57,512	74,589
Charge for period	4,678	11,678	16,356
Eliminated on disposals	(349)	(1,279)	(1,628)
Impairment	-	3,297	3,297
Transfers to software	(94)	-	(94)
At 25 November 2018	21,312	71,208	92,520
At 26 November 2018	21,312	71,208	92,520
Charge for the period	4,590	11,237	15,827
Eliminated on disposals	(320)	(2,815)	(3,135)
Impairment	1,816	861	2,677
Transfers to software	(350)	-	(350)
At 24 November 2019	**27,048**	**80,491**	**107,539**
Carrying amount			
At 24 November 2019	**25,854**	**51,259**	**77,113**
At 25 November 2018	36,660	55,654	92,314

8 Property, plant and equipment (continued)

During the year the Group disposed of property in sale and leaseback transactions, the net book value of these properties at disposal was £5,320,000 (2018: £13,855,000).

Included within fixtures and fittings is £4,196,000 of finance lease assets (2018: £4,655,000).

For impairment testing the Group classes each branch as a CGU (cash generating unit). Each CGU was tested for impairment at the period end date. Management recognise an impairment where the recoverable amount of the CGU does not exceed its carrying value at the balance sheet date. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group's cash flow forecast for a five-year period, which has been approved by management. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a pre-tax weighted average cost of capital (WACC) of 11.5% (2018: 11.75%). Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis.

Further detail of our considerations and sensitivities are included within going concern assessment.

The annual impairment testing resulted in an impairment charge of £2,677,000 (2018: £3,297,000) against branch assets.

9 Intangible assets

	Goodwill £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation			
At 27 November 2017	251,551	6,801	258,352
Additions	2,029	1,478	3,507
Transfers from PPE	-	1,133	1,133
At 25 November 2018	253,580	9,412	262,992
At 26 November 2018	253,580	9,412	262,992
Additions	745	2,933	3,678
Disposals	-	(21)	(21)
Transfers from PPE	-	290	290
At 24 November 2019	**254,325**	**12,614**	**266,939**
Amortisation			
At 27 November 2017	4,234	5,219	9,453
Amortisation charge	-	698	698
Transfers from PPE	-	94	94
At 25 November 2018	4,234	6,011	10,245
At 26 November 2018	4,234	6,011	10,245
Amortisation charge	-	849	849
Eliminated on disposals	-	(2)	(2)
Impairment	98,599	-	98,599
Transfers from PPE	-	350	350
At 24 November 2019	**102,833**	**7,208**	**110,041**
Carrying amount			
At 24 November 2019	**151,492**	**5,406**	**156,898**
At 25 November 2018	249,346	3,401	252,747

9 Intangible assets (continued)

Amortisation expenses of £849,000 (2017: £698,000) are included in administrative expenses.

Goodwill acquired in a business combination is not amortised, but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Management recognise an impairment where the carrying amount is more than the recoverable amount of the CGU. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the CGU. For the purposes of goodwill, in line with the accounting policy, the business manages and makes decisions as one group of CGUs and therefore impairment is assessed on that single group. Management has used value in use of the CGU as the recoverable amount as it was higher than total enterprise value. The value in use was calculated as a discounted cash flow model and management has determined the values assigned to each of the key assumptions.

The key assumptions for the value in use calculation include the discount rate, long-term growth rates and forecast cash flows. The value in use calculations use forecast cash flows taking into account actual performance for the year and the Group’s cash flow forecast for a 5-year period, which has been approved by the Board. Cash flows beyond this period are extrapolated using a long-term growth rate of nil and discounted with a pre-tax weighted average cost of capital (WACC) of 11.5% (2018: 11.75%). Management extrapolated the cash flows to perpetuity with a growth rate of nil as this was considered to be a prudent basis.

Budget and forecast EBITDA is taken as the starting position for cash flows and any benefit from future new business and the associated expenditure to acquire the new business is excluded.

The budget and long term forecasts will have taken into consideration future business environment and will include assumptions on growth of revenue and increase in costs such as minimum wage increases. Revenue growth has been assumed at an average of 1% annual growth for the five-year period. Wage inflation is assumed at around 3% per annum whilst general cost inflation is assumed at an average annual growth rate of 2%. In comparison to 2018 assumptions a reduction of annual margin improvement and a downgrade on the outlook for sales growth has been assumed. It is this lower expectation of sales and margin improvement which has materially reduced the recoverable amount.

The recoverable amount per value in use calculations was £228.6m versus the CGUs carrying amount of £327.2m resulting in an impairment charge of £98.6m (2018: nil) included in administrative expenses in the income statement.

Sensitivity analysis

Change in discount rate
The Group has conducted sensitivity analysis on the impairment testing for goodwill. With reasonable possible changes in key assumptions including a 0.5 percentage point change in WACC, which would change the impairment by £10m.

Budgeted cash flows
Management has conducted sensitivity analysis on the CGUs value in use by reducing the anticipated future cash flows. A reduction of 0.5% in LFL sales would increase the impairment by £12m.

10 Loans and borrowings

	2019 £ 000	2018 Restated* £ 000
Current		
Bank borrowings	10,000	10,000
Finance lease liabilities	1,231	2,148
	11,231	12,148
Non-current loans and borrowings		
Bank borrowings	119,500	115,500
Unamortised issue costs	(962)	(1,458)
Finance lease liabilities	1,349	947
	119,887	114,989

*see note 14

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

The current facility drawn as at 24 November 2019 is £129,500,000 (2018: £125,500,000).

In November 2018, the Group amended some of the terms of the existing facility. The Group has an amortising £77,500,000 term loan and a £100,000,000 revolving facility with a £50,000,000 accordion.

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

	2019 £ 000	2018 Restated* £ 000
Term Loan and revolving credit facility available until July 2021	119,500	115,500
Finance lease liabilities	1,349	947
	120,849	116,447

*see note 14

11 Net debt

	2019 £ 000	2018 £ 000
Cash at bank and in hand	36,999	28,547
	36,999	28,547
Term loan and revolving credit facility available until July 2021	(129,500)	(125,500)
Less: unamortised issue costs	962	1,458
	(128,538)	(124,042)
Amounts due under finance lease obligations	(2,580)	(3,095)
Net debt	(94,119)	(98,590)

11 Net debt (continued)

Analysis of net debt

	2018 £ 000	Cash flow £ 000	Non cash movement: Amortisation of issue costs £ 000	Non cash movement: Finance lease additions £ 000	Non cash movement: Non-current to Current movement £ 000	2019 £ 000
Bank borrowings						
Current	(10,000)	10,000	-	-	(10,000)	(10,000)
Non-current	(114,042)	(14,000)	(496)	-	10,000	(118,538)
Sub total	(124,042)	(4,000)	(496)	-	-	(128,538)
Finance lease liabilities						
Current	(2,148)	1,741	-	(319)	(505)	(1,231)
Non-Current	(947)	-	-	(907)	505	(1,349)
Sub total	(3,095)	1,741	-	(1,226)	-	(2,580)
Arising from financing activities	(127,137)	(2,259)	(496)	(1,226)	-	(131,118)
Cash at bank and in hand	28,547	8,452	-	-	-	36,999
Net Debt	**(98,590)**	**6,193**	**(496)**	**1,226**	**-**	**(94,119)**

In the period interest was charged as follows current bank borrowings £615k (2018: £531k), non-current bank borrowings £5,901k (2018: £5,812k), current finance leases £92k (2018: £92k) and non-current finance leases £80k (2018: £56k).

	2017 £ 000	Cash flow £ 000	Non cash movement: Amortisation of issue costs £ 000	Non cash movement: Finance lease additions £ 000	Non cash movement: Non-current to Current movement £ 000	2018 £ 000
Bank borrowings						
Current	(10,000)	10,000	-	-	(10,000)	(10,000)
Non-current	(142,968)	19,000	(74)	-	10,000	(114,042)
Sub total	(152,968)	29,000	(74)	-	-	(124,042)
Finance lease liabilities						
Current	(1,799)	1,858	-	(996)	(1,211)	(2,148)
Non-Current	(1,754)	-	-	(404)	1,211	(947)
Sub total	(3,553)	1,858	-	(1,400)	-	(3,095)
Arising from financing activities	(156,520)	30,858	(74)	(1,401)	-	(127,137)
Cash at bank and in hand	14,273	14,274	-	-	-	28,547
Net Debt	**(142,247)**	**45,132**	**(74)**	**(1,401)**	**-**	**(98,590)**

12 Authorised, issued and fully paid share capital

	Number of ordinary shares 0.1 pence each	Share capital £ 000	Share premium £ 000
At 26 November 2018	115,173,515	115	12,580
Shares issued during the period	20,394	-	-
At 24 November 2019	115,193,909	115	12,580

The Group issued 20,394 ordinary shares at 0.1 pence per share equal to the nominal value of £20 as part of exercising LTIP share options.

The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid.

The Group did not acquire any of its own shares for cancellation in the 52 weeks ending 24 November 2019 or 52 weeks ending 25 November 2018.

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

13 Related party transactions

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

	2019 £ 000	2018 £ 000
Salaries and other short term employee benefits	1,935	1,917
Share-based payments	86	29
	2,021	1,946

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

14 Prior Year Restatements

1. At 25 November 2018 the total value of the term loan was disclosed as a non-current liability. The element of the term loan that is due within the next 12 months (£10m) is now included within current liabilities, which is consistent with the payment schedule within the term loan agreement. Management has corrected the error within the 2018 statement of financial position by reclassifying £10m as a current liability.

2. Management has reviewed the accounting for the purchase of inventory across the product portfolio. As at 25 November 2018 an accrual of £2.6m was incorrectly classified against the carrying value of inventory. Management has corrected the error within the 2018 statement of financial position by reclassifying £2.6m as a current liability within accruals.

Neither of the above has any impact on the statement of comprehensive income or total shareholder funds previously reported. The consolidated statement of cash flows has been restated to take into account the £2.6m reclassification above, with the appropriate amendment made to the disclosure of 'increase in inventories' (reduced by £2.6m) and 'increase in trade and other payables’ (increased by £2.6m) in the statement, both of which net to a £nil impact to previously reported cash generated from operations. The consolidated statement of cash flows has been further restated to remove £1.4m from cash flows from acquisition of property, plant and equipment within net cash flows from investment activities, which was financed by finance leases (with the corresponding increase of £1.4m made to payment of finance lease creditors, within net cash flows from financing activities). There has been no change to the total net increase in cash and cash equivalents previously reported.

15 Subsequent Events

Management has evaluated subsequent events through 25 February 2020, which is the date the consolidated financial statements were available to be issued.

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

Principal Risks and Uncertainties

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

At present, the Board, with the assistance of the Audit & Risk Committee, considers the following to be the principal risks facing the Group.

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

		• Property management is a key function with regular review processes in place, including a full maintenance strategy review • We minimise energy costs by combining energy efficiency initiatives and forward purchasing • We retender external contracts to ensure they remain market-competitive • We have an ongoing programme of estate optimisation to remove unprofitable and marginal stores
Availability of funding/cash (increased)	The main financial risks are the availability of short- and long-term funding to meet business needs, fluctuations in interest rates, movements in energy prices and other post-Brexit impacts.	• We produce daily cash forecasts covering at least the next three periods • We work with our banking syndicate, with regular communication to manage our funding and leverage position • The existing bank facilities (due to expire in July 2021) have been subject to early engagement with our lenders, and discussions are well advanced to amend and extend • There is a full working capital initiative in place, to bolster the cash position, through review of stock levels and supplier terms • The programme of estate optimisation targets a level of proceeds, from the sale of stores to further improve the cash position • The freehold Head Office has recently been subject to an approved application to convert to housing, resulting in a successful sale to release cash proceeds; a relocation to a leased Head Office is scheduled for the summer
Strategic Vision (Maintained)	If the Board either adopts the wrong strategy or does not implement its strategy effectively business performance and reputation may suffer.	• Our strategic development is led by an experienced Board, Executive and Senior Leadership Team • An annual strategic review takes place alongside our budget-setting process • The McColl's strategy is widely communicated and understood across the business • Business plans are developed, monitored and reviewed against strategic KPIs with a newly created Programme Management function to operationalise • Senior Management are incentivised with performance-

		related rewards to deliver our strategic goals
Macro-Economic Factors (Increased)	All our revenue is generated in the UK. Any deterioration in the UK economy, for example as a consequence of Brexit, could affect consumer spending and cost of goods, which in turn would impact our sales and profitability.	• We sell food and household essentials which are considered to be less discretionary than other competing spend areas • We offer a wide range of services, such as post office and 'last mile' internet package collection/delivery which helps sustain footfall • The majority of stores are local area, community based, with lower exposure to high street footfall • Our flexible business model allows us to respond to changes in customer behaviour, for example, by adapting our ranges • We are growing our range of own brand products through the rollout of Safeway • We are working with supply partners and manufacturers to build our Brexit contingency plans • Our supply chain partner, Morrisons, has undertaken significant planning pre-Brexit (including becoming an authorised economic operator)
Customer Trends (Maintained)	We operate in a competitive environment, which is continually changing and has been subject to ongoing consolidation. Failure to maintain market share could have an adverse effect on our core business.	• We monitor competitor activity, customer trends and feedback • Regular meetings are held with key suppliers to discuss evolving trends and options to optimise our offer • Customer awareness programmes combine both local and national initiatives, supported by digital marketing • The format and customer feel for our estate is developed through defined store trials, encapsulating latest internal and external thinking on our brand credentials • Supermarket grade product, accessed through our supply partners are deployed in store to differentiate our offer • We operate, as part of our ongoing strategic development a test and learn approach to new customer initiatives, to assess options for format development
Crime/Colleague Welfare (Increased)	We need to provide and maintain a safe environment for our colleagues and customers. Failure to do so restricts the ability to recruit new colleagues and impacts negatively to the willingness	• We monitor, on a weekly basis key incidents concerning colleague welfare • Stores are categorised by security and safety risk, with measures deployed accordingly; ranging from

	of customers to frequent our stores.	physical security to internal asset protection devices • The internal Risk Committee meets regularly, and specifically considers colleague safety and available options to provide heightened assurance to colleagues and deter anti-social behaviour in our stores • Latest technological advancements are considered by the Group Health, Safety & Compliance Committee to further enhance safety and security, ranging from 'staff safe' audio connectivity to 'staff cam' visual recording deterrents

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 year 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: 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.

APM	Closest equivalent IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement ***Revenue measures***			
Sales mix	No direct equivalent	Not applicable	The relative proportion or ratio of products sold compared to the same period in the prior year.
Like-for-like (LFL)	IFRS Revenue	Revenue YE18 £1,242m Add VAT £153m Excl. non store rev. £(170)m Excl. acq/closures £(62)m **LFL Sales 2018 £1,163m** Revenue 2019 £1,219m Add VAT £150m Excl. non store rev. £(171)m Excl. acq/closures £(35)m **LFL Sales 2019 £1,163m** **LFL% 0.0%**	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 4	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 7	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 7	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 11	Net debt comprises bank and other borrowings, finance lease payables, and net interest receivables/payables, offset by cash and cash equivalents and

			short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.

Other

Capital expenditure (Capex): The additions to property, plant and equipment and intangible assets.

Grocery lines: This includes ambient, fresh, frozen and household groceries, and food-to-go, but excludes impulse categories (including confectionery, crisps and snacks, soft drinks and ice cream), general merchandise, news and magazines, and services.

Quarter: The 'first quarter' refers to the 13-week period from 26 November 2018 to 24 February 2019, 'second quarter' refers to the 13-week period from 25 February 2019 to 26 May 2019, 'third quarter' refers to the 13-week period from 27 May 2019 to 25 August 2019 and 'fourth quarter' refers to the 13-week period from 26 August to 24 November 2019.

Profits/(losses) arising on property-related items: This relates to the Group's property activities including: gains and losses on disposal of property assets, sale and lease back of freehold interests; costs resulting from changes in the Group's store portfolio, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail operations of the business. They can be one-time in nature and can have a disproportionate impact on profit between reporting periods.