

MajesticWineplc

Annual Report and Accounts 2018

MAKING HEADWAY DESPITE HEADWINDS



Full steam
ahead



We are making headway despite headwinds. This past year we:

- **Delivered profitable growth despite a tough UK market, which is a testament to our people, our international positioning and the robustness of our model**
- **Achieved greater efficiency throughout the business**
- **Paid down our debt to below our target gearing level, as well as extending our access to borrowing should we need it**

Looking forward, we expect the UK market to remain tough, possibly even tougher than last year. Certainly trading since year end has been harder than prior year in the UK. Despite this we expect to hit FY19 market expectations* because unlike most retailers:

- **We are able to generate growth through profitable customer acquisition, even in tough markets**
- **20% of our business takes place in the growth markets of the USA and Australia, 45% of Group sales are online**
- **We have already, or will shortly, complete projects that eliminate unproductive work, freeing up our people to engage with customers and allowing us to reduce cost**

If the UK is headed for a retail crisis, as some commentators are suggesting, then we are planning for a great crisis. We founded Naked Wines during the financial crisis of 2008 and proved that investing in acquiring customers and generating loyalty through great products and service will drive profitable growth even in a tough market.

Rowan Gormley
Chief Executive

**TIME POOR?
LIFT HERE FOR THE
1 MINUTE MUST READ!**



* Analyst consensus estimates can be found on majesticwineplc.co.uk

Forward-looking statements This Annual Report contains certain forward-looking statements with respect to the operations, strategy, performance, financial condition and growth opportunities of the Group. By their nature, these statements involve uncertainty and are based on assumptions and involve risks, uncertainties and other factors that could cause actual results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and, other than in accordance with its legal and regulatory obligations, the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.



Sticky customers
created by
brilliant people
and data

READ MORE ABOUT OUR
STICKY CUSTOMERS 14

CREATING STICKY CUSTOMERS
#16
Show compassion

I hope you are well and delighted to see that business continues to go from strength to strength.

I wanted to drop you a note to relay a story.

My mother (69 years old) fell and broke her wrist yesterday. She was heading home when she had her fall and had planned to drop into Majestic to get some wine. Being my mother she decided to still go to Majestic!

When she got there they looked after her, gave her a glass of water, called NHS Direct and got her in a cab (who refused to take money). Before she headed to the hospital (to get a cast) they agreed to deliver her wine today. Today your crew turned up with flowers, chocolate and wine!

I don't know who the crew at your store are but they are doing you proud. Please thank them from a very grateful son!



In a nutshell

Two and half years into our 3-year transformation plan, we are in reasonable shape – a better business in a tougher market.

Where are we?

- Delivering profitable growth
- We have the means to grow faster
- And we have a solid platform to grow on

Now we plan to keep doing what we are doing – because it is working. But we plan to do it faster and better.

Faster We plan to double our investment in new customer acquisition from £14m a year to £28m – of which we plan to deliver an increase of £5m–£8m additional investment in FY2019.

Better Our goal is to make ourselves unbeatable in our chosen markets, by reinforcing and growing our competitive advantages.

Have we wet your whistle?
Turn to page **06** to read
the longer version of our
Accelerating growth plan.





Our strategic goal:
Generate shareholder value by acquiring and keeping customers

SEE OUR TIMELINE 04

Our financial goal:
To increase annual generation of future value from £66m to over £112m a year

SEE CHIEF EXECUTIVE'S LETTER 06

Our business model:
A long-term compounding growth business that gets stronger with scale

SEE OUR BUSINESS MODEL 13

ABOUT US

Majestic Wine plc is a quality wine specialist, with over 1 million customers in the UK, USA, Australia and France. Our goal is to try to beat the market by investing in customer relationships, rather than opening stores. We do that through:

- ➔ Investing in business models that compound, i.e. models that get stronger with growth.
- ➔ Investing with discipline, because we are able to test new opportunities before we roll them out.
- ➔ Using data and technology to continuously improve – every quarter we double up on our best performing investments and cancel the worst performers.

HOW WE MEASURE OUR SUCCESS – OUR INVESTMENT KPIs

-  **Sales to new customers** Revenues from new customers in the period
-  **Investment in new customers** The sum of all investments in new customers in the period
-  **Life time return** A forecast of the multiple of cash returned from the investment by year 20
-  **Repeat customer sales** The total sales from repeat customers in the period
-  **Repeat customer sales retention** The level of sales delivered in the year from the repeat customers in place a year ago, expressed as a % of the prior year's sales
-  **Repeat customer contribution** The contribution earned from sales to repeat customers

SEE OUR KPIs 20 AND 21

Strategic report

Where we've come from, and looking at where we're going...

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Review of the year

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SEE INFORMATION ON ALTERNATIVE PERFORMANCE MEASURES AND DEFINITIONS ON PAGES 101 TO 104

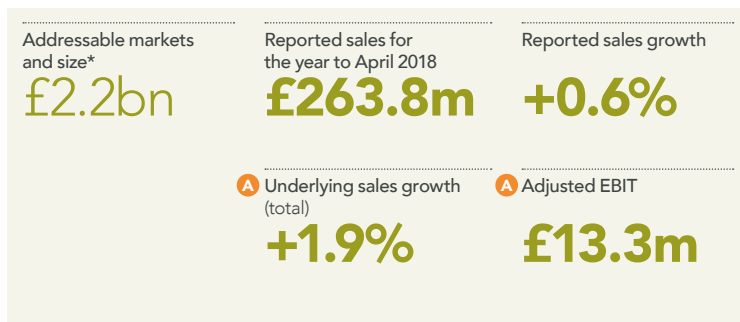
Majestic Wine plc at a glance

The Group More than 1 million customers, 200+ branches,



MajesticWine

The UK's largest specialist wine retailer. We help people find the wines they will love by employing highly engaged, well-trained people equipped with state of the art tools and leading wines.



A Repeat customer sales retention

92%

Key projects this year

- ➔ New website
- ➔ Franchise-Lite
- ➔ Single customer view and data tools

Competitive advantages

- ➔ People – c.1,000 helpful, friendly and trained team members (we employ wine lovers, not shelf stackers!)
- ➔ We control the last mile delivery
- ➔ We have data on what our customers like and don't like

Proposition

We help you discover wines you will LOVE.

Why invest in us?

Cash generative retail business transforming into a multi-channel business.

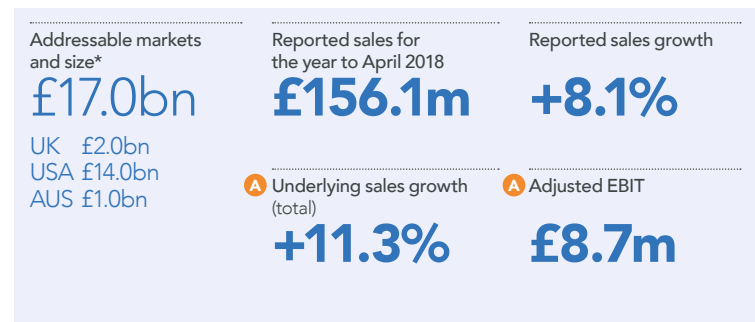
To provide a meaningful comparison with last year, operating performance commentary is stated on an underlying basis which means:

- ➔ En primeur revenues are included in year of order, not year of fulfilment
- ➔ Calculated using constant foreign exchange rates for translation
- ➔ Adjusting the prior year to a 52-week period, comparable to the current year
- ➔ Shows IT costs reallocated to PLC on a consistent basis

A full reconciliation between our reported numbers and these underlying measures is provided on each divisional reporting page.



Naked Wines funds independent winemakers, who make exclusive wines at preferential prices. We pass those prices on to our customers and customise our recommendations to them using 7 million reviews.



A Repeat customer sales retention

83%

Key projects this year

- ➔ Website improvements
- ➔ Development of customer acquisition channels

Competitive advantages

- ➔ The model delivers better wine for less money, and customers become friends with the winemakers

Proposition

Making luxury wines affordable by supporting winemakers.

Why invest in us?

Subscription business model with direct marketing expertise and multi-year customer retention.

* Source: Internal Company figures.

4 brands, 4 countries, 6 websites, £19.2bn target market.



Wine Specialists Commercial

An on-trade supplier that helps businesses to make their wine lists more profitable by offering national pricing and scale with local delivery and training.

Addressable markets and size*

£2.0bn

Reported sales for the year to April 2018

£43.4m

Reported sales growth

-7.0%

A Underlying sales growth (total)

-5.6%

A Adjusted EBIT

£2.4m

Key projects this year

- ➔ New Managing Director appointed in April 2018
- ➔ Re-structured teams

Competitive advantage

- ➔ Only company offering local service with national scale and pricing

Proposition

We help you make more money from your wine lists.

Why invest in us?

Focused on an unloved section of the trade market.

LAY & WHEELER

INTERNATIONAL WINE MERCHANTS SINCE 1854

A specialist fine wine merchant. Our expertly-trained people help customers discover fine wine reliably.

Addressable markets and size*

£0.7bn

Reported sales for the year to April 2018

£14.5m

Reported sales growth

-1.1%

A Underlying sales growth (total)

+0.2%

A Adjusted EBIT

£0.9m

Key projects this year

- ➔ Fine Wine Discovery Club

Competitive advantage

- ➔ A highly trained sales team that knows how to make fine wine accessible for everyone

Proposition

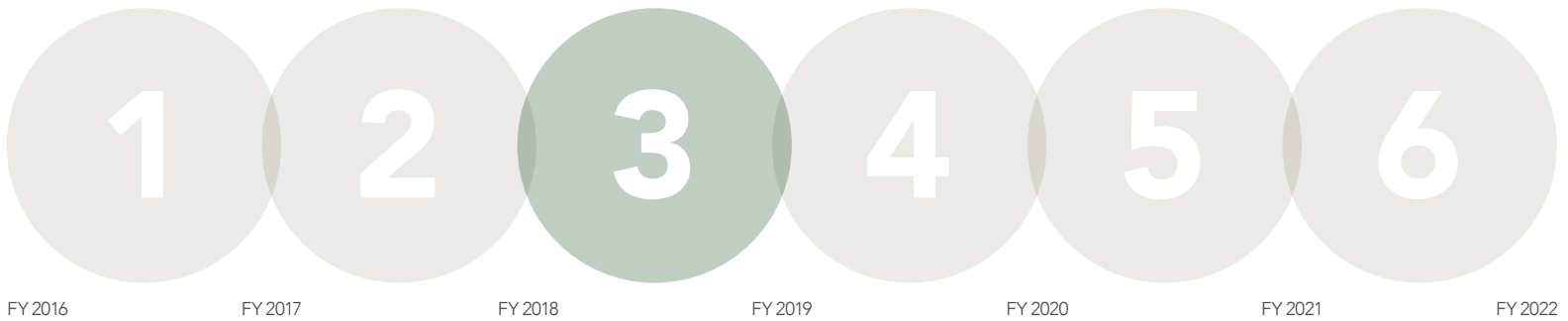
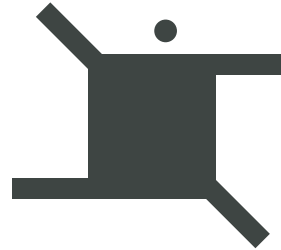
We help you discover fine wine risk-free.

Why invest in us?

Creating a business opportunity out of the demise of en primeur.

Our timeline Creating a compound growth model

As we reach the end of the transformation phase, we are now ready to accelerate growth, increasing levels of investment, within our existing businesses and geographies:



THE TRANSFORMATION PLAN

Goal: To achieve £500m in sales by 2019

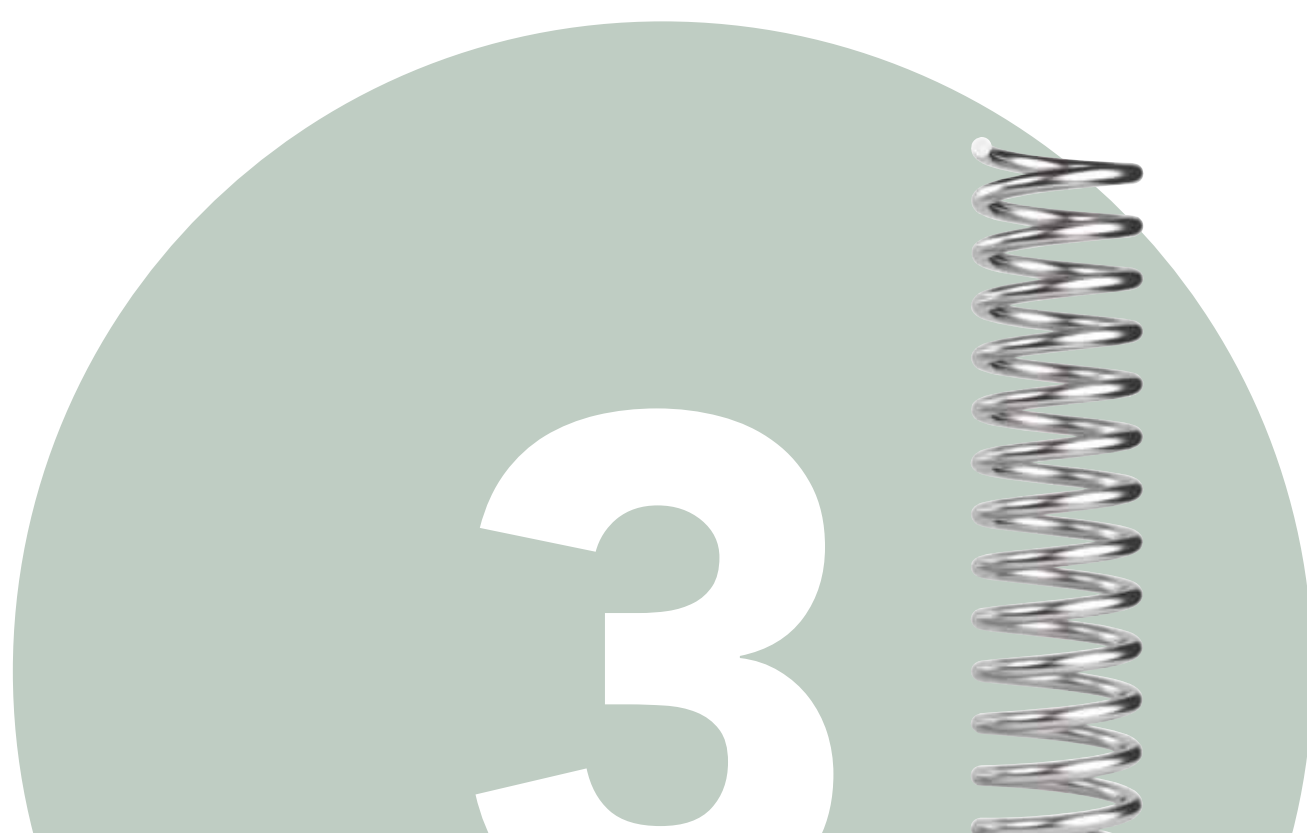
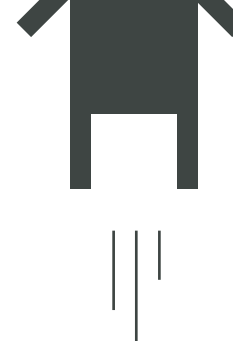
ACCELERATING GROWTH

Goal: To increase annual generation of future value* from £66m to £112m+ a year



* Future value = investment in new customer acquisition multiplied by expected payback.

Neil Armstrong
eat your heart out!



Where are we now?

- ➔ **Retail** Business fundamentals now in place. Investment to shift to customers rather than just the proposition
- ➔ **Naked Wines** Poised for growth, investment in new customer acquisition and research and development accelerating
- ➔ **Commercial** Business fundamentals still need fixing. New Managing Director hired in April 2018
- ➔ **Lay & Wheeler** Requires investment in research and development for new customer acquisition

Three out of four of our businesses are now ready to accelerate growth

Retail basics

- ➔ Best in class customer experience
- ➔ Market leading range

Structure for growth

- ➔ Right wine, right place, right time
- ➔ Joined up IT and multi-channel

Accelerate

- ➔ Proven ROI, ready for growth

Retail



Naked Wines



Commercial



Lay & Wheeler



SEE OUR BUSINESS REVIEW ON PAGE 22

THE ACCELERATING GROWTH PLAN

Chief Executive's letter
**Keep doing what we are doing.
But do it faster and do it better.**



Dear shareholders, suppliers and staff,

The short story

Over two years into our 3-year transformation plan, we are in reasonable shape – a better business in a tougher market.

Where are we?

- ➔ Delivering profitable growth
- ➔ With the means to grow faster
- ➔ And a solid platform for growth

Now we plan to keep doing what we are doing – because it is working. But we plan to do it faster and better.

Faster – We plan to double our investment in new customer acquisition from £14m a year to £28m – of which we plan to deliver an increase of £5m–£8m in FY2019, depending on the opportunities available that meet our investment criteria.

Better – I am going to devote most of this letter to what we plan to do better. Our goal is to make ourselves unbeatable in our chosen markets, by reinforcing and growing our competitive advantages.



Update on the 2018 financial year

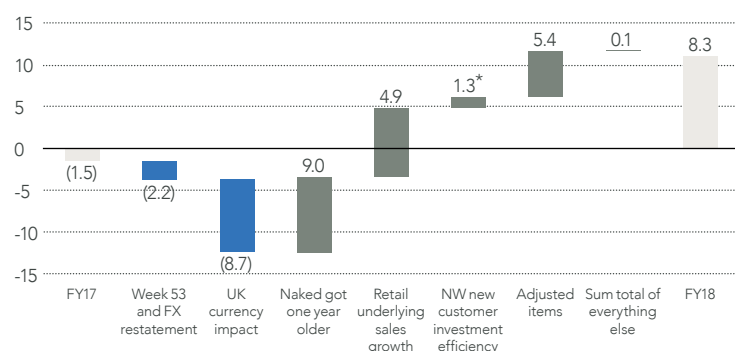
As a Group we delivered a £10m improvement in reported profit before tax to £8.3m (FY17: loss of £1.5m), of which £6.6m was underlying growth in adjusted profit before tax. This was driven by 4.0% underlying growth in revenue, which is satisfactory, but only just.

The Board reviews the results on an underlying basis. At a divisional level, the picture looked like this:

A UNDERLYING				
BUSINESS	REVENUE £M	% CHANGE	A ADJUSTED EBIT £M	% CHANGE
Majestic Retail	£263.8	+1.9	£13.3	+0.4
Naked Wines	£156.1	+11.3	£8.7	+571.2
Majestic Commercial	£43.4	-5.6	£2.4	+1.7
Lay & Wheeler	£14.5	+0.2	£0.9	-1.0

KEY DRIVERS OF PERFORMANCE IN 2018

Group Reported PBT FY18, £m



1. The impact of currency and duty increases in the UK – since 2015 average market bottle prices should have gone up by 60p but actually only increased by 21p. We estimate our UK COGS increased by £8.7m due to currency movements.
2. Naked Wines got one year older – because we are investing £14m a year in new customer acquisition (NCA) in Naked, and delivered a forecast 4.7x payback on that in FY18. Every year that goes by sees our contribution from existing customers grow. In this year it grew by £6.9m. As expected, sales growth slowed in Naked to 11.3% as a result of the previously announced reduction in investment in new customer acquisition in H1 FY18.
3. Majestic Retail managed to deliver nearly 2% underlying revenue growth – offsetting £4.9m of the COGS pressure but resulting in gross profit all but flat.
4. Improved efficiency of new customer investment – we added the same amount of future value but spent £0.8m* less to get it (4.7x forecast payback vs 4.4x for FY17 investments).
5. The non-cash items, generally costs, that we adjust out of our underlying performance shrank by £5m – mainly due to the non-cash charges relating to the Naked Wines acquisition beginning to drop away with time.

A SEE INFORMATION ON ALTERNATIVE PERFORMANCE MEASURES AND DEFINITIONS ON PAGES 101 TO 104

* £1.3m is the total of £0.8m reduction in new customer investment and £0.5m of YoY COGS impact.

Our KPIs take time to respond to our initiatives but we are seeing signs of improvement across the Group:

Transformation KPIs

KPI	DEFINITION	MAJESTIC RETAIL	NAKED WINES	MAJESTIC COMMERCIAL	LAY & WHEELER
A Repeat customer sales retention	Our new KPI – The level of sales delivered in the year from the repeat customers in place a year ago, expressed as a % of the prior year sales	92% FY17: 96%	83% FY17: 83%	83% FY17: 87%	N/A FY17: N/A
Product availability	% of targeted range available in stores/on websites as indicated by our inventory reporting	86% FY17: 82%	90% FY17: 85%	90% FY17: 79%	N/A FY17: N/A
Team retention	% of key staff (e.g. store managers) as of 12 months ago still working per payroll records	81% FY17: 74%	94% FY17: 64%	71% FY17: 62%	100% FY17: 79%
Wine quality	% of 'Yes' scores in the last 12 months as recorded by websites/apps	89% FY17: 91%	91% FY17: 90%	N/A FY17: N/A	N/A FY17: N/A
Proportion of 5* service ratings	% of service ratings scoring 5* in last 12 months as recorded by websites/apps /telephone feedback	89% FY17: 87%	90% FY17: 89%	N/A† FY17: 62%	N/A† FY17: 93%

† Majestic Commercial and Lay & Wheeler did not collect enough customer ratings in the year to measure this accurately.

A full description of all KPIs is shown on pages 20 and 21.

And how do we expect those to play out in 2019?

- ➔ Naked will get another year older – so the £14m we invested in 2018 will deliver additional contribution in 2019
- ➔ We will increase investment in new customer acquisition by £5m–£8m
- ➔ UK market – we expect the UK to remain tough
- ➔ Commercial – as said in previous letters, we believe Commercial is a good business, but have not been able to focus on it because we had bigger fish to fry. We are now in the happy position that those fish are fried, we have a brilliant Managing Director for the business and we are at last getting back to driving growth
- ➔ Digital marketing – we expect continued growth
- ➔ Majestic Retail branch improvements – we believe that the improvements in branch will be able to overcome the adverse market conditions through improving customer experience

Chief Executive's letter
continued

What will we keep doing?

The reason we are in good shape despite a tough market is that our model is working. To refresh your memories, our model is:

- ➔ To aim for sustainable growth in shareholder value
- ➔ By investing in customer relationships rather than stores

What this means in practice is that rather than investing in new stores, we are investing in acquiring new customers. We believe, and have good evidence to support it, that this is a better strategy because:

- ➔ Investing in your customers makes you value them more and treat them better. This improves loyalty, which builds a better business
- ➔ When you invest in bricks and mortar, you are committed for years. When you are investing in an advertising campaign on Facebook you are committed for days
- ➔ Finally, the payback is better. For every £1 we invest, we get a payback in excess of 4x.

What will we do faster?

We are aiming to double the value we create every year by investing double in acquiring new customers.

In 2018, we invested £14m in acquiring new customers in Naked Wines, which we expect to payback at the rate of 4.7x over the next 20 years. So £66m of future value.

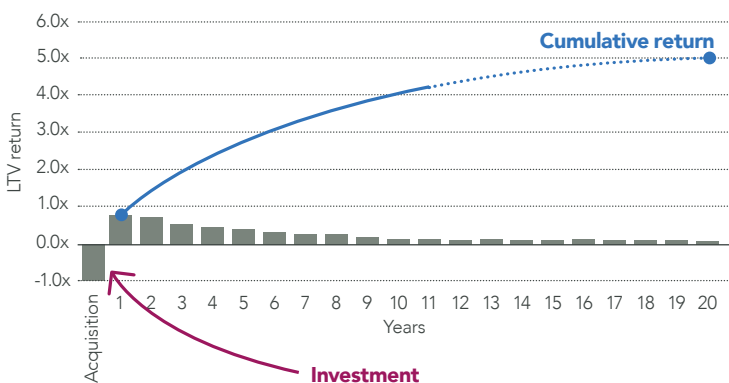
Over the next few years, we aim to double that rate of investment. We are not giving an exact timeframe for this as the returns should drive how much we invest. We hope to also improve the returns, so growing the future value generated per year to over £112m a year.

How do we know that we get a payback of 4x?

Take a look at this graph. We now have nearly 10 years of experience, with over a million customers, in four countries.

AVERAGE COHORT ECONOMICS

Naked Wines: All markets, Dec 2008 to Dec 2017 £ and LTV return including forecast period



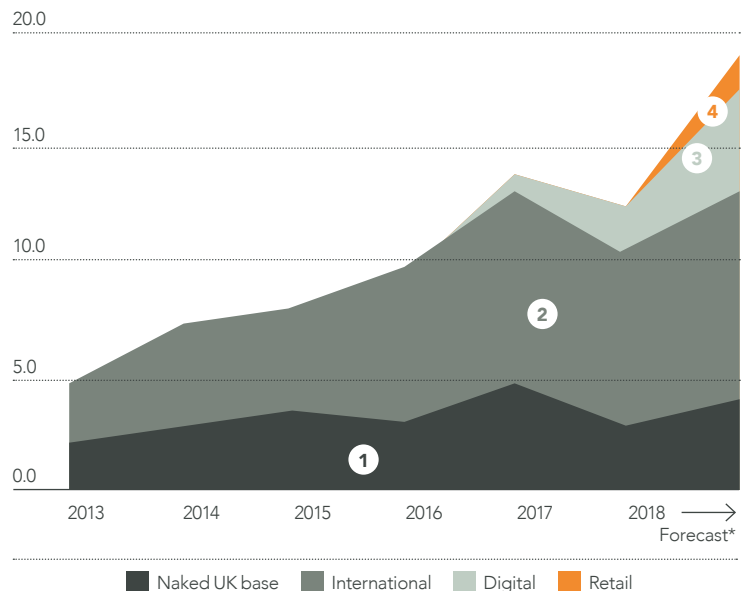
What has changed?

1.

The potential investment pool is bigger than we thought

Why can we invest more? Because we have proven more opportunities exist for Naked Wines and have early indications that the same techniques that made Naked into a £150m+ business in under 10 years can also work in Majestic Retail.

GROUP INVESTMENT IN NEW CUSTOMER ACQUISITION FY2013–FY2019 £m



- ➊ We have grown investment in Naked UK at around 15% on a like-for-like basis for 10 years
- ➋ We have proven returns in USA and Australia over five years
- ➌ In the last two years we have proven digital new customer acquisition as a viable channel
- ➍ We have early indications of success in Majestic Retail

* We expect to increase investment in new customer acquisition by £5m–8m in FY19, depending on the payback we are achieving.

2.

The returns are trending up, not down

1. Repeat customer sales retention is higher than customer retention
2. We are getting smarter – now that we have more data covering longer periods, we are able to optimise more effectively
3. The 4x payback figure we quoted includes all of our early test and learn experience. As we figure out what works, and don't repeat the tests that failed, returns creep up. Based on their early performance, our investments in FY18 look on track to deliver 4.7x their money back over 20 years (an IRR of 89%)

The first point deserves more explanation

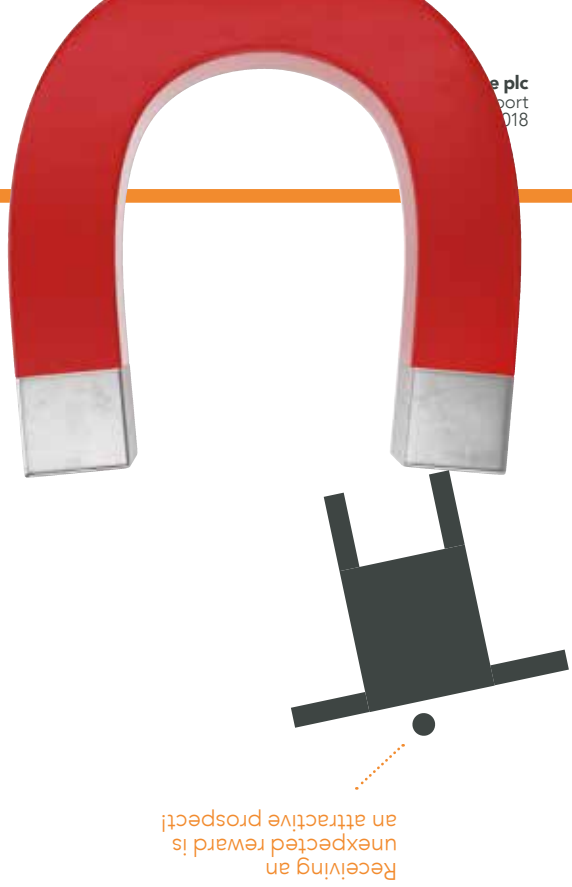
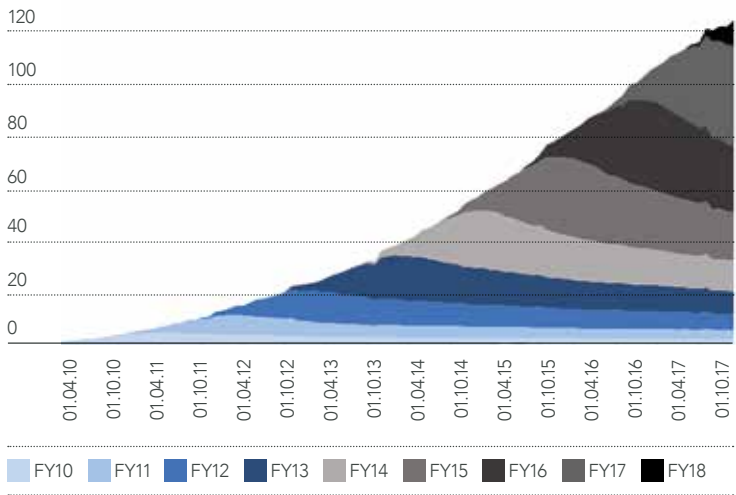
What we have discovered as the years go by is that sales retention is a better measure than customer retention because the customers who stay are the best customers – better than the ones that leave.

- A What that means is that if we measure retention in sales terms, rather than in customer numbers, our Naked Wines retention is circa 83% for FY18 vs 67% customer retention for FY17.

This graph tells the story

LAST 12 MONTHS SALES FROM MATURE ANGELS

Naked Wines FY09–FY18, £m



3.

We have early indications that the same tactics work in Majestic Retail

We have acquired over 100,000 Retail customers in FY18 using similar techniques that deliver the 4x payback in Naked, and the early indications are that we are getting acceptable returns.

A good example of this would be a deal we did with Barclays Premier, to surprise and delight their customers. To me, the happy outcome with this kind of deal is that everyone wins:

- ➔ Barclays customers get a delightful and unexpected reward
- ➔ Barclays is able to deliver that seamlessly and at a sensible cost
- ➔ And we get thousands of great potential customers walking through the door to taste our wines.

What's not to like?

Chief Executive's letter
continued

What are we going to do better?

Our goal is to become unbeatable in our chosen markets. We aim to do this by reinforcing and growing our competitive advantages.

Specifically, we aim to

1. Invest more. And to invest more efficiently
2. Step up customer engagement in Majestic Retail...
3. By stepping up people engagement
4. Significantly improve our product range
5. A step change in efficiency

These are important goals, so let's run through them in more depth...

1.

Invest more. And to invest more efficiently

In addition to increasing our new customer investment covered above, we have a number of projects on the go to see if we can find additional opportunities. Right now we have no real insight as to which, if any, will be successful, but it is important that you know that we have this element of test and learn spend with no budgeted sales impact, which will either deliver for us – or can be cut from the spending plans.

We invest more efficiently by cutting investment in areas that are not delivering the payback we aim for, and increasing it in areas where we are.

Obviously, the reality is more complex than this sounds, but this simple approach has a great deal to be said for it.

Test and learn – We don't debate, we test and let the data do the talking.

Active capital allocation – We don't ration capital. We actively pull underperforming capital out and aggressively increase high performing capital.

Continuous improvement – Constantly improving the average by losing the bottom 10% of products, suppliers and people.



5* performance in service is becoming the norm, but we'll never rest on our laurels.

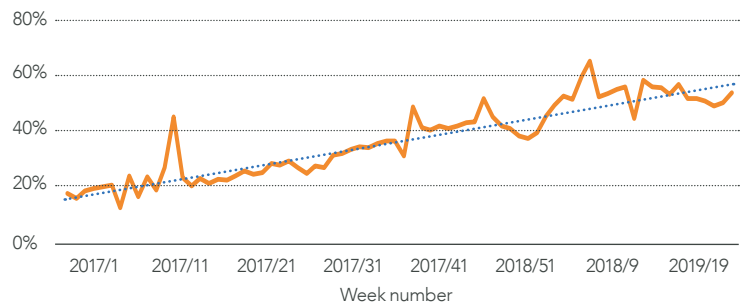
2.

Step up customer engagement in Majestic Retail...

The new team in Retail has already done a great job of improving customer engagement, but we have further to go.

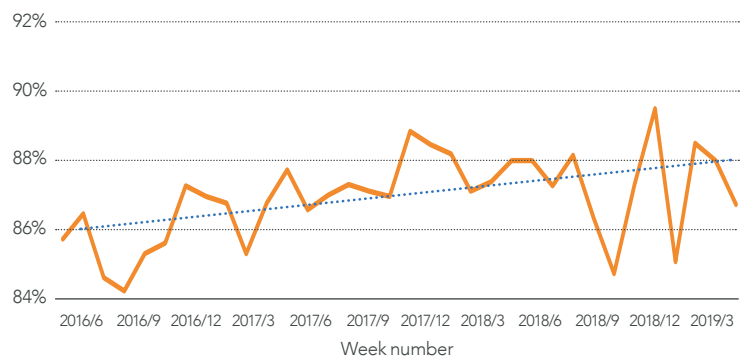
A key engagement metric for us is the percentage of customers who give us a valid email address (in a GDPR compliant way). As you can see, this has grown steadily this year.

EMAIL FY17/18



Service generally has improved with 5* performance around 89% becoming the norm (vs FY17 of 87%).

5* FY17/18



Over 18,000 customers have signed up to an early testing of a Concierge service, a new loyalty scheme for Majestic Retail, and customer satisfaction and retention levels look positive (see page 23).

3.

By stepping up people engagement

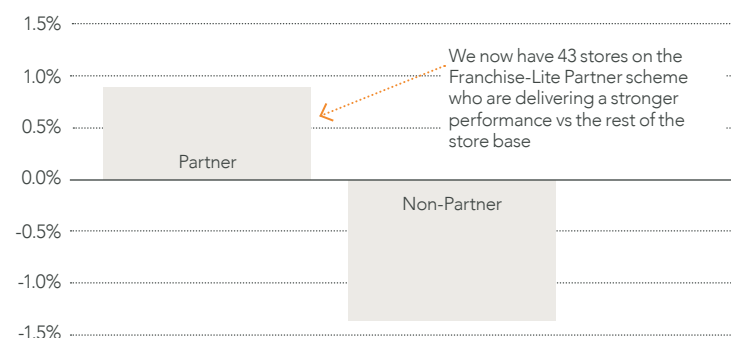
We've spent the past two years taking boring repetitive tasks out of stores and making our people's lives easier through automation, IT investments and improvements in the supply chain.

Last year, I told you about a major new initiative, our Franchise-Lite programme, designed to retain our best store managers for longer, by giving them more autonomy, a more interesting role and the potential to increase their income.

I am pleased to report that this has been a great success:

GROSS PROFIT PERFORMANCE PARTNERS VS TOTAL STORES

39 Weeks since launch FY2018, % Growth



As you can see, the performance of our Partners has been excellent, and we are looking forward to growing the share of our stores that participate in it.

4.

Significantly improve our product range

We have been improving the range we sell across the Group but from 2019 onwards we want to take this on to the next level.

As a Group we have some competitive advantages when it comes to buying wine – and we aim to make best use of them:

- ➔ Data on our customers' likes and dislikes
- ➔ Cash to invest in the best wines

Internally we use the term 'Netflix wines'. We are all Netflix devotees because the content is so damn good. Why? Because when Netflix commission a show, they get the best writers and the best actors and directors. They do this with confidence because they have no risk – their data tells them what works. We have been doing the same, but we can and will do it more.

But remember it's a slow process... we can't make wine like cola!

5.

A step change in efficiency

Over the past year we have put significant focus into driving efficiency to ensure that where we are spending money it is directed at productive activity. We have made the following efficiency improvements across the business:

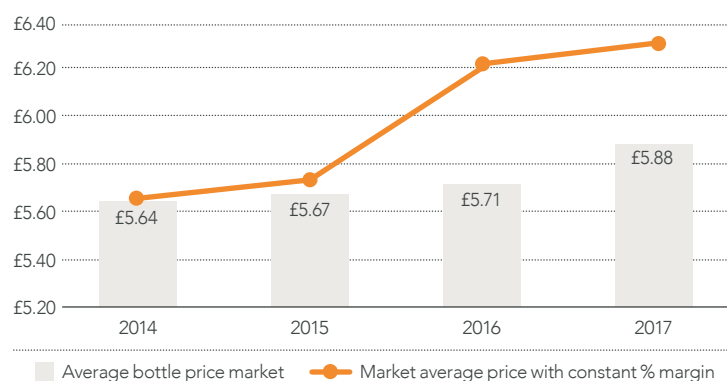
- ➔ More shelving in stores – reducing staff time stacking boxes
- ➔ More tasks automated – again, reducing staff time
- ➔ Consolidated Naked UK and Majestic Retail online order fulfilment facilities to secure improved cost and service

What did not go right?

1. The market Britain's vote to leave the EU has hit the buying power of the Pound, which has in turn increased our cost of goods. In previous cycles, the wine industry has passed this increase on to the consumer. This has not happened this time around.

The chart below shows what would have happened to average bottle prices if the market had passed on the full increase in cost of goods sold to customers:

UK MARKET AVERAGE BOTTLE PRICE CHANGE VS PRICE WITH CONSTANT % MARGIN

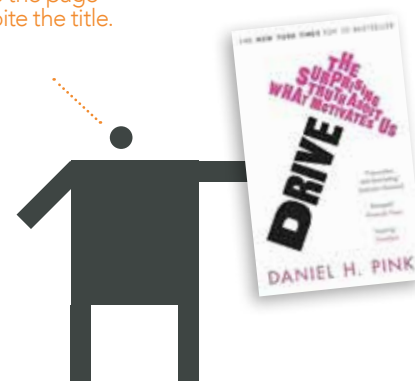


As I said above... as a Group we have some unique advantages when it comes to buying, and we are putting them to work, but it takes time for the benefit of that to flow through to our P&L.

In the meantime, our policy is to price competitively with the market, and to earn loyalty through superior service.

2. Commercial You may remember that we separated our specialist B2B division, Majestic Commercial, from the core Retail business, because it was apparent that Commercial's growth was hampering Retail. This proved to be the right decision, but has exposed the extent to which Commercial relied on a cross subsidy of time and effort from their Retail colleagues, in the absence of strong systems and processes. We are finally at the point where we can invest the time and effort required to get Commercial growing again. The first step was to hire an excellent new Managing Director, Olivia Fitzgerald. I look forward to being able to share her plans with you in future reports.

May I recommend you read Drive: The Surprising Truth About What Motivates Us. It's quite the page turner, despite the title.



Chief Executive's letter
continued

Conclusion

The UK market will be tough, possibly even tougher than last year, and sales and margins will be under pressure **BUT** we expect to hit FY19 market expectations* despite the market, because unlike many retailers:

- ➔ We have the means to grow, without opening new stores, even in tough markets:
 - We have great businesses in the USA and Australia, both of which are growth markets
 - We have the team to deliver the plan and the projects in place to drive growth
 - We're coming to the end of the heavy lifting – and can now direct our resources towards being better and faster
 - We have proven our ability to deliver growth, in four countries with a total addressable wine market of £19bn

Despite the headwinds, we are excited about the future, because we are finally at the point in the plan where we do what we are good at – **GROW!**

I look forward to sharing more in my next report.



Rowan Gormley
Chief Executive

13 June 2018

I feel different.
Do I look different?



Our business model

A business that will win in our chosen markets

What is our business model?

We want to build a business that is going to win in our chosen markets



LET'S DRILL DOWN A LITTLE FURTHER...

What do we do?

We generate shareholder value by acquiring and keeping customers.

How?

By creating a long-term compounding growth business that gets stronger with scale, i.e. better delivery, larger range.

Why?

Retention is high because loyalty is high. Loyalty is high because we do something for our customers that no one else can do.

Why can't everyone do this?

- ➔ Because we have enough data on our customers to accurately measure their value
- ➔ Because we use that value insight to frame an investment opportunity

How do we do it?

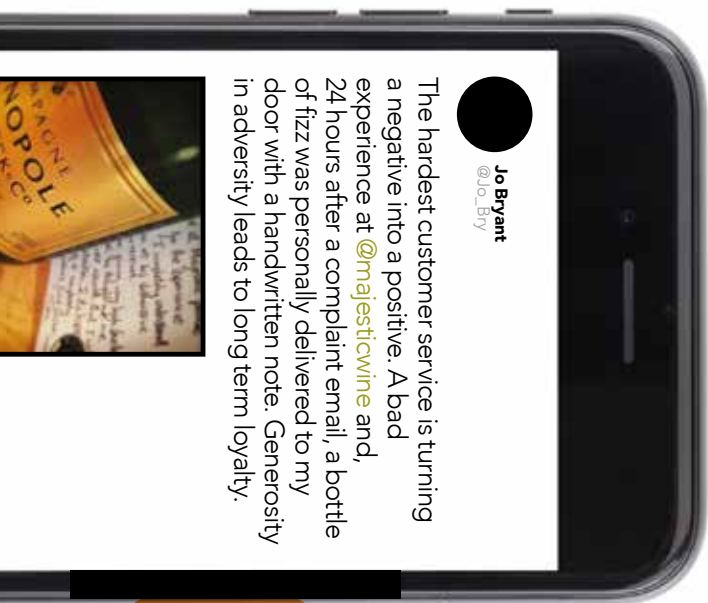
- ➔ We start by assuming we will be wrong half the time
- ➔ So we test our investments in a scalable way
- ➔ We put as much energy into finding dead ends quickly as finding new investments to test
- ➔ And then we scale the successes and get rid of the duds

Sticky customers
created by
brilliant people
and data

READ ABOUT OUR STICKY CUSTOMERS ON PAGE 14

Sticky customers Created by brilliant people and data

A selection of tweets, emails and letters which are proof we're not a traditional retailer...



CREATING STICKY CUSTOMERS
#12
Realise an opportunity



Hi,
Had forgotten to get the drinks for an Easter Day event. I called the nearest Majestic store (Cowley Road Oxford) at 10.15am today (March 31) looking for 6 cases of Paulaner lager and some champagne. I don't know who I spoke to, but they found one case at the store and 4 others in the Summertown Oxford store. Less than 2 hours after my first call they had picked up the lager from the other store and delivered it to my home. The delivery driver was equally as helpful.

This is great service, achieved by people who actually care about customers and enjoy working for your company. I have worked in the hospitality business for many years and know how difficult it can be creating the right culture for this level of service.

I know it's a tough business with competition from the grocers, but with this level of service you will differentiate yourselves. It will be a long time before I use a supermarket for my drinks orders.

CREATING STICKY CUSTOMERS
#04
Everyone is a VIP

The customer service at Naked has always been impeccable, even by my high standards (I'm American – land of "the customer is always right"). Your thoughtfulness and customer service is valued.



CREATING STICKY CUSTOMERS
#03
Over deliver – always!

I'm sat at my desk in an international bank wondering how the hell I turn my teams into teams that provide the level of service I get from you; Naked wines is a pure example of how technology, social networks and business can operate to move buying relationships to the next level.
Thank you so much.

CREATING STICKY CUSTOMERS
#06
Quench a thirst



CREATING STICKY CUSTOMERS
#05
Respect one another

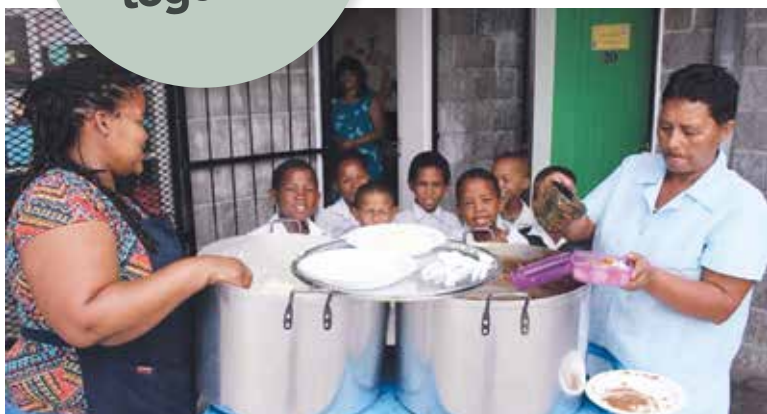
Just wow. I am so overwhelmed. Just got back from Leeds following my dad's funeral today but too late to get to Majestic to pick up my order that didn't arrive Saturday which contained the Domus I bought especially for tonight. Only to get home to find that naked wines have personally delivered the missing bottle to me with a card. I just cannot believe. I am so touched by this. Eamon you are an absolute angel and all the staff at Naked wines I love you all. I will now be enjoying the Domus for my dad. Xxx

Having had a phone conversation this morning with Hayley @ NW HQ, I realise now that the major difference between Naked's Customer Service and any other company's Customer Service is the fact that Naked Wines have actually empowered their staff to actually be of service.

As so many have said before me, 'Well Done Naked Wines'

Your ethos is absolutely spot-on. Pity that others do not take a leaf out of your book.

CREATING STICKY CUSTOMERS
#02
We're in this together



Just 15 minutes from stunning Stellenbosch wine country, are miles and miles of shanty towns. The contrast couldn't be any more stark.

This is a place where 3 out of 4 kids go hungry every day. It means the local schools are up against it, with drop-outs, absenteeism and poor grades. Right under the nose of the wine industry.

Two years ago, this changed for thousands of lucky learners. Back in 2016, Naked Wines Angels gave winemaker Carmen Stevens £60,000 to restart her soup kitchen for hungry school children.

Since then, she's served up 1.7 million meals for 6,541 kids with her team of local mums.

The schools have reported increased attendance and better grades, just because the kids are getting two nutritious meals a day.

Just ahead of the new school term Naked Wines UK reached out to their Angels to raise funds again for a new set of children.

Naked Wines appealed for Angels to donate the cost of their lunch to Carmen. As a result they raised £155,693. This amount will feed 5,988 children this year.

Carmen says: "No amount of words can express the extreme gratitude that must be expressed to you. In these impoverished communities, the meals you provide are often the only proper nutritious food that a child receives. Thank you for the pivotal role you are playing in building a better future for our children."

CREATING STICKY CUSTOMERS
#14
Dedication, dedication & dedication

We love Naked Wines and have done from the beginning. You are all wonderful people as I've spoken to a couple of people on the phone and have met some at a wine tasting in London.

What sets you apart from any other wine 'clubs' for want of a better word, is your dedication to your customers but also to the independent vineyards you support and help. We're proud to be Angels and are hoping we'll be back on our feet soon to order as we have in the past. We will put an order in this week and thank you so much again.

Hugs to you all.

CREATING STICKY CUSTOMERS
#07
Share your passion



Having used Majestic Wine for more years than I care to admit to, I thought that it was time that I wrote to congratulate your staff at your Reigate Branch.

Since we (my wife and I) started attending the tasting evenings with both family and friends, we have thoroughly enjoyed the expertise, knowledge and professionalism but probably most of all the great personalities of your Reigate Team – Nick, Piero, Becky and Marco.

It is a shame that they obviously enjoy their work otherwise I would undoubtedly have tried to recruit them for one of my businesses – You are lucky to have them!!!!!!!

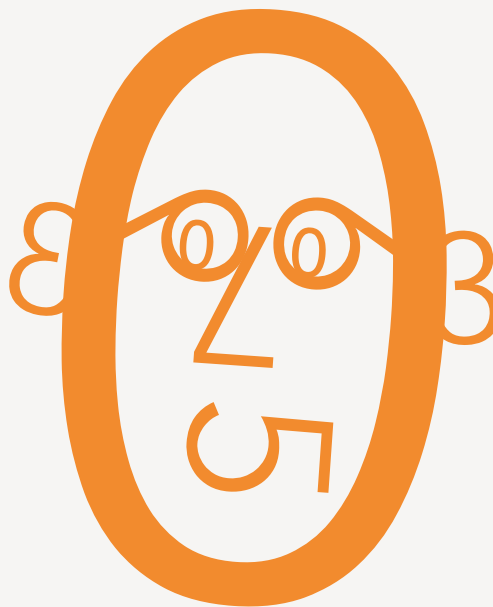
They are all a credit to you.

Please do not move them onto any other branch!!!!!!

CASE STUDY

What

can retailers learn from
direct marketers?



At heart, I'm a direct marketer and relatively new to the world of multi-channel retailing. I worked for innovative direct companies for more than a decade from Virgin Direct to Naked Wines, pensions to Pinot Noir, until two years ago when Majestic Wine bought Naked Wines, and I took over running the whole Group.

I learned two lessons quickly:

1) Retailers obsess about sales, direct marketers obsess about customers. 2) Retailers guess, direct marketers analyse.

So who's right? I think the direct marketing approach has real strength in today's market. By obsessing healthily and analytically about customers, you can learn what you need to know about upcoming sales. The health of the customer base is the health of the business: if you have customer loyalty, sales look after themselves. If you don't, it doesn't matter if last month's sales were good or bad, the foundations will start to crumble.

They say chess grandmasters don't even see bad moves. This is because they have already spent years seeing bad moves followed by bad outcomes and have analysed the links from one to the other, making them ultra-efficient decision makers.

So when retailers talk about 'analysis paralysis', as if looking at data is an excuse for inaction, they misjudge.

Great analysis isn't a panacea: the canary may warn you of danger but it won't show you the way out of the mine! Analysis won't produce plans to correct the causes of your unachieved retail potential but it will help you exclude unproductive courses of action, saving time, money and energy.

Direct marketing also embraces 'test and learn' where retailers often fear to. In direct marketing kindergarten, we learn not to guess but A/B or multivariate test every route and every segment. A test, learn, refine, re-test culture frees up your truly entrepreneurial people. They can try crazy new stuff because they are not betting the ranch; just testing a theory on a segment.

Sometimes results are counterintuitive. In a market driven by promotions, a test on Majestic's customer base found that emails with informative, well-written, interesting content produced better results than promotions. It's hard to second guess customers; better to test, improve or fail quickly, and learn. King Canute was after all a tide abatement retailer who didn't test and learn.

So, to flip the couch around, what should direct marketers learn from retailers?

The hardest lesson I've learned is that things just take longer. When you have 1,000 people in 200 branches,



I think the direct marketing approach has real strength in today's market. By obsessing healthily and analytically about customers, you can learn what you need to know about upcoming sales.

a brilliant new idea takes time to land. Retailers understand that it takes leadership and change management and 10 times the energy to roll anything new across an entire estate, compared with a direct marketing organisation. Good retail is testament to the fact that once out, positive change runs through the very grain of a company and that is extraordinarily powerful.

Before I started at Majestic, I stress tested local staff: would they let me carry my own wine to my car? Turns out I literally had to wrestle the guys to the ground to take the wine off them. When a value is embraced, it becomes embedded. That is the power of great retail staff.

So which model is better, retail or direct marketing? Obviously, a hybrid. If you take a retailer's best people powers and combine them with a direct marketer's obsession with customers, analysis and test-and-learn, the alchemy yields a better business than either of the two operating discretely.

At Majestic, we are two thirds through our transformation process. The base metal has not become a gold bar... yet! But, by embedding direct marketing principles into a traditional retailer, we see the lustre improving week by week.

Rowan Gormley
Chief Executive

Review of the year

A detailed look at
the year that was...

18 Performance highlights

19 Chairman's report

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26 Lay & Wheeler

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Performance highlights

Making headway: profitable growth despite a challenging UK retail climate

HIGHLIGHTS

- A** ➔ Group reported sales up 2.3% (+4.0% underlying*) driven by 11.3% underlying sales growth in Naked Wines.
- A** ➔ £9.8m improvement in profit before tax (PBT) to £8.3m (FY17: £1.5m loss) and underlying adjusted PBT up 63.0% to £17.2m.
- ➔ Naked Wines key driver of profit growth with adjusted underlying EBIT six times higher than FY17.
- ➔ Majestic Retail profitability flat – underlying sales growth of 1.9% and improved cost controls offset foreign exchange on margin pressures.
- ➔ Naked Wines new customer acquisition spend of £14m.**
- A** ➔ Returns good and improving – forecast lifetime payback of customers recruited in the year of 4.7x vs 4.4x on £14.8m of spend in FY17.
- A** ➔ Cash flow and balance sheet robust – net debt reduced to £8.4m (0.35x net debt: adjusted EBITDA vs 1.2x FY17).
- ➔ Final dividend of 5.2p per share, bringing total dividend of 7.2 pence per share for the year, +41.1% vs FY17.

* To provide a meaningful comparison with last year, operating performance commentary is stated on an underlying basis (unless otherwise stated) which means:

- ➔ En primeur revenues are included in year of order, not year of fulfilment
- ➔ Calculated using constant foreign exchange rates for translation
- ➔ Adjusting the prior year to a 52-week period, comparable to the current year

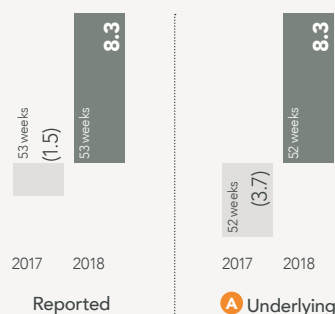
IT costs reallocated to PLC on a consistent basis.

A full reconciliation between our reported numbers and these underlying measures is provided on each divisional reporting page.

** Naked Wines new customer acquisition spend excludes immature contribution of £1.0m which was included previously.

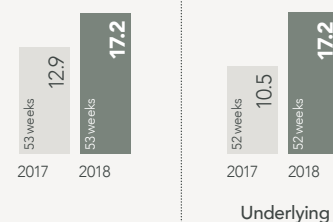
PROFIT BEFORE TAX £M

£8.3m
(£1.5m)



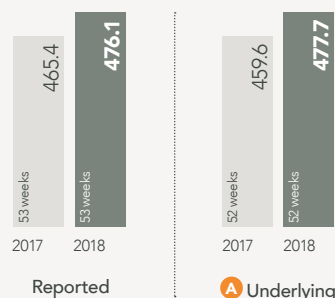
A ADJUSTED PBT £M

£17.2m
+33.4%



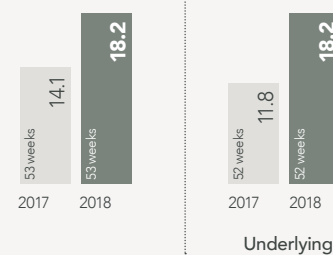
REVENUE £M

£476.1m
+2.3%



A ADJUSTED EBIT £M

£18.2m
+28.9%



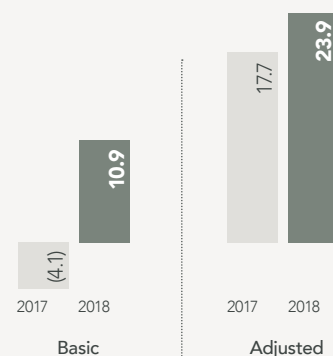
A NET DEBT £M

£8.4m
(0.35x net debt: adjusted EBITDA)



EARNINGS PER SHARE

10.9p



Chairman's report

A momentous time for Majestic Wine plc



Overview

I have become Chairman at a critical time in the Company's history.

The UK retail market is incredibly challenging with consumer spending under pressure, costs continuing to increase and a structural shift online.

What I knew before I took the job was that the Group has a unique combination of assets that other retailers can only wish for, including:

- A £19 billion international market opportunity
- Almost half of Group sales online
- A wealth of customer data, and the ability to use it
- A strong balance sheet
- Last mile delivery in the UK
- An entrepreneurial management team who are also shareholders

On being appointed Chairman, it was clear to me that we faced a choice:

- a) Hunker down and wait for the UK retail storm to pass?
- b) Try to use the conditions and our unique assets to our advantage?

As Rowan explains in his report, we have chosen to do both. We have already undertaken initiatives to unlock productivity. And we're in the happy position of being able to confidently increase our rate of investment in customer acquisition.

We did not reach the decision to invest in growth lightly. I set out these criteria that any plan would have to meet to get our support:

1. We need to be sure that we can maintain the excellent returns on investment that we have delivered historically
2. We must be able to identify clear milestones to allow us to course correct if returns deteriorate
3. We invest in a control environment commensurate with the investment plans

We recognise that short-term profits may be more volatile. As previously announced and as a sign of our near term confidence, we are currently planning to maintain a progressive dividend in FY19, but it is possible dividend growth may be suppressed in the medium term as we prioritise growth investment. However, we firmly believe that this strategy is in the best long-term interest of shareholders.

This is a momentous time in the history of Majestic Wine plc. We've decided as a Board that shareholders' interests are best served by significant acceleration of our growth plan.

Greg Hodder
Chairman

Performance

FY2018 was a year of finishing the heavy lifting and rolling out the winning projects from our test and learn investments. As a result the Group has delivered a steady year of growth but more importantly is now in a place where it can accelerate investment with confidence.

Reported revenue was up 2.3% in the year. On an underlying 52 week basis, full year revenue of £477.7m was up 4%. Reported PBT was up to £8.3m from a loss of £1.5m in FY17. Adjusted underlying PBT was up 63% to £17.2m. These results reflect a year of steady performance for Majestic, Naked and Lay & Wheeler.

Majestic Retail has delivered a solid performance with underlying sales up 1.9%. The model of focusing on customer retention rather than opening new stores is working and projects such as Franchise-Lite and store refits are showing positive initial signs.

Naked Wines continues to storm ahead with underlying sales growth of 11.3% in the year. The business has grown considerably in the exciting US and Australian markets and has proved that the digital customer acquisition channel is delivering high quality new customers in addition to our traditional partner channel.

Majestic Commercial saw revenues fall 5.4% in the period as the division has been in a holding pattern up until the appointment of a new Managing Director, Olivia Fitzgerald, in April 2018. Olivia has extensive sales and hospitality experience, and has jumped straight in. We are hopeful that this business is now in a position to start to grow again following the investment in the Majestic Retail IT systems and processes.

Lay & Wheeler delivered flat results, after turning around a business that was stuck in the past. We are pleased it continues to make a positive contribution to Group performance.

Board changes

At the AGM in August 2017, Phil Wrigley, our Chairman of seven years, retired from the Board. David Stead was appointed to the Board on 1 November 2017. David has brought significant retail and financial expertise to the Board which fits well with the existing Directors' skills.

On 14 March 2018, Anita Balchandani stepped down from the Board after joining McKinsey & Co. We have started a search for a replacement for Anita and would like to thank her for her support and brilliant advice since 2015.

Outlook

In the short term the UK market remains tough. However, the Board is confident that we will achieve £500m in sales by 2019 and continue to meet FY19 market expectations. Our model of investing in customers is working and we remain excited about the opportunity ahead.

Greg Hodder
Chairman

Our Group KPIs

Our performance indicators allow us to measure both the financial value we create for our stakeholders and our performance delivering our strategy.

FINANCIAL			
KPI	HOW ARE WE DOING?	WHAT'S THE PLAN AND WHY DOES IT MATTER?	WHAT ARE THE RISKS? (SEE PAGE 28)
 Revenue	Reported revenue of £476.1m vs £465.4m	Investing in customer acquisition through tested channels	<ul style="list-style-type: none"> ➔ Competition ➔ Regulation ➔ Investment
 Underlying revenue growth	FY18: 4.0% underlying growth in Group revenue	Growing revenue through investment in new customer acquisition is how we create shareholder value	<ul style="list-style-type: none"> ➔ Competition ➔ Regulation ➔ Investment
A  Net debt: adjusted EBITDA	Free cash flow of £24.9m, net debt reduced by £17m to £8.4m Finance facility extended to 2022 Year end net debt: EBITDA 0.35x vs target 0.5x	Capital allocation priorities: 1. Investment in new customers/growth 2. Target net debt 0.5x EBITDA 3. Return capital to shareholders if no use for investment spend – ordinary dividend	<ul style="list-style-type: none"> ➔ Financial ➔ Investment
A  Fixed costs	Naked Wines: £(11.1m) (FY17: £(10.8m)) Retail: £(11.3m) (FY17: £(13.4m))	Administrative costs, excluding marketing Maintaining an efficient cost base is critical to converting our growing level of repeat sales into profitability long-term	<ul style="list-style-type: none"> ➔ Systems development ➔ Management/key staff
OPERATIONAL AND TRANSFORMATION KPIs			
KPI	HOW ARE WE DOING?	WHAT'S THE PLAN AND WHY DOES IT MATTER?	WHAT ARE THE RISKS? (SEE PAGE 28)
 Team retention	Employee engagement of 74%, retention increased as a result of Franchise-lite roll out (Retail FY17: 68%)	The Majestic Meritocracy and Franchise-lite scheme was launched in September 2017 to recognise our best performing people and give them more autonomy Keeping our best people will lead to greater customer retention	<ul style="list-style-type: none"> ➔ Investment ➔ Brand recognition ➔ Management/key staff
 Product availability	Availability across the Group between 86% and 90% (FY17: 79% to 85%)	To keep availability of core product above 85% and promotional products above 95% Good availability saves employee time and increases customer experience	<ul style="list-style-type: none"> ➔ Business interruption ➔ Supply chain ➔ Third-party suppliers
 Wine quality	Buy It Again ratings now 89% and 91% for Majestic and Naked (FY17: 91% and 90%)	To grow our exclusive and own brand wine ranges High quality, exclusive products differentiate us from the competition	<ul style="list-style-type: none"> ➔ Business interruption ➔ Supply chain ➔ Third-party suppliers
 5* customer service	Customer 5* ratings now up to 89% and 90% for Majestic and Naked (FY17: 87% and 89%)	To consistently offer a 5* service across all our brands Better service will lead to greater customer retention	<ul style="list-style-type: none"> ➔ Brand recognition ➔ Management/key staff

New Investment KPIs

INVESTMENT			
KPI	HOW ARE WE DOING?	WHAT IS IT?	WHY DOES IT MATTER?
 Sales to new customers	Naked Wines: £21.6m (FY17: £25.9m) Retail: £55.9m (FY17: £54.8m)	Revenues derived from transactions with customers who meet our definition of a new customer. Note prior year is presented on an underlying basis	New customers replenish the sales to repeat customers that we lose through retention being less than 100%. We also strive to make new customers into repeat customers. The better our repeat customer retention the more that any new customers drive growth rather than replenishment
 Investment in new customers (also referred to as new customer contribution)	Naked Wines: £(14.0)m (FY17: £(14.8)m) Remaining businesses are not yet investing materially in new customer acquisition presently	The sum of all investments in new customers in the period. A loss represents an investment in customers	We invest in customers from whom we expect to receive a payback in future years. The more we spend, the more money we make in future assuming they are retained and purchase from us at the prevailing levels and profitability
 Life time payback	4.7x on Naked Wines Investment (FY17 cohort as forecast in FY17: 4.5x) FY17 cohort latest outlook: 4.4 x Remaining businesses are not yet investing materially in new customer acquisition	The ratio of the future contribution we expect to earn from the customers recruited this year to the investment we made recruiting them. We calculate this by reviewing the level of sales and contribution generated in the current year from new customers and compare this to a reference level based on historical behaviour of all new customers, then projecting forwards to a 20 year lifetime to estimate the payback ratio. As this is a projected measure we include an update assessment of last year's recruitment economics with a further year of performance in the data used to make the estimate	It's easy to spend money and say we recruited customers, but it's also easy to recruit low quality customers who have shorter average lifetimes and lower annual spend. By calculating this ratio based on the average history of over a million customers we can forecast our investment returns and eliminate poor investments. Our target is 4x return on all new customer investments
 Repeat customer sales	Naked Wines: £134.5 (FY17: £114.3m) Retail: £207.9m (FY17: £204.1m) We are not yet reporting Commercial and Lay & Wheeler on this basis	These are the revenues derived from orders placed by customers meeting our definition of a repeat customer at the time of ordering	This portion of our revenue is more predictable as is reflective of customers we have an ongoing relationship with
 Repeat customer sales retention* (Transformation KPI)	Naked Wines: 83% (FY17: 83%) Retail: 92% (FY17: 96%) We are not yet reporting Commercial and Lay & Wheeler on this basis	The proportion of sales made to customers who met our definition of 'repeat' last year that were realised again this year. Using our till and website data, the population who were active in the prior year and the current year are identified for each month and summed to calculate the full year retention	Continuing to sell to existing repeat customers is critical if we are to grow the business. The higher our sales retention the more that our sales to new customers can translate into growth rather than replenishment
 Repeat customer contribution	Naked Wines: £33.8m (FY17: £26.9m) Retail: £20.2m (FY17: £22.3m) We are not yet reporting Commercial and Lay & Wheeler on this basis	The contribution earned from sales to repeat customers	Contribution from repeat customers gives us the profitability to reinvest into new customer recruitment and growth

A SEE INFORMATION ON ALTERNATIVE PERFORMANCE MEASURES AND DEFINITIONS ON PAGES 101 TO 104

* This has replaced the customer retention KPI reported in FY17.

Business review



MajesticWine

Two and a half years into the transformation plan, Majestic Retail has delivered underlying revenue up 1.9% and adjusted EBIT up 0.4% vs last year. We've made some big progress with our transformation with only a handful of projects left to complete. The risky stage of the plan is now over, so we can start to test customer acquisition channels that work for Naked Wines across the Group. The market is particularly tough in the UK but we are confident our transformation plan has positioned the business well for future growth.

Team retention
81%
(FY17: 74%)

Repeat customer contribution
£20.1m
(FY17: £22.3m)

Wine quality
89%
(FY17: 91%)

Repeat customer sales retention
92%
(FY17: 96%)

Product availability
86%
(FY17: 82%)

Sales to new customers
£55.9m
(FY17: £54.8m)

5* service ratings
89%
(FY17: 87%)

Employee engagement
74%
(FY17: 68%)

Repeat customer sales
£207.9m
(FY17: £204.1m)

Number of revamped stores
125
(FY17: 20)

Year ended 2 April 2018

	53rd week	Impact of foreign exchange	IT reallocation	Underlying
	£'000	£'000	£'000	£'000
Revenue	263.8			263.8
Adjusted EBIT	13.3			13.3

Year ended 3 April 2017

Revenue	262.2	(3.8)	0.4	258.8
Adjusted EBIT	13.3	(1.0)	-	1.0



93%
OF 126
WOULD BUY IT
AGAIN

What we've done

New website

Why we've done it

Improving customer interaction and functionality, delivering better performance.

The results so far?

Web sales increased to 21% of total sales since new site launch (vs 12% in FY17).



What we've done

Launched Franchise-Lite and the Majestic Meritocracy

Why we've done it

Empower store managers to be entrepreneurs, to improve team retention, which will ultimately improve customer retention.

The results so far?

43 store managers now on the Partner Programme.

What we've done

Single customer view

Why we've done it

Improved IT and systems so store employees can see what customers have ordered online, in different stores and on the phone so store staff can make better wine recommendations.

The results so far?

Now completed, new tills will allow data to be easily seen in stores when a customer walks in or contacts the store.

Majestic's new website puts **customer feedback centre-stage**

After an online overhaul, Majestic Wine launched a brand new website in October 2017.

The Company's customer-centric new site now offers a more interactive experience. With a primary focus on feedback and wine ratings, it will give customers a greater influence over the Majestic range. After purchasing, customers will be given the chance to leave 'Buy It Again' ratings on all wines and poor performing wines will be lost from the Majestic range.



Our customers have requested a slicker, faster and more interactive website," explains Natalie Th'ng, Customer Director. "We wanted to take their feedback and make them the central focus of the new website. They will become the ultimate decision makers with enormous influence over which wines we stock and which we don't."

New features on the website also include the ability for customers to buy tickets for wine tasting events at local stores and a live newsfeed from each branch. Stores will have complete control over what they communicate and the events they hold.

This follows the launch of the Majestic Franchise-Lite scheme last month, giving store managers more autonomy and rewarding them for giving 5* customer service.



The new website needed to reflect the great service our store managers were giving in our stores." Managing Director Josh Lincoln said. "Launching the new site is another important step in our transformation. Our stores will now have a direct line of communication with their customers, we'll be able to keep them posted about exclusive local events, and hear their feedback on our wines."



Fortified 'Hipsters' kick-start British Sherry revival

Move over craft gin, craft ale and Negroni; a new drink of choice for Britain's 'hipsters' has started a turnaround in the fortunes of one of UK's overlooked tipples of recent years: sherry.

Sales of sherry in the UK halved between 2002 and 2010 but new figures from Majestic Wine now reveal that drier, premium styles are enticing new hipper audiences to the world of fortified wine that was once the preserve of Britain's grandmas.

Majestic Wine today reports an astonishing 46% sales increase in the category year to date, with premium sherries in the £10 – £15 range up a whopping 71%. And the most welcome revelation for fortified wine brands is that it's a younger generation of enthusiasts that's making the difference.

Premium sales of sherry have been tipped to grow over 18% in the coming years, according to the IWSR (the leading source of data and analysis on the beverage alcohol market) as the market catches up with the resurgence. Majestic is keeping ahead of the curve by boosting its online range fortified wines for next day delivery.



Good sherries are high quality, food-friendly wines that are tapping into the changing preferences of the generation that lit the fuse under craft ales and craft gins," says Joe Aylmer, sherry buyer at Majestic. "It's no longer a social faux pas for hipsters to drink sherry in tapas bars, as part of a cocktail or simply served ice-cold on a hot summer day or with tonic or as a low ABV alternative to G&T. It's a complete reinvention of the style."

Best sellers include ultra-dry Manzanilla styles, Tio Pepe which, when mixed with mint, ice and soda water, makes a refreshing summer cocktail, and Amontillado with tapas, manchego cheese or paella.

What we've done

Launched customer data tools in stores

Why we've done it

To help staff build customer engagement and retention.

The results so far?

All stores now using Tableau to see individual performance relative to the Company.

What we're doing

New accounting systems and EPOS

Why we're doing it

Updating old accounting systems which were not appropriate for our growth ambitions. New till systems to support single view of customer data in stores.

The results so far?

To be completed in FY2019.

What we're doing

Store refits

Why we're doing it

Gradual programme to improve the standard of the store base and make shopping easier. We have introduced centralised quick turnaround store replenishment to reduce costs and in-store tasks of performing store-to-store transfers.

The results so far?

125 stores now revamped and/or shelved. Boring tasks removed so staff have more time to spend with customers.

What we're doing

Concierge service

Why we're doing it

New customer loyalty programme for Majestic Retail.

The results so far?

Over 18,000 customers signed up with a target to get to 60,000 customers by the end of FY2019.

What we're doing

Supply chain project

Why we're doing it

To integrate the Naked UK and Majestic Retail supply chain onto one platform. We've also increased product availability through connecting our systems to Relex (a retail planning tool) to provide retail analytics and demand forecasting.

The results so far?

New warehouse opened in May 2018. The integration of supply chain to be completed in FY2019. Initial move to new warehouse provider has been implemented with no major issues.

Availability has increased to 89% in Retail.

What we're doing

Digital customer acquisition

Why we're doing it

Testing digital customer acquisition channels to see if these work for Majestic the same way they work for Naked.

The results so far?

Ongoing tests with increase in investment in FY2019.

What we're doing

Wine quality

Why we're doing it

Improving exclusivity and uniqueness of our wines while also maintaining a high Buy It Again rating.

The results so far?

Exclusives labels up 103% by volume, and Tertiary labels up 95%. Own label now 9% of total Majestic sales.

Business review
continued


A Naked continues to exceed all our expectations. This year was a 'pause for breath' as we slowed investment in new customers following the direct marketing mistake we made in 2016. As a result, underlying revenue grew at a slower rate of 11.3% but EBIT grew more than five-fold to £8.7m. This year is about scaling this customer acquisition investment backup and we are excited to be in a position where we have a number of exciting opportunities to test.

A **Product availability**
90%
(FY17: 85%)

Team retention
94%
(FY17: 64%)

5* service ratings
90%
(FY17: 89%)

Wine quality
91%
(FY17: 90%)

A **New customer investment**
£14m
(FY17: £14.8m)

A **Repeat customer contribution**
£33.8m
(FY17: £26.9m)

A **LTV payback**
4.7x
(FY17: 4.4x)

A **Repeat customer sales retention**
83%
(FY17: 83%)

A **Repeat customer sales**
£134.5m
(FY17: £114.3m)

Number of wine makers
187
(FY17: 159)

A **Sales to new customers**
£21.6m
(FY17: £25.9m)

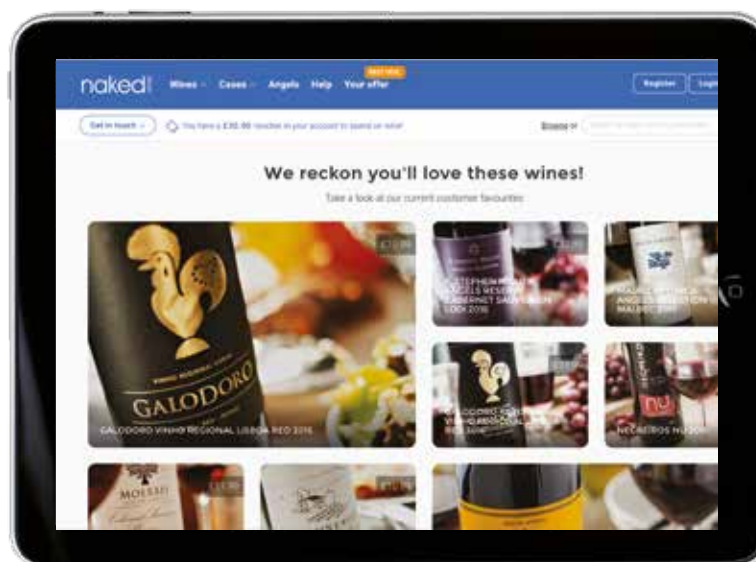
Net promoter score
65.3%
(FY17: 64.6%)

Year ended 2 April 2018

	£'000	53rd week £'000	Impact of foreign exchange £'000	IT reallocation £'000	A Underlying £'000
Revenue	156.1				156.1
Adjusted EBIT	8.7				8.7

Year ended
3 April 2017

Revenue	144.3	(2.0)	(2.1)		140.2
Adjusted EBIT	1.4	(0.7)	(0.4)	1.0	1.3



What we've done

Updated websites

Why we've done it

To improve the functionality and ease of use.

The results so far?

Website continues to generate good interaction from Angels.

What we're doing

Supply chain projects in UK and USA

Why we're doing it

To integrate the Naked UK and Majestic Retail supply chain onto one platform and one provider and to improve delivery times in the USA.

The results so far?

A fourth distribution centre will shortly open in the USA. Naked Wine UK Northampton distribution centre has been expanded and combined with Majestic Retail.

What we've done

Re-platformed the Naked website

Why we've done it

To improve the site's resilience during times of peak trading.

The results so far?

Good initial feedback, will be tested over Christmas 2018.

What we're doing

Digital customer acquisition

Why we're doing it

Testing digital customer acquisition channels to grow the customer base.

The results so far?

Ongoing tests show very positive signs, plan to increase in investment in FY2019 to accelerate growth.

What we're doing

Improving our range with customer votes

Why we're doing it

We've always used customer feedback to make our range more tailored for our customer base but now we are putting actual wines to the customer vote, asking what we should stock.

The results so far?

Thousands of Angels have requested new wines and voted between current ones – improving customer engagement and Buy It Again ratings.



Naked Wines now has almost 20% market share (by value) of the USA direct to consumer market (Rabobank report Feb 18) and is now one of the top 30 wine producers by volume in the USA. The direct to consumer market is growing at c.15% p.a.



Naked Wines raises more than **\$500,000** for local farmworker communities hit by Northern California fires.

This year, Naked Wines Angels raised over half a million dollars to help local winemaker communities hit by the California wildfires in Napa and Sonoma Counties, where thousands of families have lost their homes and workplaces.

The \$500,000 has gone to those who need it the most – the hard working folks working in the fields and the cellars to MAKE wine. Organisations who benefited from the donations in Napa County and Sonoma County include the Napa Valley Community Foundation, the Community Foundation Sonoma Valley and the Latino Community Foundation. These organisations provide emergency services including: access to health and trauma care, medical professionals, a safe place to sleep, emergency aid for children and removing hazardous ash and debris in impacted neighbourhoods. They also provide recovery services including economic and rental assistance, shelter and legal services.

The Napa Valley Community Foundation. Terence Mulligan, President of the Foundation said:

“nakedwines.com proves that individual small contributions really add up to make an incredibly significant difference to those in need during these fires. We are tremendously grateful for the incredible generosity of the company and its customers.”



Polish your pint glasses **Naked's entering into craft beer**

This year, we put beer to the customer vote. One of our winemakers, Rod Easthope wanted to make a mouth-wateringly cool craft pale ale for Naked's Angels and it looks like Angels love their beer almost as much as their wine... because 60% of voters said yes to us funding this project.

There's a craft beer boom in Hawke's Bay NZ going on right now. And Rod Easthope knows a small brewery there that makes beer that'll blow your socks off. He reckons a blast of this chilled beer's flavour would be like nothing we've tasted in the UK. As well as the locally-grown Sauvignon hops, Rod's using Sauvignon Blanc lees (the mushy stuff left over in the bottom of his wine tanks) in the fermentation. So you'll get all of the zingy tropical flavours you know and love from Rod's top-rated wines.

Until now, brewing craft beer was just a fun little side project for Rod. He never dreamed he'd be able to make it for beer-loving Angels on the other side of the world...



There's an old winemaking mantra 'It takes a lot of beer to make great wine' and it's true. I'm so chuffed you've given my craft beer project the thumbs up... promise I'll do you proud!"

Rod, Winemaker





A The time has come at last
It has been another disappointing year for Majestic Commercial with underlying revenue down 5.6% and adjusted EBIT slightly up by 1.7%. We hired a new Managing Director in April 2018 and with the big projects now finishing in Retail we expect to be able to give more time and resources to getting this business back to where it should be.

The proposition

Targeting independent pubs, restaurants and companies with the proposition – we will help you make more money from your wine list

Three competitive advantages:

1. Nationwide next day delivery
2. Data – we know what local people buy
3. Training – we have over 1,000 people nationwide who can teach our customers’ staff how to sell wine



Year ended 2 April 2018

	£'000	53rd week exchange £'000	Impact of foreign exchange £'000	IT reallocation £'000	Underlying £'000
Revenue	43.4				43.4
Adjusted EBIT	2.4				2.4

Year ended 3 April 2017

Revenue	46.6	(0.7)			45.9
Adjusted EBIT	2.5	(0.1)			2.4

What we've done
New Managing Director

Why we've done it
Appointed Olivia Fitzgerald as the new MD in April 2018 – a managing director who knows how to run a company rather than just a sales team.

The results so far?
New plan being produced to get Commercial back into growth.

What we've done
Team re-structure

Why we've done it
To maximise revenue generation by sending leads to the right people.

The results so far?
The start of the new financial year has been the best period for the division for over a year.

What we've done
New disciplined sales management

Why we've done it
We implemented a new sales approach, based on the idea that “we can help our customers make more money from their wine lists”. This involves using analysis like a wine list revenue and profit calculator where we show the commercial benefit of using Majestic to the customer.

The results so far?
A new approach to winning pitches that has shown much higher conversion rates than previous techniques.

What we've done
Training

Why we've done it
Best practice training for all sales and accounts teams.

Investing in our people:

- 🔗 Automating online ordering and payment
- 🔗 Sales tracking – live dashboards in CRM
- 🔗 Introducing joined up systems and sharing data

The results so far?
Standardising sales pitches works so far, but still early days.

What we've done
New 2018/2019 plan

Why we've done it

- 🔗 Driving performance through effective sales management
- 🔗 Implementing a CRM system
- 🔗 Providing a sales toolkit to the team
- 🔗 Optimising the relationship with Majestic Retail
- 🔗 Begin test and learn process for online lead generation

The results so far?
Once we have put in place the right systems and processes we will be able to focus on getting back to growth.



A The Lay & Wheeler team has delivered a solid year with a moderate growth in underlying revenue of 0.2% and adjusted EBIT flat. The business is now firmly back on track and, thanks to its strong team, is now contributing a meaningful profit to the Group.



Year ended 2 April 2018

	£'000	53rd week £'000	Impact of foreign exchange £'000	IT reallocation £'000	En primeur £'000	Underlying £'000
Revenue	12.9				1.6	14.5
Adjusted EBIT	0.9					0.9

Year ended 3 April 2017

Revenue	12.3	(0.1)			2.4	14.5
Adjusted EBIT	1.0	(0.1)				0.9

What we've done
Investment in Fine Wine Discovery Club

Why we've done it
We want to grow L&W, and to do that, we need more customers. To do that affordably and scalably we sign them up to our Fine Wine Discovery Club (FWDC):

- 🔗 There is demand in our customer base for fine wine
- 🔗 We can capture it by signing them up to the Club
- 🔗 FWDC offers an easy transition to becoming a Lay & Wheeler customer

The results so far?
We've proved that the concept works, with acceptable economics, and customers love it. Our next step is to prove how quickly we can grow it while not eroding returns.

How we know it's working?
Growth: We can deliver growth and good returns

Upsell: Mature customers spend double their monthly subscription, and become more valuable with time

A SEE INFORMATION ON ALTERNATIVE PERFORMANCE MEASURES AND DEFINITIONS ON PAGES 101 TO 104

What we've done

Lay & Wheeler own label wine in Majestic stores and fine wine room in Majestic St Johns Wood

Why we've done it

Enable more customers to experience L&W wines and expose the brand

The results so far?

Over 40,000 bottles sold in first year



laywheeler We're thrilled: Rhone Specialists of the Year. Thank you to our wonderful growers. #iwc2017



laywheeler Thrilled to receive Decanter's Judges' Choice award last night, plus runners up for Large Retailer of the Year and Specialist, Rhone

2018 was a year of awards for Lay & Wheeler

winning both the Judges Choice award at the Decanter awards, runner up for the Large Retailer of the Year and Rhone Specialists of the Year at the International Wine Challenge Awards.

CASE STUDY

The fundamental challenge in modern retail

How

do you keep your best retailers retailing?

By Rowan Gormley,
CEO



The only way Majestic can be one of the winners is by helping our customers discover wines they couldn't find for themselves. The only way we can do that is by having experienced and engaged staff.

Tough times are ahead. Like every other retailer we are faced with the fact that life is getting harder for our customers. Should we invest or cut back to drive returns? We've decided to invest.

This is our logic: There are going to be winners and losers in retail. We want to be one of the winners. The only way Majestic can be one of the winners is by helping our customers discover wines they couldn't find for themselves. The only way we can do that is by having experienced and engaged staff. This is a cliché every retailer trots out, but in our case it happens to be true.

The reason experience counts is that it takes two years for one of our store managers to get to know their local customers, get to know our product range and to have the confidence to be able to make helpful, useful wine recommendations to customers without making them feel like idiots.

The reason they need to be engaged is, I repeat, because we don't want our staff to make our customers feel like idiots when it comes to wine.

We have invested £8m since the launch of our transformation plan. We've seen a lot of improvement in things like product availability, wine quality and customer service but we are still faced with the fundamental challenge that some of our best retailers saw their future as getting out of the store and into an office, both because they felt they wanted to have more influence over their lives and to have more money.

This is a problem all retailers who invest in their people face. We've decided to do something that most PLCs dread... Give our people the chance to literally run their own shop and turn them into partners.

The partners, instead of earning a percentage of sales, will earn a significantly larger percentage of their store's contribution. They therefore have the ability to grow their income materially in comparison to a normal store manager. Secondly, we are reversing the traditional retail command and control style of management to give these partners more control over their store, the people who work in it and their own lives. Thirdly, we've dramatically accelerated training, moving away from training which says "these are the actions we want you to take" to a much more fundamental understanding of people, business and customers.

Can we do this all at once? No. We have set up a test group who will be pioneering this new experiment and over time we expect to move at least 50 – 60% of our branches into it, leaving only new managers with the career trajectory of a traditional store manager.

Is this going to cost more money? Yes. But it has the potential to pay for itself several times over, and going right back to the point I made at the beginning, if you want to be a winner then your employees need to be the ones that are dragging you to the finishing line, not the other way round.

Key risks and uncertainties

Throughout the year, the Board reviews the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and regular review of the risk registers across all business functions, facilitated by the Group Controls Manager.

Internal and external risks are monitored and measured in a slightly different way. Internal risks, such as systems development and stability, are analysed by the Business Unit management on a monthly basis. As these are almost entirely within our control they are closely monitored and discussed at management meetings. External risks are outside of our control, such as Brexit, so are discussed and monitored with the Group Controls Manager as well as the Business Unit management. As part of the annual internal review carried out at each Business Unit the Group Controls Manager completes a detailed review of each Business Unit's specific risk register.

The Executive Directors and Business Unit management are required to implement controls and processes to adequately mitigate risks, as well as maintaining their Business Unit risk register which is the foundation of the Group footprint. The full risk register has been reviewed to reflect the Group structure and strategy implemented in the last financial year. The below risks are classed as the highest risk.

These are not the only risks that may impact the Group but they are the ones that we believe are the most significant at this time, and specific to our business. We have ranked these risks in order of importance.

SWOT ANALYSIS

STRENGTHS

- ➔ Coming to the end of the transformation plan
- ➔ Four well-known brands
- ➔ Market leader in the UK
- ➔ Naked Wines model
- ➔ Cash generative
- ➔ Strong balance sheet
- ➔ Management team who are also shareholders
- ➔ Over one million active customers
- ➔ Wine quality and authenticity of wine makers

OPPORTUNITIES

- ➔ USA direct to consumer market growing at 15% p.a.
- ➔ Improvement in customer service
- ➔ Improvement in team retention

WEAKNESSES

- ➔ Previous under-investment led to poor customer and team retention
- ➔ Efficiency in the Group supply chain
- ➔ Removal of legacy IT systems
- ➔ Higher input rates and other costs

THREATS

- ➔ Competition (mainly supermarkets and grocers)
- ➔ Regulatory environment may become more complex
- ➔ Cyber security
- ➔ Brexit uncertainties
- ➔ UK economic outlook

An update on GDPR:

We take our data protection obligations seriously and have been preparing for GDPR for over a year. During this past year we have established a cross-functional team from across the UK and European entities who have had training on the new laws in order to ensure our compliance. We have also worked with external, specialist data protection lawyers to ensure we are fully compliant within the spirit of the law, while ensuring we make commercially appropriate decisions.

KEY

FINANCIAL

- Revenue
- Underlying revenue growth
- Net debt: adjusted EBITDA

OPERATIONAL

- Team retention
- Wine quality
- Product availability
- 5* customer service

INVESTMENT

- Sales to new customers
- Repeat customer sales
- Investment in new customers (also referred to as new customer contribution)
- Repeat customer sales retention
- Life time return (LTR)
- Repeat customer contribution
- Fixed costs

1. Regulation

Sale of alcohol is strictly controlled in all our markets through licensing and regulation.

More scrutiny in the USA as our business grows.

GDPR data laws go live this year, with higher standards.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➔ A change in regulation could impact on our cost structures or ability to operate. In particular, the USA has a complex set of regulations that vary by state
- ➔ We may be restricted in our ability to communicate to our customers, impacting recruitment, retention and engagement

MITIGATING ACTIVITIES

- ➔ We promote awareness and best practice within our business and use third-party legal advice where necessary
- ➔ Regulatory developments are routinely monitored in all our markets to ensure that potential changes are identified, assessed and appropriate action is taken
- ➔ We maintain up-to-date licences for all states, businesses and premises that we operate. We procure advice and support from licensing experts to help us maintain these
- ➔ We endeavour to pay all taxes and duties on time and in full to all taxing and licensing authorities
- ➔ We maintain all appropriate documentation as evidence of our compliance with licensing restrictions and regulations
- ➔ We have appointed a data protection owner and are ensuring that we will be compliant in advance of the implementation of the new GDPR legislation

RISK RATING

High

Likelihood: Medium Impact: High

CHANGE IN RISK

No change



2. Systems development and stability

Our transformation plan requires us to upgrade or replace a number of core legacy IT systems.

We are implementing new EPOS and accounting systems this year.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ⚠️ If either an existing system or an upgrade fails it could lead to significant costs and/or restriction in our ability to operate the business
- ⚠️ There are a small number of planned system upgrades to be undertaken this year which carry some significant risks

MITIGATING ACTIVITIES

- ⚡ We have an experienced and dedicated IT team, and use external consultants where we need to, ensuring we have a good balance of skills and experience in the team

RISK RATING

High

Likelihood: High Impact: High

CHANGE IN RISK

Increased



3. Competition

Threats range from the supermarkets, where wine can be used as a loss leader, to a range of more tailored online wine clubs.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ⚠️ Persistent aggressive competitive activity could impact on our ability to grow and keep our customer base and/or our margin position

MITIGATING ACTIVITIES

- ⚡ Our buying teams continually monitor our competition's activity
- ⚡ We are focused on delivering a better experience than our competitors, e.g. better value for money, better service, more engagement with winemakers

RISK RATING

High

Likelihood: High Impact: High

CHANGE IN RISK

No change



4. Investment

This year, we are increasing our level of investment across the business. The impact of this risk increases further with our continued investment and growth.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ⚠️ Investments could potentially not produce the desired return on investment and result in wasted cash

MITIGATING ACTIVITIES

- ⚡ Investments are always monitored and capital redeployed if they are not producing the target returns

RISK RATING

High

Likelihood: High Impact: High

CHANGE IN RISK

Increased



5. Information and cyber security

IT systems are used to facilitate sales, supply planning, business management and record keeping.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ⚠️ The threat of an unauthorised or malicious attack is an ongoing risk. Any attack could result in loss of data and/or a lack of customer confidence in the business impacting our trading
- ⚠️ Significant downtime as a result of a systems breach or failure would affect the ability to accept online customer orders and may affect customer loyalty. The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies or the loss of data relating to individuals may result in an Information Commissioner's office complaint and negative publicity

MITIGATING ACTIVITIES

- ⚡ IT systems, whether procured from third parties or built internally, are tested for security from attack. We also undertake periodic penetration testing exercises to provide ongoing assurance
- ⚡ Critical systems are backed up regularly and/or hosted on third-party data centres with appropriate backup/redundancy
- ⚡ A dedicated systems security resource is in place to provide assurance across the multiple businesses in the Group
- ⚡ Disaster recovery plans are in place to ensure the businesses can recover from any interruptions with minimal impact. The main trading websites and internal network are protected by a firewall with frequently updated anti-virus software

RISK RATING

Medium

Likelihood: Medium Impact: High

CHANGE IN RISK

No change



6. Supply chain and production capacity

Capacity constraints or reduced wine production could limit growth potential.

US business will need further warehouse capacity in order to fulfil growth expectations.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ⚠️ Capacity constraints in our warehouses could cause issues in fulfilling stock and limit the business growth potential. Issues with our supply chain could impact on the customer experience, and natural disasters could limit production of wine across the world

MITIGATING ACTIVITIES

- ⚡ A new third-party warehouse will be opened this year to manage a next day delivery service. Considerable improvement has been made in the supply chain in the USA and UK, but this is a large, ongoing project
- ⚡ Consolidation of UK pick and pack warehouses will result in lower costs and improved service

RISK RATING

Low

Likelihood: Medium Impact: Low

CHANGE IN RISK

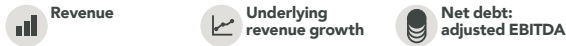
Decreased



Key risks and uncertainties
continued

KEY

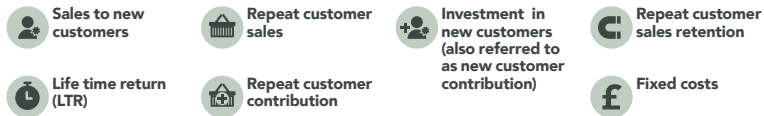
FINANCIAL



OPERATIONAL



INVESTMENT



7. Management team/key staff

Our success depends on our ability to hold on to our senior management and our ability to attract, motivate and retain high quality staff.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➔ Turnover of key staff could lead to continued change in processes and strategy leading to poor execution
- ➔ New Business Unit MDs have a lower level of experience than previously. Their inexperience could damage morale or ability to make key decisions

MITIGATING ACTIVITIES

- ➔ The Board reviews and benchmarks senior management compensation to ensure it is competitive. Senior management have access to the PLC board for any concerns
- ➔ We are confident that the business unit Managing Directors are the right people for the roles, we have implemented a robust framework and support network around them

RISK RATING
Medium

Likelihood: Medium Impact: Medium

CHANGE IN RISK
No change

8. Business interruption

In the event of a physical impediment, our physical locations that are central to trading, e.g. main offices and warehouses, could suffer significant interruption.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➔ A disastrous event occurring at or around one or more of the Group's sites, may affect the ongoing performance of our operations and negatively impact on the Group's finances and our customers

MITIGATING ACTIVITIES

- ➔ Data is stored or backed up offsite. All critical systems can be accessed remotely in the event of physical access restrictions. There are 'hotdesk' locations available on different sites in the event that nearby sites are inaccessible. Internal and third-party warehousing either has multiple sites or is operated by a third party with access to backup capacity

RISK RATING
Medium

Likelihood: Low Impact: High

CHANGE IN RISK
No change

9. Brexit

Uncertain economic conditions may result in additional risk, particularly any large fluctuations in foreign exchange movements.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➔ There are five main areas where Brexit could impact on the Group:
 1. The risk of a downturn in the UK economy. However, the potential impact of this is too early to foresee and historically the wine market has shown a good level of resilience
 2. The impact of a sustained reduction in the value of sterling which, despite the Group's hedging strategies, will lead to an increase in the year-on-year cost of importing wine
 3. Our ability to operate our stores in Calais that rely on personal importation of wine to the UK by the majority of our customers
 4. Potential import tariffs which may affect the affordability of wine
 5. Increased shipping delays and extra costs for Customs clearance

MITIGATING ACTIVITIES

- ➔ Our finance department takes responsibility for reducing exposure to exchange rate risk through hedging our exposure to foreign currency. Foreign currency balances are monitored regularly, with margins frequently reviewed by the Executive Board so any required adjustments can be made quickly when required
- ➔ However, the retail environment will remain a level playing field, with a sustained fall in sterling affecting all importers equally. We are used to dealing in many currencies and inside many different trading structures. We will adapt to the new arrangements, whatever the outcomes
- ➔ While our two stores in France are at the biggest risk of changes to regulations due to Brexit, sales and profits are a relatively small component of the Group total and not expected to be a major source of future growth
- ➔ Scenario planning for supply chain changes has already been undertaken and we have begun working with key partners on mitigation strategies

RISK RATING
Medium

Likelihood: Medium Impact: Medium

CHANGE IN RISK
No change

10. Financial, treasury and liquidity risks

The availability of funds to meet business needs, remaining within bank covenants, and the effect of fluctuations in foreign exchange rates and interest rates on the Group's financial position.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ☉ Access to financing impacts on our ability to operate and grow

MITIGATING ACTIVITIES

- ☉ We review the expected future cash needs of each business unit regularly to ensure availability of liquidity. We also periodically review our expected financial position against our banking covenants to ensure that our plans do not create risk of breach, including sensitivity to the risk of increased interest rates. A new revolving credit facility was agreed in the year and extended to 2022
- ☉ Transactional exchange rate risk is managed by sourcing from a variety of countries, and buying currency forward against our biggest exposures to achieve certainty of cost of purchased product. We do not undertake net asset hedging of our international operations

RISK RATING

Low

Likelihood: Low Impact: High

CHANGE IN RISK

No change



11. Third-party supplier risks

We rely on a number of third parties to fulfil business critical tasks, e.g. delivery.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ☉ If a supplier's business fails, our ability to operate with our current cost structures could be impacted
- ☉ We have one delivery partner across the Group in the UK, one in the USA, and one in Australia
- ☉ Our new supply chain project involves consolidating providers to one company in the UK which potentially increases risks

MITIGATING ACTIVITIES

- ☉ Third-party providers are selected on criteria including their capacity to handle growth

RISK RATING

Low

Likelihood: Medium Impact: Low

CHANGE IN RISK

Increased



Investment review



When I wrote to you last year, I stated that we would take a different course in FY18, one with a lower level of investment and a greater focus on productivity. I'm pleased to be able to say that despite the 'pause for breath' on investing in growth we have been successful in investing both in driving productivity and unlocking a pipeline of productive investment that we will be executing against next year.

James Crawford
Group Chief Financial Officer



DRIVING PRODUCTIVITY

A In FY18, the business delivered pre-tax operating cash flow of £32.4m before investment in growth in Naked Wines (by acquiring customers in excess of those needed to replenish attrition in the customer base). This cash was used as follows:

1. Investments supporting growth

➤ New customer acquisition in excess of replenishment	£3.7m
➤ Expenditure projects, e.g. shelving, software	£3.8m

2. Taxation £2.0m**3. Financing and debt reduction**

➤ Interest and fees	£1.2m
➤ Reduction in net debt	£17.0m

4. Returns to shareholders £4.0m**5. Other items (foreign currency translation, issue of share capital)** £0.7m

Our dividend policy is to pay out 35% of adjusted earnings, defined as adjusted PBT less the current year tax charge. The Board has indicated its intent, assuming no change in expectations of performance, to maintain a progressive dividend in FY19. While this is likely to result in the FY19 dividend being higher than our policy, it remains our intent at this time to make payment within the policy in future years.*

Efficiency area

Store operations: staff

Action taken

By shelving stores and rescheduling certain processes, e.g. delivery, store merchandising and stock counts, as well as balancing throughput between national and local fulfilment, we can increase the productivity of store staffing.

FY19 implication

We will invest nearly £3m to fully shelve all stores, and continue to drive efficiency in the staffing model.

Efficiency area

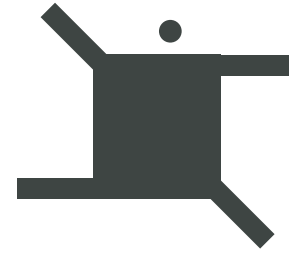
Store operations: van fleet

Action taken

We have installed telematics devices in our fleet of vans to provide insight into utilisation and improved ability to communicate delivery status to our customers.

FY19 implication

We will be identifying opportunities to maximise utilisation or reduce capacity, as well as targeting future insurance savings by measuring and rewarding improved driving.



Efficiency area

Telesales/service

Action taken

We have tested a number of new customer journeys to generate orders and handle expiring credit cards, with greater automatic contact to reduce the amount of telephone contacts needed to achieve the same objectives.

FY19 implication

We will be reducing the staffing costs charged to gross margin across Naked Wines.

Efficiency area

Packaging

Action taken

We have identified new formats for key promotional cases that reduce packaging levels and improve customer experience by ensuring all items are delivered simultaneously.

FY19 implication

Continue to strive for low cost and better customer service.

Efficiency area

New customer acquisition

Action taken

We reduced our spend in new customer marketing where we had identified returns below 60% ROI, and focused our teams on building a new pipeline of higher returning activity.

FY19 implication

We aim to sustain our ROI at 75% or higher. We have also compared our ROI calculation with alternative lifetime value ('LTV') calculations. We will be embedding LTV into our teams over the coming year.

Efficiency area

Purchased goods and services

Action taken

We realised savings on a large number of contracts, ranging from insurance to milk for the office, while maintaining or improving service.

FY19 implication

We are investing in dedicated procurement resource both for our product portfolio and our operations, administration and marketing costs.

4 5 6

INVESTING FOR FUTURE GROWTH

As per our business model, our main growth strategy is new customer acquisition but we also invest in retaining existing customers:



Investment type

Naked Wines new business

Finding

We invested £14.0m in new customers for Naked Wines this year, in line with our long-term growth trend, by incorporating digital and improving returns in the partner marketing channel.

Action and implication

In FY19, we are in a position to step up the rate of new customer acquisition by £5-£8m while maintaining our high ROI of 100%, equivalent to 4.7x life time value. In order to continue to grow the pipeline we will also invest in additional members of the new business team.

Investment type

Central digital marketing team

Finding

A central team of experts can generate a material pipeline (£4m+ per year) of high returning investment in digital media.

Action and implication

In FY19, we will be significantly scaling up digital new business investment in Naked Wines. We will add additional resource to the team to develop new channels and marketing for Retail and Lay & Wheeler.

Investment type

IT development team

Finding

Our central development team has delivered a new website for Majestic, saving c. £0.3m p.a. in site operating costs and improving performance.

They have also delivered:

- ➔ Increased product availability by integrating our sales data to our supply chain planning tools to provide improved analytics and demand forecasting
- ➔ Centralised quick turnaround store replenishment to reduce costs and in-store tasks of performing store-to-store transfers
- ➔ Replatform of the Naked Wines website to improve scalability and resilience during peak periods

Action and implication

In FY19, we will add further additional IT resource to deliver upgrades to core systems across the Group, e.g. EPOS, as well as developing our customer facing experience in line with the latest technology.

Investment type

Retail Concierge

Finding

We invested c. £0.8m recruiting 18,000 customers into our 'Concierge' proposition. Our initial analysis shows that Concierge customers have higher annual spend and improved retention, driving an 85% return on the cost of recruiting them.

Action and implication

In FY19, we will invest at higher levels to build this customer base further.

Investment type

Lay & Wheeler Fine Wine Discovery Club

Finding

We slowed investment in new customers for the FWDC in FY19 in order to analyse the behaviour of the members acquired to date. This has shown good retention and a satisfactory rate of incremental spend.

Action and implication

We will be looking to invest over £100,000 in testing more aggressive recruitment into FWDC in FY19 to create a more stable revenue base for Lay & Wheeler which remains exposed to fluctuating returns from en primeur campaigns.



Investment review
continued

LOOKING FORWARD TO FY19...

The first half of FY18 was one where we 'paused for breath', followed by 'putting our foot on the gas' as in H2 FY18 where we stepped up the investment rate by £2.4m. FY19 is shaping up to be a year where we 'double down' on the areas where we are seeing positive results from our investment. Specifically, we are intending to:

1. Invest £5m–£8m p.a. more into growing and improving our customer base by:

- Significantly increasing the level of new business investment in Naked Wines, expected to be £4–£7m in total
- Spend over £0.5m upgrading Retail customers to our Concierge service
- Spend c. £0.1m to recruit more customers into L&W's FWDC
- Continuing to invest in resources and new marketing approaches to unlock new channels for growth

New customer acquisition (growth)

What? Naked Wines: Partners and digital, especially USA
Retail and Lay & Wheeler:
Continued R&D

How much? £5m–£8m additional

2. Invest in teams, systems and tools to improve our customer proposition and efficiency

- Additional IT staff to bolster the existing group while a large proportion of time is dedicated to replacing our Retail EPOS system
- A small team dedicated to website optimisation
- Additional business intelligence staff, and global roll out of standardised reporting on the Tableau data platform

Growing the right way (efficiency)

What?

- Optimisation
- IT capacity
- Creating future growth opportunities

How much? £2m–£2.5m additional

3. Invest in the controls and compliance agenda to ensure that our growth remains well managed

- Dedicated compliance resource to support the US business, which operates in a complex regulatory environment
- Additional finance resource to ensure local controls are tightly implemented, and provide centralised expertise around areas as diverse as legal work, procurement and share based incentives
- Replacement of the Retail EPOS system, and bringing the Group onto a common accounting platform

Controls and compliance (safety)

What? Systems: EPOS, Accounting
Resource: Compliance, controls,
analytics

How much? £1.5m–£2m

As a result of these investments we envisage profitability in FY19 being lower than FY18. Our profitability will ultimately be determined by the level of new business investment we are able to deploy in the year at satisfactory levels of return, and this will be a critical metric that we intend to report as the year progresses.

OUR CASH PRIORITIES, IN ORDER OF IMPORTANCE

We remain committed to efficient allocation of capital.

Hierarchy	Status at end of FY18	Based on current known pipeline
1. Investment in new customers/growth	£14.0m p.a.	£5m–£8m additional in FY19
2. Target net debt 0.5x EBITDA	Net debt c. 0.35x EBITDA, £17m lower year on year	0.7-1x (driven by FY19 EBITDA reduction)
3. Return capital to shareholders – ordinary dividend	£4m paid out during FY18	Targeting to be in line with market expectations

Financial review

The Chief Operating Decision Maker (CODM) of the Company is the Board of Directors. In discussing business performance the CODM uses adjusted underlying measures. These differ from statutory reporting as follows (see note 8 for disclosure on adjustments):

ITEM	HIGHLIGHTS/COMMENTS	RATIONALE FOR USE
A Adjusted EBIT/PBT*	EBIT/PBT excluding impact of:	
	➡ Amortisation of acquisition related intangibles	These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. As we expense ongoing customer acquisition in full each year we remove the amortisation as otherwise we overstate the level of investment driving the current rate of growth
	➡ Acquisition related share-based payments	A substantial portion of the consideration for acquiring Naked Wines was structured as in Majestic shares. Due to the recipients having continued employment obligations, IFRS2 requires this to be accounted as an expense. As this expense reduces over the vesting period of the shares and is not an operating expense of the business we adjust it out to better reflect the business' ongoing profitability
	➡ Mark to market on unmatched FX contracts	We commit in advance to buying foreign currency to purchase wine in order to mitigate exchange rate fluctuations. International accounting standards require us to mark the value of these to market at year end. As this may fluctuate materially we adjust it out to better reflect our trading profitability
	➡ En primeur adjustment	We sometimes secure wine orders, generally for fine wines, a substantial period before the wine is ready to ship as it continues to mature in barrel on the winemaker's premises. While these transactions do not reach the statutory definition of a sale (as title has not passed to the customer) we include the sales and profits in our adjusted EBIT at the time of order, not shipment, to align the financial impact with the sales team's activity and cost
	➡ Share-based payment charges	We operate SIP and LTIP schemes to incentivise employees. The majority of shares have been awarded under the LTIP scheme which delivers the shares to the employee subject to continued employment and the relative performance of the Group vs a set of peers in terms of Total Shareholder Return Performance. The relative nature of this performance criterion means that short-term fluctuations in share prices prior to the date of award can have a material impact on the calculated expense of these schemes. To mitigate the volatility of these charges we adjust them out, while ensuring we report the maximum total dilution from all share schemes so that our shareholders can calculate our financial performance per share on a fully diluted basis
A Underlying measures*	A financial measure recalculated for:	
	➡ Constant foreign exchange translation	We source approximately 20% of revenues in currencies other than GBP. By translating prior year results at current year consistent exchange rates we see the year-on-year performance without the distortion of changing currency rates
	➡ 53rd week adjustment	FY17 contained 53 weeks in the reporting period. By eliminating the sales and profits for the extra week from the prior year comparative we see movements based on equivalent length years
	➡ En primeur timing	By recognising en primeur revenues and profits at the time of ordering in each of the current and comparative years we report a trend based on the sales activity in the year
	➡ Cost reallocations	We centralised our IT development team into our central cost base in FY18. By revising the FY17 comparative for these cost movements our segmental profitability is stated on a consistent basis

* Each measure referenced in the following commentary will state whether this is the statutory measure and movement or the adjusted underlying measure and movement. Adjusted underlying measures and reconciliation can be found on each divisional reporting page.

Financial review
continued

Group overview

The Group generated statutory profit before tax of £8.3m, a significant uplift from the (£1.5m) loss reported in FY17. On an adjusted underlying basis our profit before tax of £17.2m reflected a 63% underlying increase vs FY17.

The Group grew reported revenue by 2.3% to £476.1m. On an underlying basis we delivered an increase of 4.0% to £477.7m. Underlying revenue growth has slowed vs the 11.4% rate seen in FY17, as we anticipated in our results reporting last year, due to a combination of higher prices in the UK following Brexit-induced weakening of the Pound and our reduction in marketing investment at Naked Wines as we eliminated inefficient activity.

As the Group's operations are increasingly derived internationally, our results – in particular our reported revenues – are increasingly impacted by the exchange rates at which we translate our foreign operations. In FY18, we used average exchange rates that were different to the rates we were seeing at year end as follows:

	FY18 average	FY18 year end	Variance
USD	1.331	1.403	5.4%
AUD	1.717	1.829	6.5%
EUR	1.134	1.141	0.5%

Had the average rate for the year been at the level at year end our revenue would have been £5m lower than we reported. Projecting that impact forward into FY19 our revenues would be expected to be £7m lower than they would have been at constant exchange rates.

The significant step up in profitability is reflective of:

- ➔ Naked Wines delivering adjusted EBIT of £8.7m, an underlying increase of £7.4m (571%) due to:
 - ➔ The payback on the investment made in customers in Naked Wines in the prior year
 - ➔ A reduced level of investment in customer recruitment in the year
- ➔ Offset by a £1m increase in our central costs reflecting additional resources in IT and digital marketing
- ➔ The remainder of the trading business units achieving flat profitability
- ➔ The total of our adjusted items (as described above) reducing from £14.3m to £8.9m as the acquisition related items decrease in line with the share vesting periods and useful lives of the intangible assets. No one-off costs were recognised this year
- ➔ Our finance charges were £0.2m lower year on year as we continue to pay down the debt raised to acquire Naked Wines
- ➔ Despite our higher profitability our tax charge was reduced from £1.2m to £0.9m in the year. This reported tax rate of 11% reflects a number of exceptional changes such as a review of historical capital allowances which will drive a cash tax saving this year and in future periods, and creation of a deferred tax asset that we had not previously recognised while the Australian business remained loss-making.

YEAR ENDED 2 APRIL 2018

	Adjusted items (see Note 8)	Adjusted	Impact of foreign exchange	53rd week	Underlying
Revenue	476.1	1.6	477.7		477.7
EBIT	9.3	8.9	18.2		18.2
PBT	8.3	8.9	17.2		17.2

Year ended 3 April 2017

Revenue	465.4	2.4	467.8	(1.7)	(6.6)	459.5
EBIT	(0.2)	14.3	14.1	(0.3)	(2.0)	11.8
PBT	(1.5)	14.3	12.8	(0.3)	(2.0)	10.5

We also provide you with an adjusted effective tax rate to try and eliminate the impact of these items. We define this as the current income tax charge of £2.1m divided by our adjusted profit before tax of £17.2m. This was reduced from 19.9% in FY17 to 12.1% this year. The key driver of this low rate is the review to our historical capital allowances which has provided a one-time reduction in taxation by £0.5m and one time impact of foreign currency balance revaluations. Excluding these we estimate the adjusted effective tax rate to be c.18% and would expect the rate in FY19 to be of that order.

As a result of the improved profitability and lower tax rates our statutory earnings per share has increased from -4.1p to 10.9p. On an adjusted basis this is an increase from 17.7p to 23.9p. The number of shares outstanding increased in the year from 70,778,262 to 71,499,086 as a result of the vesting of consideration shares relating to the acquisition of Naked Wines and employee share option exercises. Subsequent to the year ending, on 26 April we announced the vesting of the second tranche of Naked Wines consideration shares and allotted a further 498,071 shares to the staff recipients.

The Group generated strong cash flow this year through a combination of higher earnings, CapEx remaining at a low level versus our depreciation charge and improved working capital efficiency. 136% of our adjusted EBIT of £18.2m was converted to free cash flow (pre-tax) of £24.9m. This cash was used to satisfy interest and tax obligations of £3.2m, pay dividends of £4m and reduce the Group's net debt from £25.7m at the end of FY17 to £8.4m at the end of FY18. As a result, our closing net debt is 0.35x adjusted EBITDA against our target of 0.5x and a covenant maximum of 3x.

Our dividend policy is to calculate our adjusted PBT less the current year tax charge and pay out 35% of the resulting amount across all holders of shares. Consequently a final dividend per share of 5.2p will be paid in August, subject to shareholder approval at the Annual General Meeting, bringing the full year payout to 7.2p per share (FY17: 5.1p per share). Despite our plans for higher levels of investment in growth in the future we remain confident of the Group's cash generating capability and, in the absence of changes from our current outlook, intend to maintain dividend growth in FY19.

In order to maintain strategic flexibility and mitigate commitment costs, we extended and amended our revolving credit facility during the year. The new facility is available until December 2022 and provides up to £60m of credit at the same interest rates as our previous £85m facility. We agreed amended covenants with the lending group, with maximum leverage of 3x adjusted EBITDA dropping to 2x over the 5-year term, and the previous interest cover covenant being replaced by a commitment to maintain fixed charge cover (the ratio of rent plus interest to EBITDAR) above 1.75x (3.0x at end FY18).

Outlook

We find ourselves at an exciting point in the Group's evolution. Three years after the acquisition of Naked Wines:

- ➔ Naked Wines has over twice the scale it had when acquired and has demonstrated its ability to deliver strong profitability while sustaining double digit underlying sales growth
- ➔ The Group is on track to deliver our goal of £500m in revenue
- ➔ Our net debt is below our targeted leverage

On 17 April 2018, we held a Capital Markets day where we outlined our plans for the next phase of the Group's evolution. At that day we showed how:

- ➔ The returns from our marketing investment to recruit new customers for Naked Wines were better than we have previously disclosed, due to sales retention being materially higher than customer retention
- ➔ The level of investment we can make in marketing while delivering those returns is increasing significantly
- ➔ There are early signs that we may be able to invest in growth in the Retail business using the same approach

With capital available and investment opportunities visible, we have taken the decision to increase the level of new customer investment by £5m–£8m year on year. We are also adding new resources to further increase the rate and efficiency of our investment (£2m–£2.5m) and additional control and compliance resource to ensure we are growing the business safely (£1.5m–£2m). Due to these investments we expect profitability to decrease by at least £2.5m year on year in FY19.

Majestic Retail

Reported revenue was up 0.6%, while on a 52 week underlying basis, we achieved revenue growth of 1.9% in the year. With gross margin 44bps lower year on year gross profit was flat. Gross margins continue to be eroded as we strive to balance profitability with competitive pricing. Our trading margin (i.e. the difference between what we sell for versus what we buy for) was 55bps lower year on year. By shelving stores and improving our IT systems and process we have improved staffing productivity, which delivered an offsetting improvement of 11bps. The Retail business delivered a flat performance with adjusted EBIT of £13.3m, just 0.4% higher year on year.

Continued focus on cost control across the division in the face of the higher rate of inflation resulted in our operating costs remaining flat year on year.

It's worth noting that after a strong start to the financial year, trends in Retail worsened towards the end of the financial year. If Easter 2017 had been at the same time as 2018 the underlying revenue trend in Retail would have been flat. We understand the drivers of this:

- Our customer data tells us that we have lost sales across customers old and new, with repeat customer sales retention down from 96% in FY17 to 92% this year. This is the reason why repeat customer contribution and repeat customer sales declined year on year. However, we have not lost the customers, i.e. they are still shopping with us but not buying certain products, due to Brexit related price increases
- Our wine market data suggests that we are maintaining value share but losing volume, in particular in certain category/price point combinations

We are taking action to close these gaps in our range as well as continuing to improve our in-store service proposition and the quality and targeting of our sales and marketing activity. Specifically we are:

- Continuing to reach new customers with sales to this group 2% higher in FY18
- Building a base of 'Concierge' customers, who deliver increased annual spend by buying regularly scheduled cases of wine
- Continuing to drive the cost agenda; for example, we have combined the Majestic and Naked Wines online fulfilment operations to increase service levels while reducing costs

As a result of these actions we believe the Retail business can continue to grow sales and profits in FY19 despite the challenging market conditions, but we do expect the market to remain tough.

Naked Wines

Revenue growth at Naked was up 8.1% (underlying 11.3%), with repeat customers growing revenue by 17.6%, more than offsetting a 16.7% decline in revenue to new customers as we reduced marketing spend in the year. This sales increase, driven by our profitable repeat business, grew Naked Wines profitability almost six times higher this year, with full year adjusted EBIT reaching £8.7m, an underlying increase of £7.4m.

Of this increase:

- £4.4m is attributable to the returns on prior year investments in new customer recruitment, i.e. more Angels year on year
- £2.4m was due to improvements in the economics of each Angel (more orders or improved order profitability)
- £0.8m was due to our investment in new customers reducing from £14.8m to £14.0m in the year
- All of which was offset by an increase of £0.2m in the underlying fixed cost base

● Last year we reported a ROI* on the investment in new customers of 83%, lower than in prior years due to some poor investment campaigns, in particular in the USA. This year, the ROI recovered to 100% as we eliminated the poor campaigns. We have replaced the spend eliminated with a pipeline of higher returning activity, such that we expect to materially grow the level of investment in FY19.

Going forward we intend to focus on two new critical measures of performance for Naked Wines, which we are beginning to also use across the rest of the Group:

- **1. Repeat customer sales retention:** The proportion of sales repeated in the current period by customers who were also generating sales in the same period a year ago. In FY18 this was 83%, the same level as in FY17.
- **2. Lifetime payback:** The expected multiple of contribution over 20 years from Angels recruited in the year vs the cost per Angel recruited. This forecast payback is based on the behaviour seen in the year compared to the average historical behaviour of Angels. In FY18 this was 4.7x compared to 4.4x for those recruited in FY17. Because we get more data about the customers we have recruited over time, we can also refine our expectations on payback of older cohort of customers. Had we reported this in FY17 we would have forecast 4.5x, largely consistent with the 4.4x now calculated.

We move into FY19 with the outlook for investment in new customers at Naked wines looking very positive. Following a decline in sales to new customers this year as we reduced our investment in new customers by 5%, we intend to grow investment in FY19 and expect to see new customer sales growth accelerate as a result.

Commercial

The commercial business remains challenging with reported revenue declining by 7.0% and underlying revenue lower by 5.6%. The decline has been largely driven by poor repeat customer sales retention.

While some of this is due to factors beyond our control, e.g. business failures, there has been a higher level of churn than we had forecast. We announced a reduction in investment in Commercial with last year's results and that clearly impacted employee engagement and customer service levels. Through focus on costs the business managed to make 1.7% more underlying adjusted EBIT year on year.

The wholesale market has been a volatile environment in the past year. At the start of the year there was significant competition for business and staff, and as we announced a reduction in the level of investment in Commercial business generation we lost a number of staff that we had planned to retain. This had an impact on customer relationships and service levels leading to the higher level of customer attrition. Towards the end of the year a large player in the sector had some well publicised financial problems that ultimately led to the break up of that business. That in turn provided opportunities to service some new customers who had supply problems. We are hopeful that will translate to some ongoing business and that the level of price-led competition in the market will subside as a result, supporting the stabilisation of the Commercial business for Majestic.

Lay & Wheeler

Reported revenue was down 1.1%. Underlying revenue and profits were flat, sustaining the level achieved after 36% underlying growth in FY17. Despite the muted headline this masks continued progress selling full price wine to both new and existing customers, as we have continued to experiment with building a base of subscription customers as well as reducing the level of deeply discounted sales being made. Looking forward, the expectations around the key en primeur campaigns are lower than in recent years and we expect to see some revenue and profit reduction from Lay & Wheeler in FY19.

Central costs

Central costs grew from £4.2m in FY17 to £7.2m this year. Of this increase £2.0m relates to movement of IT costs from the Retail and Naked Wines businesses into a centralised team supporting all businesses. Of the remaining £1m, £0.4m relates to additional digital marketing resource, £0.4m is an underlying increase in IT costs with the remainder being a mix of staffing and advisory costs.

A note on Angel funding

The most special characteristic of the Naked Wines business is the way that we connect with our customers, who we call Angels, and the winemakers. We do this not just by letting them speak to each other via our website and tasting events, but we also use the money Angels have deposited in their account to fund the winemaking process.

By having this pool of capital available to invest into the supply chain, we commit early and pay upfront, giving the winemaker certainty they are getting paid and allowing them to focus on making the wine. You can see the difference below in our businesses average working capital balances for the year, with Majestic inventory 63% funded by accounts payable, while 62% of Naked's stock is funded by customers.

	Majestic	Naked
Inventory (including WIP)	£56.5m	£45.8m
Accounts payable	£35.7m	£9.7m
Customer funds		£28.6m

* Defined terms and alternative performance measures can be found on pages 101 to 104.

Financial review
continued

ITEM	HIGHLIGHTS/COMMENTS
A Revenue £476.1m reported, +2.3% £477.7m underlying, +4.0%	<ul style="list-style-type: none"> ➤ Retail: Sales growth of +0.6% (underlying: +1.9%) to £263.8m, despite an extremely competitive market and on a base that has grown 15% over the two prior years ➤ Naked Wines: Sales growth of +8.1%. On underlying basis sales growth was 11.3% driven by the USA +10.4%, Australia +32.0% and UK +5.2%. Sales growth was muted due to lower levels of investment in new customers as we eliminated inefficient spend ➤ Commercial: Slowed to -7.0% (underlying: -5.6%) to £43.4m ➤ Lay & Wheeler: -1.1% (+0.2% underlying) sales growth to £14.5m after elimination of certain low margin sales
Gross margin 26.7%, +0.7%	<ul style="list-style-type: none"> ➤ Group gross margin % increased by +0.6%, driven by mix of business and margin improvement in Naked Wines ➤ Majestic Retail gross margin fell by 0.7pps on a reported basis and 0.4pps on an underlying basis due to higher input costs and continuing competitive pressure, offset by increased staffing efficiency ➤ Naked Wines gross margin increased by +1.2% reported reflecting increasing mix of repeat business
A Administrative expenses £50.4m (3.8%)	<ul style="list-style-type: none"> ➤ Total administrative costs, excluding adjusted items, reduced by £2m despite inflation rates running nearer 3% and a 4% increase in sales. This reflects a series of initiatives undertaken in FY18 to eliminate unproductive marketing investment and unproductive costs across all business units
A Adjusted EBIT £18.2m +28.9% reported, +54.5% underlying	<ul style="list-style-type: none"> ➤ Naked sales growth, transformation project efficiencies and elimination of underperforming marketing activities translated strongly into profitability ➤ Retail adjusted EBIT was flat mainly due to elimination of dual-operating costs and savings through re-negotiations ➤ Naked Wines adjusted EBIT of £8.7m (underlying growth in adjusted EBIT of +£7.4m) mainly as a result of increased Matured Angel contribution, reduced investment in marketing channels and administration cost base ➤ Commercial adjusted EBIT of £2.4m is 4.2% lower (underlying: 1.7% higher) driven by poor retention and existing account base sales performance ➤ Lay & Wheeler adjusted EBIT was flat as impact of underlying revenue growth was offset by increased selling cost ➤ Central/unallocated costs were 72.3% higher (16.9% on underlying basis) as we continued to add resource to the Group functions, in particular around digital marketing
A Adjusted items (£8.9m) -38.0% See note 8 for full adjustment disclosure	<p>Continued to reduce as the non-cash, acquisition related items become fully expensed:</p> <ul style="list-style-type: none"> ➤ Amortisation of acquired intangibles (£3.9m) ➤ Acquisition related share based payment charges (£4.1m) ➤ En primeur impact (£0.3m) ➤ Fair value movement on FX contract £0.2m ➤ Share based payment charges (£0.8m) <p>In the prior year, higher acquisition related share-based payment charges (£6.9m) along with restructuring costs (£0.9m) and mark-to-market loss on forward contracts (£1m) were the main factors for the higher adjusted items</p>
Finance charges £1.0m, -18.6%	<ul style="list-style-type: none"> ➤ Finance charges reduced by 18.6% in the period due to growth in operational cash flows which resulted in lower average balance on our revolving credit facility
Statutory PBT Profit £8.3m compared to loss £1.5 in prior year	<ul style="list-style-type: none"> ➤ Profit before tax increased by £9.8m mainly driven by improved Naked Wine performance and lower adjusted items ➤ In the prior year, statutory loss versus adjusted profit was heavily impacted by the charges relating to the Naked Wines acquisition
Taxation £0.9m 10.9%	<p>Effective tax rate substantially improved from -83% to 11% in the year which is mainly due to</p> <ul style="list-style-type: none"> ➤ Lower adjusted items, e.g. share based payment charges, mark to market foreign currency position, etc. ➤ UK capital allowance relief from prior years, ➤ Utilisation of brought forward losses in Naked US and Australia, ➤ Recognition of a deferred tax asset on Naked Australia, and ➤ Tax relief on foreign exchange differences on intracompany loans. <p>Similarly, adjusted effective tax rate (being the ratio of current income tax expense to adjusted PBT) was 12.1%, down from 19.9% due to capital allowance relief, utilisation of tax losses and tax relief on foreign exchange differences.</p>

ITEM	HIGHLIGHTS/COMMENTS						
Shares outstanding	<p>Shares issued at year end of 71.5 million</p> <ul style="list-style-type: none"> Of these, 3 million shares are subject to clawback if the performance conditions relating to the Naked Wines acquisition are not achieved In the period, clawback restrictions were released on 1.8 million shares. Post year end restriction on another 1.8 million shares was released as second Naked Wines vesting point was successfully achieved Further 2.1 million options are outstanding through other employee share schemes Weighted average shares in issue of 73.1 million If all the Company and acquisition related share schemes fully vested we would have 74.5 million shares in issue 						
Earnings per share 10.9p basic 23.9p adjusted 10.1p diluted	<ul style="list-style-type: none"> Substantial increase in basic diluted and adjusted EPS compared to prior year which is a function of improved profitability (both statutory and adjusted PBT) of the business 						
Dividend 5.2p per share, total dividend of 7.2p, +41%	<ul style="list-style-type: none"> Dividend payout per policy, i.e. 35% of adjusted profit after tax 						
Free cash flow £24.9m (+300%)	<p>Free cash flow totalled £24.9m compared to £6.2m in the prior year, reflecting:</p> <ul style="list-style-type: none"> Increased EBITDA due to revenue growth and transformation project efficiencies Working capital benefit deriving from higher level of stocks and receivables and lower payables in the prior year 						
Fixed assets	<ul style="list-style-type: none"> Group capital expenditure was £3.8m, invested predominantly in the Retail estate and new finance system Approximately £2.4m of this was spent on store refurbishment and shelving 						
Working capital	<p>Working capital reduced by £4.5m in the year:</p> <ul style="list-style-type: none"> +£4.1m increase in angel funds and customer deposits -£2.4m increase in inventory +£2.9m increase in cash resulting from increase in receivables along with effective supplier management across the Group 						
Net debt £8.4m (-67%)	<ul style="list-style-type: none"> Group's net debt reduced by £17.3m to £8.4m this year compared to £25.7m in the prior year. This was mainly the result of: <table border="0"> <tr> <td>Free cash flow</td> <td>£24.9m</td> </tr> <tr> <td>Tax and interest</td> <td>£3.2m</td> </tr> <tr> <td>Dividends paid</td> <td>£(4.0)m</td> </tr> </table>	Free cash flow	£24.9m	Tax and interest	£3.2m	Dividends paid	£(4.0)m
Free cash flow	£24.9m						
Tax and interest	£3.2m						
Dividends paid	£(4.0)m						
Bank covenants and facilities	<ul style="list-style-type: none"> In November, we amended and extended our revolving credit facility. The new facility has headline capacity of £60m and matures in December 2022. Interest will be charged at margins between 1% and 1.25% above LIBOR, depending on the Group's leverage We remain comfortably within our revised facility covenants with net debt/EBITDA (as measured by facility agreement) of 0.35x and fixed charge cover of 3.09x 						
Hedging policy	<ul style="list-style-type: none"> The Group's hedging policy is to build currency positions gradually between 9 and 3 months prior to the date of expected liabilities coming due, using forward purchase contracts. At year end this resulted in us holding £42.4m of forward contracts and recognising a market to market expense of £192,000 						
Naked Wines contingent consideration	<ul style="list-style-type: none"> We are continuing to expense the contingent shares on the basis that performance targets are achieved and the shares will be issued/have their clawback provisions lifted. The second tranche of shares were vested shortly after the end of the financial year 						
Going concern	<ul style="list-style-type: none"> Our forecasts for the business support our investment plans while deleveraging and paying a dividend. As such we have prepared the accounts on the going concern basis. This is further discussed in the notes to the accounts 						

Governance

Growing our business the right way...

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management framework
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Chairman's introduction



Our values are based on our virtuous circle of "Doing the right thing" for our customers, people, suppliers and shareholders. The Board believes this is vital to creating a sustainable, growing business and is a key responsibility of the Group. This culture supports the Company's objectives to grow the business through acquiring and retaining customers rather than through opening stores.

It is the Board's job to ensure that the Majestic Group is managed for the long-term benefit of all shareholders, with effective and efficient decision-making. Corporate governance is an important part of that job, reducing risk and adding value to our business.

Greg Hodder
Chairman

Changes to corporate governance regime

The Board is aware of the London Stock Exchange's recent changes to the AIM Rules and, in particular, the changes to AIM Rule 26 requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code. As these changes will take effect from 28 September 2018, they will therefore be included in the next Annual Report. The Board is currently considering which corporate governance code is most suited to the Company for adoption. The Board notes that, since these changes were announced, the Quoted Companies Alliance (QCA) has updated the QCA Corporate Governance Code, which is likely to be the basis of the corporate governance regime the Company will be adopting as it is more suited to Majestic's needs and size.

The following governance report explains the progress made so far against the ten broad QCA corporate governance principles to prepare for running the business in line with the code next year.



The Board

An experienced team to take us forward



Brian ('Greg') Hodder

Non-Executive Chairman (65)

Appointment date:

October 2015

Experience:

Chief Executive of Charles Tyrwhitt for nine years. Chief Executive Officer of Direct Wines for 14 years. He has also formerly held senior positions at Smallbone USA.

Committees:

Chair of Nomination Committee, Member of the Audit and Remuneration Committees.

External appointments:

Non-Executive Director at Hotel Chocolat.

Skills brought to the Board:

Retail and wine sector experience, focus on multi-channel and ecommerce delivery.

Number of Board meetings attended:

8 out of 8

Sector experience:

Retail

Rowan Gormley

Chief Executive Officer (56)

Appointment date:

April 2015

Experience:

Co-founded Virgin Money, The Virgin One Account, Virgin Wines and Naked Wines.

Qualified as a chartered accountant and spent seven years at Electra Investment Management.

External appointments:

None.

Skills brought to the Board:

Founder of Naked Wines, innovation and entrepreneurship.

Number of Board meetings attended:

8 out of 8

Sector experience:

Direct marketing

James Crawford

Group Chief Financial Officer (41)

Appointment date:

August 2015

Experience:

Joined Naked Wines as Finance Director in March 2014 following a 13-year career with Diageo plc, a global leader in beers, spirits and wine, where he held several senior finance, strategy and business development roles in the UK and North America.

External appointments:

None.

Skills brought to the Board:

Financial skills, industry knowledge and international experience.

Number of Board meetings attended:

8 out of 8

Sector experience:

Finance and legislation, beverage/ alcohol sector in the UK and USA



Justin Apthorp

Non-Executive Director (56)

Appointment date:

January 2006
(Non-Executive as of January 2016)

Experience:

Spent 25 years with Majestic, with the last 10 years as Buying Director, before retiring from his executive role at the end of 2015. Previously he worked in marketing and brand development for Bejam and Lyons Tetley.

External appointments:

- Trustee of John Apthorp Charity
- Trustee of Friends of St. Peter's Great Berkhamsted

Skills brought to the Board:

Knowledge of buying and Majestic Wine.

Number of Board meetings attended:
8 out of 8

Sector experience:

The wine industry

Ian Harding

Non-Executive Director and Senior Independent Director (53)

Appointment date:

June 2013

Experience:

Spent 19 years with Kingfisher plc, in various senior roles including 11 years as Group Communications Director, previously spent eight years at PwC and is a fellow of the Institute of Chartered Accountants in England and Wales.

Committees:

- Chair of Audit Committee until 1 July 2018
- Chair of the Remuneration Committee
- Member of the Nomination Committee

External appointments:

None.

Skills brought to the Board:

Finance, communications, investor and media relations expertise.

Number of Board meetings attended:
8 out of 8

Sector experience:

Finance, investor relations and communications

David Stead

Non-Executive Director (60)

Appointment date:

November 2017

Experience:

David was Chief Financial Officer of Dunelm Group plc from September 2003 until his retirement in 2015. Prior to this, David was Finance Director for Boots The Chemists Ltd and Boots Healthcare International between 1991 and 2003. David is a chartered accountant, having spent the early part of his career with KPMG.

Committees:

- Chair of Audit Committee from 1 July 2018
- Member of Remuneration and Nomination Committees

External appointments:

- Non-Executive Director of Card Factory plc
- Non-Executive Director of Joules Group Plc
- Member of the Council at the University of Birmingham

Skills brought to the Board:

Finance, public markets.

Number of Board meetings attended:
3 out of 3

Sector experience:

Finance and legislation

Governance

SECTION 1: Deliver growth

Principle 1:

Establish a strategy and business model which promote long-term value for shareholders

OUR STRATEGY IS DISCUSSED IN OUR
CEO LETTER ON PAGES 6 TO 12

The Company is a quality wine specialist, with more than 1 million customers in the UK, France, USA and Australia. Our goal is to try to beat the market by investing in customer relationships, rather than stores. We do that through:

- Investing in models that compound, i.e. models that get stronger with growth
- Investing with discipline, because we are able to test new opportunities before we roll them out
- Using data and technology to continuously improve. Every quarter we double up on our best performing investments, and cancel the worst performers

This is underpinned by the Board's values and principles of "doing the right thing" as explained on page 41.

Principle 2:

Seek to understand and meet shareholder needs and expectations

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences, hosting capital markets days and our regular reporting.

Private shareholders

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website. Private shareholder events are held by the Head of Investor Relations. To request a meeting please contact: investor.relations@majestic.co.uk

Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Head of Investor Relations and Chief Financial Officer, supported by the Chief Executive Officer, as appropriate.

The Chief Executive Officer and Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results. In addition, over the summer of 2017 the Chairman and Senior Independent Director visited the top 10 shareholders in London in order to listen to their feedback and have a direct conversation on any areas of concern.

The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the Head of Investor Relations. Any significant investment reports from analysts are also circulated to the Board.

The Non-Executive Chairman and Senior Independent Director are available to meet with major shareholders if required to discuss issues of importance to them.

To request any meetings please contact: investor.relations@majestic.co.uk

**Shareholder engagement calendar
2017/2018**

April 2017
Pre-close investor meetings



May 2017 & June 2017
Preliminary results roadshow



July 2017
USA roadshow



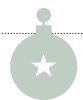
August 2017
AGM

September 2017
Senior Independent Director and
Chairman investor meetings



October 2017
Private investor events

November 2017 & December 2017
Interim results roadshow
Private investor events



January 2018
Christmas trading update

February 2018
London investor meetings

April 2018
Capital Markets Day



May 2018
USA Capital Markets Day and site visit
to NakedWines.com



During the year the company won 'Best Investor Communications' at the AIM Awards, was shortlisted for 'Best Annual Report' in small cap + AIM by the Investor Relations Society and shortlisted for 'Investor Relations team of the year' by the UK Stock Market Awards (winner to be announced in June 2018).

Principle 3:

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making. Aside from our shareholders, suppliers and customers, our employees are one of our most important stakeholder groups and the Board therefore closely monitors and reviews the results of the Company's Employee Engagement surveys as well as a number of any other feedback it receives to ensure alignment of interests.



Employees

Over the past year we have:

- 1 Implemented a new Franchise-Lite programme for our store staff which allows them to earn a significant pay rise as their store performs better
- 2 Released a positive gender pay gap report and made changes to our maternity policy to support women as they move up our business
- 3 Continued WSET training for all employees
- 4 Were awarded the Sunday Times Top 100 Companies To Work For based on employee reviews
- 5 Completed regular engagement surveys to keep informed on the major issues our staff want us to change
- 6 Continued to be a Living Wage Employer in the UK

Maternity pay changes: From the beginning of FY2019 the Board has approved to increase the level of maternity pay for female staff across the UK. Our maternity pay policy is now six weeks at 100% pay and a further eight weeks at 90% pay if employees commit to one full year of employment after their leave. In addition, current maternity policies are being reviewed in our international divisions.



Majestic are definitely getting better at looking after our people but there is still more to do for those of us in stores. The Franchise-Lite programme is a fantastic opportunity to both grow the business and grow as a person. It provides clear steps to promotion and getting the most out of the role. Tools such as Tableau are great for seeing how the little things we do in store shape the bigger picture.

Sophie Freedman
Majestic Wine Norwich



Suppliers

Over the past year:

- 1 Naked Wines Angels raised over \$500,000 for winemakers who were impacted by the wildfires across Napa and Sonoma in 2017
- 2 Naked Wines Angels have come to the rescue of people and winemakers in need more than seven times since its launch, from the Napa wild fires and earthquakes to lightning storms, vandalism and raising funds for winemakers to care for their ill child – our customers truly are heroes
- 3 We launched an Annual Supplier Conference in 2016 and use this to have an open and two way conversation with our biggest suppliers about our business and strategy
- 4 Supplier guiding principles – to make sure we are looking after our suppliers



Customers and communities

Over the past year:

- 1 Started a UK environmental group
- 2 Reviewed our Modern Slavery Statement to ensure we are not inadvertently supporting any type of modern slavery
- 3 Implemented a Code of Conduct for all our employees and suppliers to ensure everyone is acting in the best interests of the Company
- 4 Improved our Customer helplines with dedicated Customer Happiness Teams for each business
- 5 Updated and invested in each of our six business websites and our plc website
- 6 Updated our websites to make it easier to leave customer feedback and as a result have committed to updating our range based on this
- 7 Published a UK tax strategy under schedule 19 of the Finance Act 2016

Responsible retailing

The Group recognises that alcohol misuse, underage drinking and poor health are issues causing real concern in the UK today. Majestic Wine takes these matters very seriously and we are committed to the responsible retailing of alcohol in order to help mitigate their impact. We are a supporter of Drinkaware, the Government sponsored trust which promotes responsible drinking. We operate a Challenge 25 scheme to ensure that minors cannot purchase alcohol at our stores. In addition, we have signed up to the Government's Responsibility Deal which aims to improve public health by encouraging responsible drinking. We ensure that customers have access to information about alcohol in-store, on our website and in our promotional literature. Staff training includes principles of social responsibility and alcohol misuse and all tasting events encourage customers to enjoy wine responsibly.

Modern slavery

As part of our Company mission to "Do the Right Thing for our People, Customers and Suppliers" we oppose modern slavery in all its forms and will try to prevent it by any means that we can. We expect anyone who has any suspicions of modern slavery in our business or our supply chain to raise their concerns without delay. We promise that we will keep any information provided completely confidential. As a Group Majestic Wine plc maintains relationships with many different organisations in its supply chain, as well as directly employing over 1,400 people worldwide. In the light of the Modern Slavery Act 2015 we annually review internal measures to ensure we are doing what we can to prevent slavery and human trafficking in our businesses and in our supply chains. Our policy is available on the plc website:

majesticwineplc.co.uk

SECTION 1: Deliver growth

Principle 4:

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Audit, risk and internal control

 A SWOT ANALYSIS CAN BE FOUND ON PAGE 28

Financial controls

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Management, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

- ➊ The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board.
- ➋ The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls, including the review of results of work performed by the Group controls function.
- ➌ There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. Monthly results are reported against budget and compared with the prior year, and forecasts for the current financial year are regularly revised in light of actual performance.
- ➍ The Company has a consistent system of prior appraisal for investments, overseen by the Chief Financial Officer and Chief Executive Officer, with defined financial controls and procedures with which each business area is required to comply in order to be granted investment funds for development. Regular post-investment reviews are also carried out to check the Return on Investment that has been delivered.

Non-financial controls

The Board recognises that maintaining sound controls and discipline is critical to managing the downside risks to our plan. To continue the improvement in this area we are adding to our existing controls department, expanding the team in the USA to ensure we remain compliant with all state regulations and continued tight control on investment as it increases over the coming year.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss.

The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- ➊ Close management of the day-to-day activities of the Group by the Executive Directors
- ➋ An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks
- ➌ A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board
- ➍ Detailed monthly reporting of performance against budget
- ➎ Central control over key areas such as capital expenditure authorisation and banking facilities
- ➏ A Group Controls Manager to oversee all internal controls policies and processes
- ➐ A recently-appointed Group General Counsel to ensure legal risk is properly managed and legal rigour is enforced in all our business negotiations

The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available. The Group Controls Manager has internal audit as part of their role. Their role is also to carry out annual reviews of each business unit to ensure they are achieving a Group-wide minimum control standard, the results of which are reported back to the Board. They also investigate any significant breaches of control and recommend how to prevent such breaches in future. As part of the Group's review a number of non-financial controls covering areas such as regulatory compliance, business integrity, health and safety, risk management, business continuity and corporate social responsibility (including ethical trading, supplier standards, environmental concerns and employment diversity) have been assessed. The key elements of those non-financial controls are set out below.

Standards and policies: The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include the 'Anti Modern Slavery Policy' and 'Employee Code of Conduct'. All policies are underpinned by our culture of "Doing the right thing for our customers, people and suppliers". Operating procedures for control of store operations are clearly documented and set out in operation manuals. Senior managers are responsible for the implementation of these procedures and compliance is monitored.

Approval process: All material contracts are required to be reviewed and signed by a senior Director of the Company and reviewed by our General Counsel.

Re-assessment: The Company has a Business Risk Register with business continuity plans to address key risks that have an immediate impact. Risks facing the business are re-assessed, and potential mitigating actions are considered and implemented to help protect against those risks. Each Business Unit has a weekly and monthly checklist that reviews key KPIs and other business measures to ensure alignment to the plan.

Code of Conduct: Our Code of Conduct includes guidance on anything that could get our employees into trouble, (including business integrity, anti-bribery, gifts, intellectual property and design rights) they are sent to everyone in the Group and are visible in all workplaces. Every year senior managers and above declare compliance to this code.

Legal controls

In the past year the Group has hired an Independent Company Secretary and General Counsel. This was as a result of the Board deciding that the Group should separate the Chief Financial Officer and Company Secretary roles. The General Counsel now advises all four of our divisions. In addition, Naked Wines USA is currently recruiting a compliance officer to be based in house to advise on all legal and regulatory aspects of trading in the USA.

SECTION 2: Maintain a dynamic framework

Principle 5:

Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board comprises the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors, one of whom also acts as Senior Independent Director. During the financial year to April 2018, Phil Wrigley, Non Executive Chairman, retired and was replaced by Greg Hodder. David Stead was appointed a Non-Executive Director and will become Chair of the Audit Committee with effect from 01 July. Anita Balchandani stepped down from her role after being appointed by McKinsey and the Company is looking at appointing a replacement.

The Board considers, after careful review, that the Non-Executive Directors bring an independent judgement to bear. Justin Apthorp has been classified as non-independent due to his time working with the Company and current shareholding.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman holds regular update meetings with each Director to ensure they are performing as they are required.

During the year eight Board meetings took place. These were held at the Majestic Retail head office, at one London based Majestic store, and at the Naked Wines UK office. All Board members attended all meetings they were invited to. Key Board activities this year included:

- ➊ Input into the accelerating growth plan
- ➋ Continued an open dialogue with the investment community, including meetings with the new Chairman and Senior Independent Director
- ➌ Considered our financial and non-financial policies, including the policies around the gender pay gap
- ➍ Discussed strategic priorities
- ➎ Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy
- ➏ Reviewed the development of the supply chain projects across the Group
- ➐ Discussed internal governance processes
- ➑ Reviewed the Group risk register
- ➒ Reviewed feedback from shareholders post full and half year results
- ➓ Appointment of David Stead as Non-Executive Director and Greg Hodder as Non-Executive Chairman

Directors' conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Principle 6:

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

•• DIRECTORS DETAILS AND BIOGRAPHIES
ARE ON PAGES 42 AND 43

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of retailing, wine, finance, innovation, international trading, ecommerce and marketing.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

Contracts are available for inspection at the Company's registered office and at the Annual General Meeting ("AGM"). All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

The Directors who served during the year and their interests in the ordinary share capital of the Company were:

	Number of ordinary shares	
	2017/18	2016/17
Rowan Gormley (see note 1)	4,526,881	4,528,881
James Crawford	74,156	14,000
David Stead	-	-
Brian Gregory Hodder	15,000	10,000
Ian Harding	12,000	12,000
Justin Apthorp	300,000	300,000

Note:

1) At the year end, two-thirds of Rowan Gormley's total above shareholding was contingently returnable. On 26 April 2018, the award of, and removal of trading restrictions on the second tranche of the incentivisation shares were awarded to 29 members of the Naked Wines Management team, in line with the timings outlined at the time of the acquisition. The remaining, final tranche is planned to vest in April 2019.

Appointment, removal and re-election of Directors

The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

Phil Wrigley, Non-Executive Chairman, stepped down from the Board at the conclusion of the 2017 AGM. Greg Hodder, previously Non-Executive Director, was appointed Non-Executive Chairman on the same date. A search process commenced for a new Non-Executive Director and David Stead was appointed Non-Executive Director on 10 October 2017. Anita Balchandani resigned from the Board on 14 March 2017, following joining McKinsey & Company as a full time partner, where they require no external positions to be held. As a result of this change, Ian Harding, Senior Non-Executive Director, was appointed chair of the Remuneration Committee and David Stead was appointed Chair of the Audit Committee with effect from 1 July 2018. A search for a replacement Non-Executive Director has now begun. Rowan Gormley and Justin Apthorp will retire by rotation this year, and, being eligible, offer themselves for re-election. David Stead will offer himself for election.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Chief Financial Officer.

SECTION 2: Maintain a dynamic framework

Principle 7:

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Since the appointment of Greg Hodder as Chairman, he has been assessing the individual contributions of each of the members of the team to ensure that:

- ➔ Their contribution is relevant and effective
- ➔ That they are committed
- ➔ Where relevant, they have maintained their independence

Over the next 12 months we intend to review the performance of the team as a unit to ensure that the members of the board collectively function in an efficient and productive manner.

Principle 8:

Promote a culture that is based on ethical values and behaviours

The Board aims to lead by example and do what is in the best interests of the Company; for example, Rowan Gormley has declined to take LTIP shares and asked for them to be shared out among employees. The culture of the Group is to go the extra mile for customers, suppliers, shareholders and people. We call this project Giraffe – sticking our neck out for others.

In order to grow our customer base it is vital that all our employees act in a way that reflects the values of the business. Examples of actions taken that support our ethical values this year are:

Naked Wines raised
£155,693
to feed
5,988
children in South Africa
for a year

Naked Wines raised over
\$500,000
to support winemakers
affected by the Napa and
Sonoma fires in 2017



Majestic Wine raised
£52,654
for Macmillan Cancer
Support



"With the van out of action, we must find a way to fulfill this party order!"



"Project Giraffe! with Fathers day around the corner we surprised Jock and his family with a wee present...who doesn't love marshmallows!?"





Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Board programme

The Board meets at least eight times each year in accordance with its scheduled meeting calendar. The attendance by each Board member at scheduled meetings is shown in the Board table on pages 42 and 43.

The Board sets direction for the Company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's eight Board meetings is compiled to align as far as reasonably practicable with the Company's financial calendar on the one hand, and its trading calendar on the other, while also ensuring an appropriate spread of meetings across the financial year. This may be supplemented by additional meetings as and when required.

During the year to 2 April 2018, the Board met for its eight scheduled meetings. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Company's management.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments (whether Capex or Opex); approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets and their performance in relation to those budgets.

There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.



"Our beautiful elderly Mrs C had been very poorly the last few months and hasn't been in to us. Her niece came in and asked me to visit her because she wanted to see me, so I popped round with some flowers and had a coffee with her... So much love!"

"This week's superhero award goes to... Rasto in Notting Hill Store, & Dan in Shepherds' Bush Store.

Both went above and beyond last week to help deliver soft drinks and ice to the Westway sports centre following the fire in the Grenfell tower. It was very much appreciated by those affected – Matthew from the Westway Sports Centre wrote in to say thank you 'It's great to see the amount of support we received today and thanks to you guys we were able to help lots more in the community'."

Ronnie Seaton – Chislehurst Store
(Letter from a member of the public)

"Dear manager,
I am writing to say how grateful I am to Ronnie who works at your Majestic Wine store. On Friday 11th August I had just happily driven 70 miles on the motorway, then headed off towards home, via Chislehurst. BUT a weird sound started coming from my car and was soon accompanied by a strange physical car sensation. I just managed to turn the corner into Willow Way and swing the car off road, into MAJESTIC CAR PARK. There I discovered that I had a totally flat tyre. Ronnie from the store was about to close the store for 8pm. He saw me, came out and immediately offered to help – as soon as he had 'shut up shop'.... As an old aged pensioner, I was more than grateful for his offer. I could soon see that Ronnie knew how to deal with changing the tyre over to the spare one. The job was soon completed, but when I offered to pay for his time, Ronnie refused, so I just gave him a tip. Please thank Ronnie again and tell him that I have now donated some money to one of my favourite charities 'Guide dogs for the blind'.

Cheers to a Good Samaritan!!"



Governance
continued**SECTION 2:** Maintain a dynamic framework**Principle 9:**
Continued

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

Senior executives below Board level attend Board meetings where appropriate to present business updates.

Board meetings throughout the year are held at the Company's various location offices giving, in particular the Non-Executive Directors, access to the different divisions to gain a greater understanding of the Group's activities.

Executive Team

The Executive Team consists of Rowan Gormley and James Crawford with input from the divisional directors and teams. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out on page 46, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

Board committees

The Board is supported by the Audit, Remuneration and Nomination committees.

Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties. [The terms of reference of each committee are available at www.majesticwineplc.co.uk](http://www.majesticwineplc.co.uk).

[A detailed report of the composition, responsibilities and key activities for the Audit Committee are set out on pages 56 to 57 and for the Remuneration Committee on pages 51 to 55.](#)

The Nomination Committee comprises not less than three members, the majority of whom are independent Non-Executive Directors. The Committee is chaired by the Chairman unless the matter under discussion is their own succession. Other Directors are invited to attend as appropriate and only if they do not have a conflict of interest. The Committee is also assisted by executive search consultants as and when required. The Committee's principal responsibility is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board. The Committee met during the year to consider the appointment of a new Non-Executive Director to replace a leaving Director. It is anticipated that the Committee will meet just once next year with the main topic being general succession planning for key senior executives.

SECTION 3: Build trust**Principle 10:**

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with large existing or potential new shareholders. The Head of Investor Relations was appointed in March 2016 and remains a key part of encouraging shareholder interaction and listening to feedback. A range of corporate information (including all Company announcements and presentations) is also available to shareholders, investors and the public on the Company's corporate website, www.majesticwineplc.com

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the Chief Executive Officer, Chief Financial Officer and the Company's brokers.

The Company communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. In April and May 2018 the Company held two Capital Markets Events in the UK and USA to explain the Accelerating growth plan to investors.

The Company completes regular employee surveys to maintain an open dialogue with employees and has introduced new functionality on its websites to collate customer feedback and use this to improve service. Customer ratings and team retention remain KPIs for the Group.

Remuneration Committee report

Ian Harding, FCA, Chair of the Remuneration Committee

(From April 2018)



Dear Shareholder

This is my first report as Chair of the Remuneration Committee. I have been a member of the Remuneration Committee for five years, taking over the Chair from Anita Balchandani on 14 March 2018.

Firstly, I would like to thank Anita for her work as Chair of the Committee. After her appointment in June 2015, Anita led the implementation of a number of improvements in our remuneration policies. In FY2015/16, following our acquisition of Naked Wines, the Committee introduced new incentive schemes and performance targets to reward the successful integration of Naked Wines into the Group and delivery of the new transformation plan. More recently, the Committee has focused on how best to align reward with our new growth ambitions, as well as encouraging more women to join the Group and forge successful careers. I thank Anita for her expertise and leadership and in delivering such large changes to the Group and wish her all the best in her new role.

Ian Harding
Chair of the Remuneration Committee

Aims of the Remuneration Committee

Our overall aim is to align reward for everyone with the delivery of long-term shareholder value. To support this goal we have three principles:

1. To offer competitive salary packages that attract, retain and motivate talented people
2. To operate transparent, simple and effective reward schemes that incentivise delivery of stretching targets and our long-term business strategy
3. To offer the chance for all employees to participate in share reward schemes so that we all think and act like business owners

To that end, we currently operate the following remuneration framework:

- ➊ Annual salary and associated benefits such as paid holiday, training opportunities and product discounts (all employees)
- ➋ Defined contribution pension scheme and other benefits (all employees)
- ➌ Performance based annual bonus linked to delivering stretching financial and service oriented targets (all employees)
- ➍ Share awards:
 - ➊ Long Term Incentive Plan currently linked entirely to relative Total Shareholder Return (c500 senior employees including 110 new employees in July 2017)
 - ➋ Share Incentive Plan ("Freeshares") subject to minimum holding periods (option for all other employees)
 - ➌ Naked Wines deferred contingent consideration (Naked Wines employees who accepted new Majestic shares in consideration for their Naked Wines shares as part of the acquisition in 2015). This consideration was deferred over four years and is contingent on continued successful value creation each year by Naked Wines (defined as the annual investment made in new customer acquisition multiplied by the percentage return being achieved on that investment, i.e. Return on Investment "ROI", subject to a minimum ROI criterion)

MORE DETAILS ON ALL THESE SCHEMES ARE SET OUT ON PAGE 53

Remuneration Committee members, meetings and responsibilities:

Members and meetings: The Remuneration Committee consists of myself as the Chairman together with two other independent Non-Executive Directors. The Committee meets as required during the year.

The Chief Executive Officer and Chief Financial Officer are invited to attend meetings of the Committee but no Director is involved in any decisions relating to their own remuneration. Justin Apthorp, a Non-Executive Director who is deemed not to be independent due to his time as an executive of the Group, also attends. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross directorships, or day-to-day involvement in running the business.

Responsibilities:

- ➊ Determine and recommend to the Board the Company's overall remuneration policy, and then monitor the ongoing effectiveness of that policy
- ➋ Determine and recommend to the Board the remuneration of Executive Directors, the other members of the Executive Board and the Chairman
- ➌ Monitor, review and approve the levels and structure of remuneration for other senior managers and employees
- ➍ Determine the headline targets for any performance-related bonus or pay schemes
- ➎ Determine specific targets and objectives for any performance-related bonus or pay schemes for the Executive Directors and the other members of the Executive Board
- ➏ Review and approve any material termination payment

The full terms of reference of the Remuneration Committee are available on the Company's corporate website; www.majesticwineplc.co.uk.

Remuneration Committee report

continued

Performance for the year

As set out in detail on pages 6 to 12, the Group has made good progress with the transformation plan and delivered a solid financial performance in a challenging market. The Naked Wines businesses continued to drive strong sales growth, particularly in the USA, and delivered underlying profit in all three of their geographic markets. Majestic Wine Retail also grew sales and profit despite facing particularly challenging circumstances in the UK with adverse currency movements causing input price inflation and a competitive market impacting its margins.

Overall, the annual bonus criteria were met in part and as a result the Committee approved bonus pay outs to staff pro rata of between 10% and 125% of the target amounts (with 125% as the maximum opportunity).

As regards the Naked Wines deferred contingent consideration shares, the business has continued to invest successfully in new customer acquisition, driving continued growth in the UK, USA and Australia. With an average Return on Investment of 100% earned on a spend of £14.0m in FY18 the criteria for issuing the second of three tranches of the Naked Wines deferred contingent consideration shares was met in full. These shares were issued to Naked Wines employees on 26 April 2018.

Other Committee activities for the year

Additional activities undertaken by the Committee this year included reviewing the nature of our performance-related targets as the business transits from the transformation plan to a new, growth orientated plan. We also reviewed our gender pay disclosures and considered opportunities for improving gender equality across the business, as set out in detail on page 55. Finally, we also undertook a detailed review of executive remuneration, see page 54.

The year ahead

We believe that the Committee's agenda is the right one and that our current schemes have served us well to date in driving and rewarding the right behaviour throughout the organisation. As the business evolves from its 'transformation' phase to the next, growth orientated phase, our reward mechanisms will also evolve. The guiding principles set out at the start of this report will remain unchanged however and our reward policy will continue to reflect them. This next growth oriented phase was announced to shareholders on 17 April 2018 and is discussed in detail on pages 6 to 12.

In summary, we have an exciting growth opportunity which requires a successful step up in investment spending. Unlike traditional retail businesses, where investment spending is capital in nature, our investment in new customer acquisition is accounted for as an operating expense and fully charged against EBIT, as incurred. Furthermore, the customers we acquire from this investment have a predictable long-term value which enables us to model future cash flows created by our current investments. Both of these attributes have an impact on our annual bonus and LTIP schemes:

Annual bonus

Continuing to set annual targets largely based on EBIT could be counter-productive for long-term shareholder value creation. This is because one could achieve the short-term annual EBIT target by simply slowing down growth investment. As such, in order to better align reward with the creation of long-term value creation, annual bonus targets for FY19 will be set on a new basket of metrics – 40% on EBIT from the Group's existing customers, 40% on cash return on the Group's new customer acquisition and 20% on cash generation. These new performance measures promote the right behaviours and are aligned with how we budget and measure the business internally and how we intend to externally report the business going forward.

LTIP

Our ability to predict future cash flows from our investing activity provides us with the opportunity to calculate a net present value for the business. The Committee will review in FY19 whether a suitable absolute value creation metric could be sufficiently robust and reliable to become a second LTIP performance measure alongside the current sole use of relative TSR. The Committee is also aware that the remuneration landscape is evolving fast and we will continue to monitor developments and make recommendations to the Board as required.

When any material changes are to be made to the remuneration policy I will inform major shareholders of these in advance and ensure that there is an opportunity for discussion. We wish to ensure that your views may be properly reflected in the policy formulation process. It is my intention to speak with shareholders over the course of this coming year to capture the varied perspectives on our remuneration policy and address any queries.

The Committee and I remain clearly focused on our aim of aligning reward for everyone with the delivery of long-term shareholder value.

Ian Harding

Chair of the Remuneration Committee

The Group remuneration policy

There are six key components of the Group's remuneration policy. All components for FY2017/18 have stayed consistent with the 2016 remuneration review:

Basic annual salary (all employees)

AIM

To attract and retain talent reflecting responsibilities, experience and performance

IMPLEMENTATION

- Annual reviews at the start of each year. Salaries are benchmarked against the average for the industry and individual skill base.

FY18

- Inflationary pay rises for all employees with on track performance or better. Where responsibilities or scope of role change significantly, pay will be amended accordingly.

Pensions (all employees)

AIM

To help support employees after retirement

IMPLEMENTATION

- Defined contribution on base salary. Contribution depends on seniority of employee comparable to market benchmarks and local statutory requirements.

FY18

- Increase in statutory minimum amount.

Other benefits (all employees)

AIM

To support the health and wellbeing of our employees

IMPLEMENTATION

- Taxable benefits are offered to all employees and increase with seniority. These include healthcare, life assurance, Wine and Spirit Education Trust training and staff discount.

FY18

- To improve the representation of women at all levels of the business, UK maternity pay was enhanced post the year end. We now provide six weeks at 100% pay and a further eight weeks at 90% pay if employees commit to one full year of employment after their leave. In addition, current maternity policies are being reviewed in our international division.

Free shares (all employees below managerial level)

AIM

To encourage staff to think and act like business owners and give a democratic share of reward

IMPLEMENTATION

- The first grants of free shares under the Share Incentive Plan were granted in 2017. Grants are subject to a minimum holding period of three years and are awarded annually.
- The LTIP and Share Incentive Plan schemes combined may award up to 10% of total share capital over the next 10 years.

Annual bonus (all employees)

AIM

To reward high-performing employees and create a closer link between individual performance, achievement of long-term value creation and total reward

IMPLEMENTATION

- Individual bonuses were earned on the divisional performance of a) Sales (40%); b) Adjusted EBIT (40%); c) Cash (20%) and d) Individual performance which acts as a moderator. The maximum annual awards can range from 10% to 50% of salary depending on seniority.

IMPLEMENTATION

- Non-customer-facing staff
For customer-facing staff bonuses are paid periodically based on local performance targets relating to sales and gross profit.

FY18

- The minimum sales and adjusted EBIT thresholds to achieve a bonus were met by some but not all divisions this year. The range of outcomes in the Group was between 10% and 125% of target payouts with the Group total being around a 75% total payout.

FY19

- To better align reward with the new growth plan announced on 17 April 2018 and set out in detail on pages 6 to 12 of this annual report. Annual bonus targets for 2018/19 will be set on a new basket of metrics: 40% on EBIT from existing Group customers, 40% on cash return on Group new customer acquisition and 20% on cash generation.

LTIP (around 500 senior employees from executive directors to store managers)

AIM

To reward performance that creates shareholder value and encourage senior employees to think and act like business owners

IMPLEMENTATION

- Maximum award value is between 5% and 100% of salary at the time of issuance. Conditional share awards and nil-cost options were granted in 2016 as a one-time award to current staff to cover the period of the transformation (Financial Years 2017–2019) and will vest over 3–5 years post launch, subject to continued employment and the satisfaction of a Relative Total Shareholder Return criteria compared to a peer group of c.25 listed UK retailers. New employees and those who have been promoted receive new LTIP shares through bi-annual awards.

Targets:

- Upper quartile: 100% vesting
- Median: Part vesting on a sliding scale
- Below median: No vesting

FY18

- Currently issuances are scheduled to vest at part or in whole.

FY19

- The Committee will review the merits of including an absolute measure of value creation as an additional target alongside TSR. Any proposed change will involve shareholder consultation.

Remuneration Committee report
continued

Directors' remuneration	Basic salary and fees £000	Benefits £000	Annual bonus payments £000	Long-Term incentive Plans £000	Company pension contributions £000	Naked Wines deal related payments* (non-cash accounting adjustments) £000	Total 2018 £000	Total 2017 £000
Brian Gregory Hodder, Non-Executive Chairman	63	–	–	–	–	–	63	40
Rowan Gormley, CEO	172	73	64	–	34	2,438	2,701	5,386
James Crawford, CFO	172	54	60	49	33	84	452	500
Ian Harding, Senior Independent Director and Chair of the Remuneration Committee and Audit Committee until 1 July 2018	51	–	–	–	–	–	51	48
Justin Apthorp, Non-Executive Director	40	–	–	–	–	–	40	43
David Stead (Appointed October 2017) Non-Executive Director, Chair of the Audit Committee from 1 July 2018	19	–	–	–	–	–	19	–
Phil Wrigley (Retired August 2017)	33	–	–	–	–	–	33	80
Anita Balchandani (Resigned March 2018)	40	–	–	–	–	–	40	40

***Naked Wines deal-related payments/deferred consideration shares**

The Naked Wines deal-related payments are non-cash accounting adjustments. Rowan Gormley and James Crawford were offered shares in Majestic Wine in exchange for their shares in Naked Wines as part of the acquisition consideration. IFRS 2 requires these shares to be accounted for as remuneration and so are charged to the income statement over four years.

In line with the terms of the Naked Wines acquisition agreement, up to £20 million contingent consideration is payable in Majestic's ordinary shares to the Naked Wines management team, subject to the achievement of a minimum value creation criteria defined as Return on Investment (ROI) multiplied by new customer acquisition investment spend for Naked Wines each year over a maximum period of four years. The Board is satisfied that the performance conditions relating to the deferred contingent consideration for the second year of the earn-out period have been met in full, with Naked Wines achieving an ROI of 100% on £14.0 million spend in the year. As a result, the second tranche of Naked Wines acquisition shares vested on 26 April 2018. 43 members of the Naked Wines management team (including James Crawford) were granted 498,071 new ordinary shares of 7.5p each in the Company. Rowan Gormley had trading restrictions removed on his second tranche of shares at the same time.

Directors' total shareholdings are listed on page 47.

Executive Director remuneration

During the year, the Committee reviewed Executive Director remuneration. By way of background, the CEO and CFO both joined the Group in 2015 following the acquisition of Naked Wines. At that time the Executive Directors and the Committee agreed that salary levels would be set below market rate reflecting their relative inexperience in role.

Over the subsequent years, both have demonstrated significant capabilities and performed very strongly. Accordingly, the Committee has recommended to the Board that both receive salary increases to reflect market benchmarks for their respective roles, consistent with our aim of paying competitive salaries to all employees. All other elements of remuneration will remain unchanged.

In the case of Rowan Gormley, the Committee reviewed both market benchmarking and Rowan's roles, responsibilities and performance. The Committee concluded that his £172,000 annual salary was significantly below the level at which he operates and undervalues his capabilities and contribution. Market benchmarking also indicated that he was paid considerably below market norms and the Committee noted that three years after his appointment as CEO he was still paid half that of his predecessor. Once again Rowan generously declined a pay increase. Rowan continues to exclude himself from the Group's LTIP scheme to allow the maximum number of shares under this scheme to be allocated to employees. The Committee appreciates this dedication and generosity and is satisfied that while his overall remuneration levels remain below market, his large shareholding in the Company means he is appropriately aligned and incentivised to create shareholder value. This is an issue that the Committee will continue to monitor and address accordingly.

As with Rowan, the Committee undertook a similar exercise for James Crawford. In James' case, the Committee concluded that his salary will rise from £172,000 per annum to £200,000 per annum from 1 April 2018. This reflects James's development in his role and ensures his pay is now more in line with market rates and closer to that of his predecessor.

The Executive Directors have rolling one-year contracts subject to one year's notice on either side.

Non-Executive Director remuneration

The base fee for the Non-Executive Directors (excluding the Chairman) has been reviewed during the year and remains unchanged at £40,000 per annum, the rate set in 2013. Additional fees for extra responsibilities (such as chairing committees and for holding the role of Senior Independent Director) have been implemented reflecting the rapidly growing responsibilities of chairing a committee. These additional fees have been set at £5,000 for a committee chair and £13,000 for a Senior Independent Director. Remuneration for the Board Chair remains fixed at £80,000, the level set in 2013. The Committee will review this during FY2019.

The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Company's Articles of Association. They have letters of appointment with the Company and their appointments are terminable on three months' written notice on either side.

THE GENDER PAY GAP TOTAL UK
YEAR TO 5 APRIL 2017

Women's hourly rate is
4.2% **5.5%**
HIGHER (mean) HIGHER (median)

Women's bonus pay is
4.1% **6.5%**
HIGHER (mean) HIGHER (median)

Who received bonus pay?
90% **87%**
OF MEN OF WOMEN

Pay quartiles
How many men and women are in each
quarter of the employment payoff

Top quartile
66.6% **33.4%**
MEN WOMEN

Upper middle quartile
71.0% **29.0%**
MEN WOMEN

Lower middle quartile
73.7% **26.3%**
MEN WOMEN

Lower quartile
73.7% **26.3%**
MEN WOMEN

We are an equal opportunities employer with a diverse workforce. Our policy is to recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender identification, marital status or age.

Our gender pay gap

Majestic Wine plc employs around 1,400 people across four countries. Women make up 31% of our total workforce.

Our mean pay gap for UK employees is -4.2%. This means average pay for women is 4.2% higher than male employees. This is significantly better than the Office of National Statistics (ONS) data which reported that women are paid, on average, 18.4% less than men in the UK.

Majestic Wine's data is the opposite of the UK average primarily because we employ a larger number of men in our warehouse and delivery roles, reflecting the more manual job types. While our gap is significantly better than the average, we recognise there is still more to do in increasing the representation of women at all levels of the business, particularly at a senior management level.

Our UK female employees also have a 4.1% higher average bonus pay. This is as a result of senior management voluntarily waiving and deferring bonus payments as a result of weaker than expected trading in 2016.

Taking action

At the end of the financial period the percentage breakdown of male and female employees across the Group showed women under-represented at all levels of the organisation.

Our ambition is to increase the number of women in our business, while continuing to pay fairly. We are committed to improving how we attract, engage and develop women as well as other under-represented groups.

Each year, Majestic Wine receives fewer job applications from women than from men, which explains the fewer number of women employed by the Group. In order to improve this, some of the actions we are taking are outlined below:

1. **Maternity support:** As a result of the gender pay gap results the plc Board has approved a more generous maternity policy for our UK divisions in order to support women at all levels of our business. Our current maternity policies for our international divisions are now being reviewed in line with this change.
2. **Encouraging women into the world of wine:** The wine industry is one of the oldest in the world and on average attracts a greater number of men. Majestic has created several new recruitment campaigns this year to encourage people to think about entering a wine related career. Recruitment training for all store managers and Directors now includes anti-discrimination training as part of the standard course, for the first time in Majestic's history.
3. **Flexible job design:** The business has changed its attitude to flexible working materially over the past 12 months. There are now a number of flexible job roles at all levels of the business, in particular supporting new parents.

Audit Committee report

Ian Harding, FCA, Chair of the Audit Committee

(Until 1 July 2018)



The objective of the Committee is to provide oversight and governance to the Group's financial reports, its internal controls and processes in place, its risk management systems and the appointment and relationship with the external auditor. I have set out in my report more detail on each of these key areas.

Ian Harding
Chair of the Remuneration Committee

I am pleased to present this report on behalf of the Audit Committee. This will be my last report before I hand over the role of Chair to David Stead in July 2018 when the 2017/18 reporting cycle is complete. David joined the Board on 1 November 2017 as an independent Non-Executive Director and brings to the Committee extensive recent and relevant financial experience. David was Chief Financial Officer of Dunelm Group plc from September 2003 until his retirement in 2015. He is currently a Non-Executive Director and Chair of the Audit Committee at Card Factory plc and Joules Group Plc and is a qualified chartered accountant. I am delighted to be handing over to such a seasoned financial professional and I look forward to continue serving on the Committee as a member under his leadership.

Overall, it was a satisfactory year for the Committee with good progress made with our internal audit programme, the scope of which has been expanded to provide further assurance over our control environment and risk management. The Committee also oversaw a significant Group-wide project to prepare for the introduction of the General Data Protection Regulations (GDPR) and our ongoing initiatives to enhance our cyber security.

During the year, I met with a number of our major shareholders to discuss governance matters and I look forward to continuing to do so in my capacity as Senior Independent Director. I know David will be happy to do the same in his new role as Audit Committee Chair.

Ian Harding
Chair of the Audit Committee

Key responsibilities

Terms of reference are available on the Majestic Wine plc Investor Relations website. In accordance with these terms of reference, the Audit Committee is required, among other things, to:

- Monitor the integrity of the financial statements of the Group, reviewing any significant reporting issues and judgements they contain
- Advise on the clarity of disclosure and information contained in the Annual Report and Accounts
- Ensure compliance with applicable accounting standards and review the consistency of methodology applied
- Review the adequacy and effectiveness of the internal control and risk management systems
- Oversee the relationship with the external auditor, reviewing performance and advising the Board members on their appointment and remuneration
- Review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management; together with monitoring management's responsiveness to their findings

Committee governance

The Audit Committee comprises all the independent Non-Executive Directors. It was chaired during the year under review by Ian Harding who is a chartered accountant with recent and relevant financial experience.

The other independent Non-Executive Directors who served during the year are all deemed to have the necessary ability and experience to understand financial statements.

Justin Apthorp, Non-Executive Director, is not a member as his past experience means he is not deemed independent. However, he attends all meetings by invitation along with the Executive Directors as the Committee values their input. In addition, senior management are asked to attend certain meetings where relevant.

It meets a minimum of three times per year and at least twice a year with the external auditors present. Private meetings were also held with the external auditor and the Group Controls Manager at which management were not present.

The key work undertaken by the Committee during the year under review and up to the date of this Annual Report is detailed below.

Activities of the Audit Committee during the year

Internal controls and risk management

The Board has overall responsibility for the system of internal controls and risk management. The Audit Committee on behalf of the Board has reviewed the effectiveness of the internal controls and risk management.

In FY17, an internal audit programme was initiated to independently set the standards that the Group should be adhering to, confirm that internal controls are operating adequately, and support improvements to controls where necessary.

For FY18, the scope of this programme was enhanced. As well as checking the satisfactory resolution of any prior year recommendations, the level of the Group's 'Minimum Control Standard' was raised to ensure continuous improvement of our control environment. To better focus the Committee's attention to controls of higher importance a new audit scoring methodology was introduced that weighted controls by their significance. The audits also reviewed adherence to the new 'Performance Management Checklists' that were introduced last year as a way of ensuring our best practices are being shared and adopted across the Group. Finally, the internal audit reviews looked at local operational risk registers to ensure they are up to date and mitigating actions are in place.

The Committee received reports from the Group Controls Manager throughout the year and was satisfied with the effectiveness of internal controls and risk mitigation. It supports recommendations made by the Group Controls Manager and is satisfied with the actions taken and plans in place by management for further improvement. The Committee also received and considered reports from the external auditor, Deloitte LLP, which included control findings relevant to their audit.

Alongside the audit activities there is an ongoing process to identify, evaluate and manage the risks faced by the Group. Each Business Unit reports monthly to the Board on key risks identified and measures that are being taken to mitigate the risk. In addition, the Committee oversees a very thorough annual risk management process, the results of which are discussed with the Board.

The Strategic report on pages 2 to 12 includes further detail as to the business risks identified and actions being taken. The process of risk management is continually being developed and improved.

Significant reporting issues and judgements

The Committee reviewed the recommendations of the finance function and received reports from the external auditor on their findings. The significant reporting matters and judgements the Committee considered during the year included:

- The presentation of 'Adjusted' profit alongside statutory profit. The Committee considered the approach adopted two years ago and was satisfied that the approach continues to help provide a clearer and more balanced view of the underlying performance of the business. It also concluded that the approach is being applied consistently from year to year and the rationale is clearly disclosed (see the Financial Review on page 35 for details).
- The carrying value of goodwill and other intangible assets to determine whether any impairment had been suffered. The Committee reviewed the key financial assumptions underpinning cash flow projections, the discount and long-term growth rates applied thereto and the results of sensitivity analyses. The Committee was satisfied that considering the sufficient headroom available no impairment was required and appropriate disclosure has been made (see the Financial Review on page 35 and Note 4 to the financial statements on page 72 for details).
- The carrying value of Majestic Wine stores, excluding freehold land, to determine whether any impairment had been suffered. The review was conducted on a per store basis using the same discounted future cash flow approach as described above for goodwill. The Committee reviewed the key financial assumptions and sensitivities and was satisfied that sufficient growth initiatives and other self-help measures are well underway as part of the transformation and accelerated growth plans to drive the forecast future cash flows in a more difficult UK market. These key growth initiatives are set out in more detail on pages 22 and 23. The review identified a net increase of seven stores out of the estate of 212 stores that were unlikely to deliver sufficient cash flow to justify their full carrying value and accordingly the provision for store impairment was increased by a net £486,000 to £1.8 million, see notes 16 and 18.

Other activities

Reports were received from the GDPR project manager on the preparations for and progress with implementing our enhanced data protection processes. The Group's Chief Technology Officer attended part of every Board meeting during the year to update on progress with key IT projects, including initiatives to test and strengthen our cyber security.

External audit

The Committee considers a number of areas when reviewing the external auditor appointment, namely their performance in discharging the audit, the scope of the audit and terms of engagement, their independence and objectivity, and their reappointment and remuneration.

The Committee reviews the objectivity and independence of the auditors when considering reappointment. The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements and is required to rotate the lead audit partner every five years. There is also an active, ongoing dialogue between the Committee and the external auditor on actions to improve the effectiveness and efficiency of the external audit process.

Deloitte LLP were first appointed as external auditor in FY15, following a formal tender process and David Halstead was appointed lead partner. The Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of Deloitte LLP and has recommended to the Board that the auditors be reappointed, and there will be a resolution to this effect at the forthcoming Annual General Meeting.

In addition to their statutory duties, Deloitte LLP are also engaged where, as a result of their position as external auditor, they are best placed to perform non-statutory audit services, including for example, the interim review. Other work is awarded on the basis of competitive tendering.

Directors' report

As required under Companies Act the Directors present their report and Group financial statements for the year ended 2 April 2018

a. Results and review of the business

The Group income statement is set out on page 63. The Directors' report should be read in conjunction with the Chairman's Statement and Strategic report on pages 19 and 2–12, which include information about the Group's business performance during the year and indication of future prospects. Details of significant events since the balance sheet date are contained in note 31 to the financial statements. An indication of likely future developments in the business of the Company and details of research and development activities are included in the Strategic report.

b. Dividends

A final dividend of 5.2p has been declared, combined with an interim dividend of 2.0p per share which was paid on 22 December 2017, makes a total dividend for the year of 7.2p. The Directors' intention is to maintain a capital structure that is both efficient and balanced between investment for growth and returns to shareholders. The Board has agreed a policy which will pay out approximately 35% of adjusted profit after tax from the Financial Year 2017 onwards subject to no major changes in outlook. Any additional earnings which, in the view of the Board, cannot be usefully reinvested back into the Group will be returned to shareholders, subject to achieving targets of a net debt/adjusted EBITDA ratio of circa 0.5x. The final dividend of 5.2p, if approved at the Annual General Meeting, will be payable, subject to shareholder approval, on 18 August 2018 to shareholders on the register at 22 June 2018. The ex dividend date is 21 June 2018.

c. Strategic report

The Strategic report, which can be found on pages 2 to 12, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties which is set out on pages 28 to 31.

d. Significant events since the end of the financial year

In addition to the initial cash payment made at the time of the acquisition a further amount of up to £20m in Majestic Wine plc's ordinary share capital (based on the closing price at 2 April 2015) was issued to management in the form of contingently returnable shares and contingent awards. The second tranche of the Naked Acquisition shares were granted on 27 April 2018. Further details are given in the Remuneration report.

e. Articles of Association

The Company's Articles of Association may only be amended by special resolution and are available on the Company's website at majesticwineplc.co.uk under AIM Rule 26.

f. Share capital

The authorised and called-up share capital of the Company, together with details of the ordinary shares allotted and purchased during the year, are shown in note 26 of the financial statements.

g. Major shareholders

At 18 May 2018 the following interests of shareholders in excess of 3% have been notified to the Company:

	Number of ordinary shares	Ordinary shares as % of issued share capital
Members of the Apthorp Family	12,581,155	17.47
Majestic Wine plc Directors & Related Parties	4,695,298	6.57
T Rowe Price International	4,787,975	6.65
Protector Forsikring	4,635,570	6.44
Aberdeen Standard Investments (Standard Life)	4,097,742	5.69
Acacia Partners	3,018,124	4.19
JO Hambro Capital Mgt	2,718,834	3.78
Fidelity Mgt & Research	2,245,504	3.12
Invesco Perpetual Asset Mgt	2,186,224	3.04

h. Political donations

During the year, no political donations were made.

i. Annual General Meeting

The Annual General Meeting will be held at 11.30am on 8 August 2018 at Majestic House, The Belfry, Colonial Way, Watford, WD24 4WH. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

j. Financial reporting

The Group's trading performance is monitored on an ongoing basis. An annual budget is prepared and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored weekly and internal management and financial accounts are prepared quarterly. The results are compared to budget and prior year performance. The Group's financial risk management objectives and policies are discussed in note 23 to the financial statements.

k. Store control environment

Please see non-financial controls report on page 46 of the Governance report.

l. Responsible retailing

The Group recognises that alcohol misuse, underage drinking and poor health are issues causing real concern in the UK today. Majestic Wine takes these matters very seriously and we are committed to the responsible retailing of alcohol in order to help mitigate their impact. We are a supporter of Drinkaware, the Government sponsored trust which promotes responsible drinking. We operate a Challenge 25 scheme to ensure that minors cannot purchase alcohol at our stores. In addition, we have signed up to the Government's Responsibility Deal which aims to improve public health by encouraging responsible drinking. We ensure that customers have access to information about alcohol in-store, on our website and in our promotional literature. Staff training includes principles of social responsibility and alcohol misuse and all tasting events encourage customers to enjoy wine responsibly.

Modern slavery

As part of our Company mission to "Do the Right Thing for our People, Customers and Suppliers" we oppose modern slavery in all its forms and will try to prevent it by any means that we can. We expect anyone who has any suspicions of modern slavery in our business or our supply chain to raise their concerns without delay. We promise that we will keep any information provided completely confidential. As a Group, Majestic Wine plc maintains relationships with many different organisations in its supply chain, as well as directly employing over 1,400 people worldwide. In the light of the Modern Slavery Act 2015 we annually review internal measures to ensure we are doing what we can to prevent slavery and human trafficking in our businesses and in our supply chains. Our policy is available on the plc website: majesticwineplc.co.uk

m. Key performance indicators

The Group monitors a number of performance indicators both financial and non-financial. See pages 20 and 21 for a full list of KPIs. Transformation KPIs are discussed in the CEO report on page 7.

Statement of Directors' responsibilities

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

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

- ➊ Select suitable accounting policies and then apply them consistently;
- ➋ Make judgements and accounting estimates that are reasonable and prudent;
- ➌ State whether Financial Reporting Standard 101 'Reduced Disclosure Framework' has been followed, subject to any material departures disclosed and explained in the financial statements;
- ➍ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 'Presentation of Financial Statements' requires that Directors:

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

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

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

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- ➊ The financial statements, prepared in accordance with the relevant financial reporting framework, 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;
- ➋ 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 the description of the principal risks and uncertainties that they face; and
- ➌ The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 13 June 2018 and signed on its behalf below.

Auditor

A resolution to reappoint Deloitte LLP as auditor of the Company will be put to the Annual General Meeting. The Directors will also be given the authority to fix the auditor's remuneration.

By Order of the Board



Rowan Gormley
Chief Executive

13 June 2018



James Crawford
Chief Financial Officer

13 June 2018

Registered in England and Wales
No. 2281640

Independent auditor's report to the members of Majestic Wine plc

Report on the audit of the financial statements

Opinion

In our opinion:

- ➊ the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 2 April 2018 and of the Group's profit for the year then ended;
- ➋ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- ➌ the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- ➍ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Majestic Wine plc (the 'parent Company') and its subsidiaries (the 'Group') which comprise:

- ➊ the Group income statement;
- ➋ the Group statement of comprehensive income;
- ➌ the Group and parent Company balance sheets;
- ➍ the Group and parent Company statements of changes in equity;
- ➎ the Group and parent Company cash flow statements; and
- ➏ the related notes 1 to 39.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 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.

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the carrying value of goodwill for Naked Wines.
Materiality	We determined materiality for the Group financial statements to be £2.7 million, utilising a blended rate of financial metrics including revenue, normalised pre-tax profits and net assets.
Scoping	We performed full scope audit procedures on over 92% of the Group's revenue, adjusted profit before tax and net assets. The remaining Group entities were subject to analytical procedures.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- ➊ the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- ➋ the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised.

We have nothing to report in respect of these matters.

Key audit matters

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

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

Carrying value of goodwill for Naked Wines

Key audit matter description The Group financial statements recognise goodwill of £29.2 million (2017: £29.2 million) relating to the acquisition of Naked Wines in 2015.

The assessment of the carrying value of goodwill and intangible assets, such as customer lists and brand, involves considerable judgement due to the challenges in accurately forecasting cash flows and assumptions required.

Under IAS 36 *Impairment of Assets* an impairment review is required to be completed annually and/or when there is an indicator of impairment.

Key assumptions used in management's assessment include:

- ➊ the identification of the appropriate cash generating units ("CGUs");
- ➋ the forecasting of future cash flows;
- ➌ the long-term growth rate applied to these cash flows of 2.0% (2017: 2.0%); and
- ➍ the pre-tax discount rate of 11.0% (2017: 10.0%) applied to future cash flows.

Refer to page 56 (Audit Committee statement), note 15 to the Group financial statements and the disclosures in respect of critical accounting judgements and key sources of estimation uncertainty in note 4.

Carrying value of goodwill for Naked Wines

How the scope of our audit responded to the key audit matter

We tested management's assumptions used in their assessment of the carrying value of Naked Wines goodwill in the Group balance sheet. Our procedures included:

- evaluating the design and implementation procedures over management's annual review of the impairment model;
- assessed the appropriate identification of CGUs in line with IAS36 Impairment of Assets;
- challenging management's assessment of future cash flows with reference to historical evidence, industry and other external evidence;
- performing a detailed review of management's model, including looking at reasonably possible sensitivities;
- comparing long-term forecasts against historical performance, long-term economic and industry growth rates from external data; and
- comparing the discount rate applied against a broad comparator group as well as consulting with our internal valuation specialists to assess the key components of the discount rate calculation.

Key observations

There is significant headroom in the impairment model, and the assumptions used by management in their assessment of the carrying value of goodwill are reasonable, therefore we are satisfied that there is no impairment indicated.

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£2.7 million	£1.5 million
Basis for determining materiality	We have considered a combination of three benchmarks: revenue, normalised pre-tax profits and net assets. The determined materiality represents 0.6% of revenue and 2.2% of net assets. Normalised pre-tax profits is the Group's pre-tax profits adjusted for acquisition-related share based payments. Refer to note 8 to the Group financial statements.	This represents 2.8% of net assets.
Rationale for the benchmark applied	This has been based on professional judgement and the requirements of the auditing standards. We believe that using materiality based on these three benchmarks reflects the critical underlying measures of the Group, and the key metrics used by analysts and investors.	As this parent Company is non-trading, we have determined net assets to be the appropriate benchmark.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped on an entity basis, assessing components against the risk of material misstatement at the Group level. We considered Group-wide controls, and the quantum of financial statement balances and individual financial statement transactions of a significant nature.

We performed full scope audit procedures on all significant trading companies in the UK and USA. The results taken together for these entities account for over 92% of the Group's revenue, pre-tax profits and net assets. At the parent entity level, we tested the consolidation process and carried out analytical procedures to confirm our conclusion there were no material misstatements in the aggregated financial information of the Group's operations in France and Australia that were not subject to full scope audit.

All UK entities are audited by one team in the UK led by the Senior Statutory Auditor. Detailed instructions were sent to the US component audit team, who were included in team briefings to discuss risk assessment. The Senior Statutory Auditor visited the US component, and attended the component close meeting.

Our audit work at all audit locations was executed at a local component materiality level determined by reference to the scale of the business concerned, with all entities using a materiality lower than Group materiality. Component materiality applied ranged from £30,000 to £2.5 million.

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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Majestic Wine plc

continued

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- ➊ 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
- ➋ the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted Company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- ➊ we have not received all the information and explanations we require for our audit; or
- ➋ 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
- ➌ the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

David Halstead FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
St Albans, United Kingdom

13 June 2018

Group income statement

For the year ended 2 April 2018

	Note	Year ended 2 April 2018 £'000	Year ended 3 April 2017 Reallocated* £'000
Revenue	6	476,134	465,444
Cost of sales		(349,032)	(343,366)
Gross profit		127,102	122,078
Distribution costs		(58,806)	(56,123)
Administrative expenses		(59,850)	(67,012)
Other operating income		846	811
Operating profit/(loss)	9	9,292	(246)
Net finance charge	11	(994)	(1,222)
Profit/(loss) before taxation		8,298	(1,468)
Analysed as:			
Adjusted profit before taxation		17,184	12,877
Adjusted items:	8		
– Non-cash charges relating to acquisitions		(8,018)	(11,267)
– Other adjusted items		(868)	(3,078)
Profit/(loss) before taxation		8,298	(1,468)
Taxation	12	(901)	(1,227)
Profit/(loss) for the period		7,397	(2,695)
Earnings/(loss) per share	13		
Basic		10.9p	(4.1p)
Diluted		10.1p	(4.1p)

* Prior year numbers have been reallocated for comparison purposes. See note 5 for details.

The results are all derived from continuing operations.

Group statement of comprehensive income

For the year ended 2 April 2018

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Profit/(loss) for the period	7,397	(2,695)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1,352)	1,780
Other comprehensive (losses)/income	(1,352)	1,780
Total comprehensive income/(losses) for the period	6,045	(915)

The total comprehensive income for the year and the total comprehensive loss for the prior year is wholly attributable to the equity holders of the parent Company, Majestic Wine plc.

Group statement of changes in equity

For the year ended 2 April 2018

	Share capital £'000	Share premium £'000	Capital reserve – own shares £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Total shareholders' funds £'000
At 28 March 2016	5,307	20,441	(17)	363	2,058	81,062	109,214
Total comprehensive loss for the period	–	–	–	–	1,780	(2,695)	(915)
Shares issued	2	64	–	–	–	–	66
Share-based payment charges – ongoing	–	–	–	–	–	599	599
Share-based payment charges – acquisition related	–	–	–	–	–	6,673	6,673
Dividends paid	–	–	–	–	–	(1,062)	(1,062)
Deferred tax on share based payment	–	–	–	–	–	(3)	(3)
At 3 April 2017	5,309	20,505	(17)	363	3,838	84,574	114,572
Total comprehensive income for the period	–	–	–	–	(1,352)	7,397	6,045
Shares issued	54	484	–	–	–	(43)	495
Share-based payment charges – ongoing	–	–	–	–	–	607	607
Share-based payment charges – acquisition related	–	–	–	–	–	3,800	3,800
Dividends paid	–	–	–	–	–	(3,993)	(3,993)
Deferred tax on share based payment	–	–	–	–	–	235	235
At 2 April 2018	5,363	20,989	(17)	363	2,486	92,577	121,761

Group balance sheet

As at 2 April 2018

	Note	2 April 2018 £'000	3 April 2017 £'000
Non-current assets			
Goodwill and intangible assets	15	48,126	51,447
Property, plant and equipment	16	65,032	68,011
En primeur purchases	17	2,390	1,841
Prepaid operating lease costs	18	1,640	1,905
Deferred tax assets	12	2,243	1,696
		119,431	124,900
Current assets			
Inventories	19	97,259	94,834
Trade and other receivables	20	15,880	14,973
En primeur purchases	17	3,779	3,030
Cash and cash equivalents		15,618	23,007
		132,536	135,844
Total assets		251,967	260,744
Current liabilities			
Trade and other payables	21	(59,579)	(56,019)
En primeur deferred income	17	(4,824)	(3,937)
Deferred Angel income		(32,542)	(28,406)
Bank overdrafts	22	(8,837)	(12,537)
Provisions	24	(564)	(235)
Deferred lease inducements	25	(657)	(437)
Bond financing	22	(2,445)	(2,619)
Financial instruments at fair value	23	(897)	(1,090)
Current tax liabilities		(246)	(185)
		(110,591)	(105,465)
Non-current liabilities			
En primeur deferred income	17	(2,822)	(2,122)
Deferred lease inducements	25	(1,672)	(2,215)
Provisions	24	(917)	(829)
Bank loan	22	(12,793)	(33,512)
Deferred tax liabilities	12	(1,411)	(2,029)
		(19,615)	(40,707)
Total liabilities		(130,206)	(146,172)
Net assets		121,761	114,572
Shareholders' funds			
Called up share capital	26	5,363	5,309
Share premium	26	20,989	20,505
Capital reserve – own shares	27	(17)	(17)
Capital redemption reserve		363	363
Currency translation reserve		2,486	3,838
Retained earnings		92,577	84,574
Equity shareholders' funds		121,761	114,572

The financial statements were approved by the Board and authorised for issue on 13 June 2018 and signed on its behalf by James Crawford.

Group cash flow statement

For the year ended 2 April 2018

	Note	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Cash generated by operating activities			
Cash generated by operations	30	28,670	9,127
UK income tax paid		(2,035)	(3,354)
Overseas income tax paid		–	(591)
Net cash from operating activities		26,635	5,182
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,921)	(3,311)
Purchase of intangible fixed assets		(869)	(190)
Purchase of prepaid lease assets		–	(22)
Proceeds from sale of non-current assets		2	21
Net cash used in investing activities		(3,788)	(3,502)
Cash flows from financing activities			
Interest paid		(802)	(874)
Issue of ordinary share capital		495	66
Draw down of borrowings		19,500	9,000
Repayment of borrowings		(40,174)	(2,371)
Loan arrangement fees paid		(411)	(88)
Equity dividends paid		(3,993)	(1,062)
Net cash (used in)/from financing activities		(25,385)	4,671
Net (decrease)/increase in cash			
Cash and cash equivalents at beginning of year		10,470	3,804
Effect of foreign exchange rate changes		(1,151)	315
Cash and cash equivalents at end of year	30	6,781	10,470

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Notes to the financial statements

1 General information

Majestic Wine plc is a public limited company ("Company") and is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company's ordinary shares are traded on the Alternative Investment Market ("AIM").

The address of the registered office is given on the inside back cover. The Group's principal activity is the retailing of wines, beers and spirits. The Company's principal activity is to act as a holding company for its subsidiaries.

2 Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standard Board (IASB) that are mandatorily effective for an accounting period that begins on or after 3 April 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS	Amendment
Amendments to IAS 7 – Disclosure Initiative	The amendments to IAS 7 require an entity to provide disclosures which enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consists of borrowings (note 22) and financial instruments (note 23). A reconciliation between the opening and closing net debt is provided in note 30(c).
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	The amendments to IAS 12 clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS	Subject
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts
IFRS 2 (amendments)	Classification and Measurement of Share-Based Payment Transactions
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IAS 40 (amendments)	Transfer of Investment Property
Annual Improvements to IFRS 2014–16 cycle	Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associate and Joint Venture
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 22	Foreign Currency Transaction and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax treatments.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods except as noted below:

IFRS 16 – Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the year ending 30 March 2020. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lease accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others.

Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carried forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

2 Adoption of new and revised standards (continued)

As at 2 April 2018, the Group has non-cancellable operating lease commitments of £85.2m (note 29). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete that review.

In contrast, where the Group is a lessor, the Directors do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

3 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of accounting

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulations.

The Group's financial reporting year represents the 52 weeks to 2 April 2018 and the prior financial year, 53 weeks to 3 April 2017.

The consolidated financial statements are presented in sterling, the functional and presentational currency of the parent Company.

The financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair values as at the end of each reporting period, as explained in the accounting policies below.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The Company has taken advantage of the exemption provided in section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The Company has not made any other comprehensive income and consequently has not presented a statement of comprehensive income for the year.

3.2 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

3.3 Basis of consolidation

The consolidated financial statements include the financial statements of Majestic Wine plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- ➊ Power over the investee;
- ➋ Is exposed, or has rights, to variable return from its involvement with the investee; and
- ➌ Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

3.4 Presentation of adjusted items

The Group's income statement and segmental analysis separately identify trading results before certain adjusted items. The Directors believe that presentation of the Group's results in this way is relevant to understanding the Group's financial performance. Adjusted items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and provides a meaningful analysis of the trading results of the Group. In determining whether an event or transaction should be adjusted for, management considers quantitative as well as qualitative factors such as the frequency or predictability of the item. Details of adjusted items can be found in note 8.

3.5 Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ("B2B") wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

Performance of each operating segment is based on sales, adjusted EBIT (being operating profit less any adjusted items) and adjusted PBT (being profit before taxation less any adjusted items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted Items are not allocated to the operating segments as this reflects how they are reported to the Board.

Notes to the financial statements

continued

3 Accounting policies (continued)

3.6 Revenue recognition

Revenue represents the total amount receivable for the sale of goods and services, net of discounts and excluding value added tax sold in the ordinary course of business.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer and there is reasonable certainty over recovery of the consideration.

Revenue from the sale of goods represents the sale of wines, beers and spirits in store, online and en primeur sales. Revenue relating to the sale of en primeur wines is recognised when the wines are made available to the customer, which may be up to two years following the actual payment made by the customer.

Revenue from the provision of services represents cellarage income.

3.7 Cost of sales

Cost of sales consists of the cost of the product, including excise duties, credit card processing charges and the costs of the retail stores and online selling teams.

Supplier incentives, rebates and discounts are recognised within cost of sales as they are earned.

3.8 Finance costs

Financing expenses comprise interest payable under the effective interest rate method, including the amortisation of loan arrangement fees. Finance income comprises interest receivable on funds invested and positive cash balances.

3.9 Share based payments

The Company operates a number of equity-settled share based compensation plans. The fair value of the employee services received in exchange for the grant of shares or options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of shares or options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares or options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

3.10 Taxation

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax

Income tax is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred taxation is accounted for in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the asset or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. It is recognised in the income statement except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is also recognised in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax liabilities are recognised for all temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.11 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the income statement for the period.

The consolidated financial statements are presented in sterling which is the Company's functional and presentational currency. Each entity in the Group determines its own functional currency. The income and expenses of overseas subsidiaries are translated at the average rate of exchange ruling during the year. The balance sheet of the overseas subsidiary undertaking is translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the translation of overseas subsidiaries are reported in the statement of comprehensive income and are transferred to the Group's currency translation reserve.

3.12 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Goodwill arising on acquisitions after 31 December 1997 and before 28 March 2005 (the date of transition to IFRS) has been recognised at the previously reported UK GAAP value. Goodwill arising on the acquisition of subsidiaries prior to 31 December 1997 was written off immediately against reserves.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units ("CGUs"), or groups of CGUs. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The recoverable amounts of CGUs are determined based on the higher of net realisable value and value in use calculations. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount with the impairment loss being recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Acquisition related costs are recognised in the income statement as incurred.

3 Accounting policies (continued)**3.13 Other intangible assets**

Other intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of each asset. The estimated useful lives are as follows:

Customer list and relationships	6 years
Brand	8 years
Software	2–5 years
Licences	Over the term of the licence

Customer lists and relationships and brands arise only on acquisition.

3.14 Impairment reviews

Impairment reviews in respect of other intangible and tangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows.

3.15 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged to the income statement on a straight line basis to write the cost of an asset down to its residual value over the estimated useful lives of each asset. The estimated useful lives are as follows:

Freehold land	Not depreciated
Freehold buildings and leasehold properties	50 years (or the term of the lease if less than 50 years)
Equipment, fittings and vehicles	3–10 years

Land and buildings under construction and non-current assets held for sale are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition, less rebates and discounts.

3.17 Deferred income

Amounts received by the Group from 'Angels' are initially reported as a liability in the balance sheet. It is recognised as revenue in the period when 'Angels' use these funds to buy wine and delivery of goods is made.

3.18 Provisions

A provision is made when there is a present legal or constructive obligation as a result of 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 measured. Provisions are discounted for the time value of money where the effect is material.

3.19 Leases**Group as lessee**

Assets held under finance leases, where substantially all the risks and rewards of ownership are transferred to the Group, are capitalised and included in property, plant and equipment at the lower of the present value of future minimum lease payments or fair value. Each asset is depreciated over the shorter of the lease term or its estimated useful life on a straight line basis. Obligations relating to finance leases, net of finance charges in respect of future periods, are included under borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the lease period.

Group as lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

3.20 Pensions

The Group contributes to a number of defined contribution pension plans in respect of its employees. The contributions are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date. The Group has no further payment obligations once the contributions have been paid.

3.21 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. A provision is made for impairment when it is likely that the balance will not be recovered in full.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits, with original maturities at inception of less than 90 days. For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand, short-term deposits with an original maturity of three months or less held for the purpose of meeting short-term cash commitments and bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Interest-bearing bank loans and overdrafts are measured initially at fair value net of attributable arrangement costs, and subsequently at amortised cost, using the effective interest rate method.

Trade and other payables are initially recorded at fair value and subsequently measured at amortised cost.

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs.

Notes to the financial statements

continued

3 Accounting policies (continued)

3.21 Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign currency fluctuations arising from operational activities. These instruments are primarily foreign exchange forward contracts. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are re-measured at fair value at subsequent reporting dates. For derivative financial instruments not designated as a hedge, the gain or loss on re-measurement to fair value is immediately recognised in the income statement.

There were no derivatives accounted for using hedge accounting during the year.

3.22 Own shares

Majestic Wine plc shares held by the Group are classified in shareholders' equity as 'Capital Reserve-Own Shares' and are recognised at cost. No gain or loss is recognised in the income statement on the purchase or sale of such shares.

4 Critical accounting policies, estimates and judgements

The following are areas of particular significance to the Group's financial statements and include the use of estimates and the application of judgement, which is fundamental to the compilation of a set of financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies the Directors consider there to be no critical accounting judgements that have a significant effect on the amounts recognised in the financial statements.

Although significant judgements and estimates are used in determining the value in use for calculation of impairment of goodwill and acquired intangible assets, there is sufficient headroom available to believe that there is no significant risk of material adjustment to the carrying amount of intangibles within the next financial year.

5 Reallocation of prior year comparatives

During the year, the Group revisited and changed the recharge and cost allocation model between Retail and Commercial business segments. The Group believes that the current recharge and allocation process best represents operations of these segments. The impact of these reclassifications on the year ended 3 April 2017 is a reduction in Cost of Sales and a corresponding increase in Distribution costs and Administration expenses of £471,000.

6 Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the customer and the amount of revenue can be measured reliably. Revenue from the sale of goods represents the sale of wines, beers and spirits in store, online and en primeur sales.

Revenue relating to the sale of en primeur wines is recognised when the wines are made available to the customer, which may be up to two years following the actual payment made by the customer.

Services

Revenue from the provision of services is recognised when the service is provided and the revenue can be measured reliably. Revenue from the provision of services relates to cellarage income.

Rental income

The Group sub-leases surplus space in various owner-occupied stores, offices and warehouses and recognises rental income from such sub-leases in the period in which it is earned, in line with the terms of the sub-leases.

7 Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ("B2B") wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

Performance of each operating segment is based on sales, adjusted EBIT (being operating profit less any adjusted items) and adjusted PBT (being profit before taxation less any adjusted items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted Items are not allocated to the operating segments as this reflects how they are reported to the Board.

The revenue and profits of the Lay & Wheeler operating segment as presented to the CODM are recognised on the receipt of orders, cash receipts and payments in relation to en primeur campaigns. The segment performance is reviewed in this way as resources utilised in generating these sales are expensed as incurred. This differs from the revenue recognition policy required under IAS 18 where revenue is recognised on delivery of the wine to the customer, which may be up to two years after the original order and payment. As a result a reconciling item is presented between the total operating segments revenue and results and the IFRS statutory measure.

7 Segmental reporting (continued)

Costs relating to centralised Group functions are not allocated to operating segments for the purposes of assessing segmental performance and consequently central costs are presented as a separate segment.

Inter-segment transactions are conducted on an arm's length basis. The Group is not reliant on a major customer or group of customers.

All activities are continuing.

Year ending 2 April 2018	Retail £'000	Commercial £'000	Naked Wines £'000	L&W £'000	Unallocated £'000	Group £'000
Segment revenue	263,754	43,360	156,058	14,549	–	477,721
Movement in en primeur sales	–	–	–	(1,587)	–	(1,587)
Reported third-party revenue	263,754	43,360	156,058	12,962	–	476,134
Segment result – adjusted EBIT	13,349	2,435	8,666	937	(7,209)	18,178
Net finance costs						(994)
Adjusted profit before taxation						17,184
Adjusted items:						
– Non-cash items relating to acquisitions						(8,018)
– Other adjusted items						(868)
Profit before taxation						8,298
Depreciation	4,894	–	353	106	–	5,353
Amortisation	332	–	3,882	106	–	4,320
Geographical analysis		UK	Rest of Europe	USA	Australia	Group
Reported third-party revenue		378,826	7,812	61,481	28,015	476,134
Non-current assets		114,666	2,977	1,027	761	119,431
Year ended 3 April 2017	Retail £'000	Commercial £'000	Naked Wines £'000	L&W £'000	Unallocated £'000	Group £'000
Segment revenue	262,200	46,628	144,341	14,715	–	467,884
Movement in en primeur sales	–	–	–	(2,440)	–	(2,440)
Reported third-party revenue	262,200	46,628	144,341	12,275	–	465,444
Segment result – adjusted EBIT	13,345	2,541	1,417	980	(4,184)	14,099
Net finance costs						(1,222)
Adjusted profit before taxation						12,877
Adjusted items:						
– Non-cash items relating to acquisitions						(11,267)
– Other adjusted items						(3,078)
Loss before taxation						(1,468)
Depreciation	4,982	–	362	106	–	5,450
Amortisation	1,201	–	4,096	321	–	5,618
Geographical analysis		UK	Rest of Europe	USA	Australia	Group
Reported third-party revenue		377,398	7,658	58,347	22,041	465,444
Non-current assets		119,414	2,845	2,544	97	124,900

Notes to the financial statements
continued**8 Adjusted items**

The Directors believe that adjusted profit before tax and adjusted diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for performance analysis. Adjusted profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to IFRS measurements of profit. The adjustments made to reported profit before tax are:

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Non-cash charges relating to acquisitions		
Amortisation of acquired intangibles	(3,882)	(4,321)
Acquisition related share based payment charges	(4,136)	(6,946)
	(8,018)	(11,267)
Other adjusted items		
Acquisition costs	–	(53)
Restructuring costs	–	(819)
Fair value movement through P&L on foreign exchange contracts	193	(957)
En primeur adjustment	(289)	(517)
Share based payment charges	(772)	(732)
	(868)	(3,078)
Total adjusted items	(8,886)	(14,345)

Amortisation of acquired intangibles

These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. As we expense ongoing customer acquisition in full each year we remove the amortisation as otherwise we overstate the level of investment driving the current rate of growth.

Acquisition related share-based payment charges

A substantial portion of the consideration for acquiring Naked Wines was structured in Majestic shares. Due to the recipients having continued employment obligations IFRS2 requires this to be accounted as an expense. As this expense reduces over the vesting period of the shares and is not an operating expense of the business we adjust it out to better reflect the business' ongoing profitability.

Fair value movement on foreign exchange contracts

We commit in advance to buying foreign currency to purchase wine in order to mitigate exchange rate fluctuations. International accounting standards require us to mark the value of these to market at year end. As this may fluctuate materially we adjust it out to better reflect our trading profitability.

En primeur adjustment

We sometimes secure wine orders, generally for fine wines, a substantial period before the wine is ready to ship as it continues to mature in barrel on the winemaker's premises. While these transactions do not reach the statutory definition of a sale (as title has not passed to the customer) we include the sales and profits in our adjusted profit before tax at the time of order, not shipment, to align the financial impact with the sales team's activity and cost.

Share based payment charges

We operate SIP and LTIP schemes to incentivise employees. The majority of shares have been awarded under the LTIP scheme which delivers the shares to the employee subject to continued employment and the relative performance of the Group vs a set of peers in terms of Total Shareholder Return Performance. The relative nature of this performance criterion means that short-term fluctuations in share prices prior to the date of award can have a material impact on the calculated expense of these schemes. To mitigate the volatility of these charges we adjust them out, while ensuring we report the maximum total dilution from all share schemes so that our shareholders can calculate our financial performance per share on a fully diluted basis.

Acquisition and restructuring costs

Accounting standards require all acquisition and restructuring costs to be expensed in the Group Income Statement. Due to their nature these costs have been excluded from adjusted profit before tax as they do not reflect the underlying performance of the Group.

9 Operating profit/(loss)

Operating profit/(loss) for the year has been arrived at after charging/(crediting):

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Depreciation	5,353	5,450
Amortisation of operating lease costs	226	233
Amortisation of intangible fixed assets	4,320	5,618
Impairment of properties	486	–
Operating lease rentals:		
– Land and buildings	11,191	10,782
– Other leases	1,172	1,284
– Sub-lease payments received	(548)	(341)
– Lease payments received	(298)	(467)
Loss/(profit) on sale of plant and equipment	28	(6)
Bad debt expense	111	95
Net currency exchange (gain)/loss	(200)	1,072

Auditor's remuneration

Fees payable for the audit of the Company's subsidiaries	312	338
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	17	17
Total audit fees	329	355
Audit related assurance services	28	27
Other taxation advisory services	–	12
Corporate finance services	–	8
Total non-audit fees	28	47
Total fees paid to the Company's auditor	357	402

10 Staff costs

The average monthly number of employees (including Directors) during the year was as follows:

	Year ended 2 April 2018	Year ended 3 April 2017
Administrative and distribution	421	402
Sales	1,107	1,187
	1,528	1,589

Their aggregate remuneration comprised:

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Wages and salaries	46,574	49,343
Social security costs	4,995	5,318
Contributions to defined benefit pension plans	897	727
Share based payment charges – ongoing	607	599
Share based payment charges – acquisition related	3,800	6,673
	56,873	62,660

Notes to the financial statements
continued**10 Staff costs (continued)**

Directors' emoluments comprised:

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Salary and benefits	717	804
Bonus accrued	124	34
Pension contributions to money purchase schemes	67	74
Emoluments before share based payment charges	908	912
Share based payment charges	2,571	5,226
	3,479	6,138

The highest paid Director's emoluments comprised:

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Salary and benefits	245	280
Bonus accrued	64	–
Pension contributions to money purchase schemes	34	36
Emoluments before share based payment charges	343	316
Share based payment charges	2,438	5,070
	2,781	5,386

Detailed disclosure of Directors' remuneration is set out in the Remuneration Report on page 54.

11 Finance income and charges

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Interest payable on bank overdraft	(26)	(70)
Interest payable on revolving credit facility	(517)	(592)
Interest payable on customer funded bond	(259)	(366)
Amortisation of debt issuance costs	(192)	(195)
Interest payable	(994)	(1,223)
Bank interest receivable	–	1
Net finance charge	(994)	(1,222)

12 Taxation**(a) Taxation charge**

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Current income tax expense		
UK income tax	(2,716)	(2,345)
Overseas income tax	(98)	(492)
Adjustment in respect of prior periods	741	–
Foreign exchange	–	275
Current income tax expense	(2,073)	(2,562)
Deferred tax expense		
Origination and reversal of temporary differences	1,069	1,705
Adjustment in respect of prior periods	155	(237)
Effect of change in tax rate on prior period balances	(52)	59
Foreign exchange	–	(192)
Total deferred tax credit	1,172	1,335
Total income tax charge for the year	(901)	(1,227)

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 included within the Finance Bill 2016 which was enacted on 6 September 2016.

(b) Taxation reconciliation

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 20%). The reasons for this are detailed below:

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Profit/(loss) before taxation	8,298	(1,468)
Taxation (charge)/credit at the standard UK corporation tax rate of 19% (2017: 20%)	(1,576)	293
Adjustments in respect of prior periods*	896	(237)
Overseas income tax at higher rates	(338)	(130)
Disallowable expenditure**	(939)	(1,404)
Income not subject to income tax	516	23
Deferred tax not previously recognised***	616	87
Share based payments	(24)	–
Change in tax rate on prior period deferred tax balances	(52)	59
Foreign exchange	–	82
Total income tax expense	(901)	(1,227)
Effective tax rate	10.9%	-83.4%
Adjusted effective tax rate	12.1%	19.9%

* Adjustments in respect of prior periods relate to UK capital allowance relief realised in the current year and utilisation of prior year tax losses against current year profits in the USA and Australia.

** Disallowable expenditure mainly relates to amortisation of acquired intangibles and share based payment expenses.

*** Deferred tax not previously recognised relates to deferred tax asset recognised on taxable losses in Australia.

Notes to the financial statements
continued**12 Taxation (continued)**

(c) Taxation on items recorded in other comprehensive income

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Deferred tax credit/(charge) on share based payments	235	(3)
Total tax on items credited/(charged) to other comprehensive income	235	(3)

(d) Deferred tax

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
At beginning of year	(333)	(1,665)
Adjustment in respect of prior years	155	(237)
Credited to the income statement in the year	1,017	1,764
Credited/(charged) to other comprehensive income in the year	235	(3)
Foreign exchange	(242)	(192)
At end of year	832	(333)

	Accelerated tax depreciation £'000	Share based payments £'000	Tax losses carried forward £'000	Total deferred tax assets £'000
Deferred tax assets				
At 28 March 2016	114	247	768	1,129
(Charged) to other comprehensive income in the year	–	(3)	–	(3)
Credited/(charged) to income statement	69	618	(117)	570
At 3 April 2017	183	862	651	1,696
Credited to other comprehensive income in the year	–	235	–	235
Credited/(charged) to income statement	(47)	(62)	502	393
Foreign exchange	10	13	(104)	(81)
At 2 April 2018	146	1,048	1,049	2,243

	Rolled over gains £'000	Short-term timing differences £'000	Total deferred tax liabilities £'000
Deferred tax liabilities			
At 28 March 2016	(289)	(2,505)	(2,794)
Credited to income statement	30	735	765
At 3 April 2017	(259)	(1,770)	(2,029)
Credited to income statement	49	730	779
Foreign exchange	(10)	(151)	(161)
At 2 April 2018	(220)	(1,191)	(1,411)

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Deferred tax assets	2,243	1,696
Deferred tax liabilities	(1,411)	(2,029)
	832	(333)

Deferred tax on losses of £11.5m (2017: £11.5m) has not been recognised in these financial statements.

12 Taxation (continued)**(e) Factors that may affect future tax charges**

The Group's overseas tax rate is higher than that in the UK as profits earned by Les Celliers de Calais S.A.S. in France are taxed at a rate of 33.3% and profits earned by its Naked Wines subsidiaries in the United States of America and Australia are taxed at 39.8% and 28.5% respectively.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as following the enactment of the Finance Act 2009 the Group considers that it would have no liability to additional taxation should such amounts be remitted.

13 Earnings/loss per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 3,067,028 (2017: 4,920,863) contingently returnable shares issued as a result of the acquisition of Naked Wines (which have been treated as dilutive share options), 139,609 (2017: nil) shares held by the Majestic Wine plc Share Incentive Plan Trust (which have been treated as dilutive share options), and 3,934 (2017: 3,934) shares held by Employee Share Ownership Trust.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. These comprise contingently returnable shares and share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. Share options granted over 112,003 (2017: 475,453) ordinary shares have not been included in the dilutive earnings per share calculation because they are anti-dilutive at the period end.

Adjusted earnings per share is calculated by excluding the effect of adjusted items (see note 8). This alternative measure of earnings per share is presented so that users of the financial statements can better understand the Group's underlying trading performance.

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Earnings/(loss) per share		
Basic earnings/(loss) per share	10.9p	(4.1p)
Diluted earnings/(loss) per share	10.1p	(4.1p)
Adjusted basic earnings per share	23.9p	17.7p
Adjusted diluted earnings per share	22.3p	16.3p

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Profit/(loss) for the period	7,397	(2,695)
Add back adjusted items:		
– Non-cash charges relating to acquisitions	8,018	11,267
– Other adjusted items	868	3,078
Adjusted profit after taxation	16,283	11,650

	Year ended 2 April 2018	Year ended 3 April 2017
Weighted average number of shares in issue	68,051,900	65,848,467
Dilutive potential ordinary shares:		
Employee share options and contingently returnable shares	5,036,886	5,598,621
Weighted average number of shares for the purpose of diluted earnings per share	73,088,786	71,447,088
Total number of shares in issue	71,499,086	70,778,262

If all the Company's share option schemes had vested at 100% the Company would have 74,483,264 issued shares.

Notes to the financial statements
continued

14 Dividends

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Amounts recognised as distributions to shareholders in the year:		
2017 Final dividend: 3.6p (2016: nil)	2,565	–
2018 Interim dividend: 2.0p (2017: 1.5p)	1,428	1,062
Equity dividends paid	3,993	1,062
Proposed for approval by the shareholders at the AGM:		
Final dividend: 5.2p (2017: 3.6p)	3,718	2,548

15 Goodwill and intangible assets

	Goodwill £'000	Facilities and trademarks £'000	Customer lists £'000	Brands £'000	Software £'000	Total £'000
Cost						
At 28 March 2016	39,370	2,985	14,300	10,100	8,128	74,883
Additions	–	–	–	–	190	190
Disposals	–	–	–	–	(1)	(1)
Foreign currency	572	–	–	–	–	572
At 3 April 2017	39,942	2,985	14,300	10,100	8,317	75,644
Additions	–	–	–	–	869	869
Foreign currency	363	–	–	–	–	363
At 2 April 2018	40,305	2,985	14,300	10,100	9,186	76,876
Accumulated amortisation						
At 28 March 2016	(7,697)	(1,575)	(2,325)	(1,231)	(5,384)	(18,212)
Charge for the year	–	(225)	(2,383)	(1,263)	(1,747)	(5,618)
Disposals	–	–	–	–	1	1
Foreign currency	(368)	–	–	–	–	(368)
At 3 April 2017	(8,065)	(1,800)	(4,708)	(2,494)	(7,130)	(24,197)
Charge for the year	–	(225)	(2,383)	(1,263)	(449)	(4,320)
Foreign currency	(233)	–	–	–	–	(233)
At 2 April 2018	(8,298)	(2,025)	(7,091)	(3,757)	(7,579)	(28,750)
Net book value						
At 2 April 2018	32,007	960	7,209	6,343	1,607	48,126
At 3 April 2017	31,877	1,185	9,592	7,606	1,187	51,447
At 28 March 2016	31,673	1,410	11,975	8,869	2,744	56,671

Included within additions are assets held under construction totalling £392,000 (2017: £52,000).

15 Goodwill and intangible assets (continued)**Impairment testing of goodwill**

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired through business combinations has been allocated for impairment testing purposes to cash generating units (CGUs). The recoverable amount of a CGU is determined based on value in use calculations.

An analysis of goodwill and intangible assets by CGU is shown below:

	Goodwill £'000	Facilities and trademarks £'000	Customer lists £'000	Brands £'000	Software £'000	Total £'000
Naked Wines CGU	29,162	-	7,209	6,343	-	42,714
Lay & Wheeler CGU	-	960	-	-	312	1,272
French retail CGU	2,845	-	-	-	-	2,845
UK retail CGU	-	-	-	-	689	689
Unallocated	-	-	-	-	606	606
At 3 April 2018	32,007	960	7,209	6,343	1,607	48,126

Amortisation

Intangible fixed assets are amortised on a straight line basis through the income statement, based on the following estimated useful lives:

Category of intangible asset	Total useful life	Life remaining
Customer list and relationships	6 years	3 years
Brand	8 years	5 years
Software	2–5 years	1–5 years
Licences	Over the term of the licence	

Customer lists and relationships and brands arise only on acquisition.

Impairment testing**Key assumptions**

The key assumptions for calculating value in use are cash flows, long-term growth rate and discount rate.

Cash flow assumptions

The cash flows used in the value in use calculation are pre-tax cash flows based on the latest management forecasts in respect of the following five years, the first of which being the Board approved budget. An estimate of capital expenditure required to maintain these cash flows is also made.

Long-term growth rate assumptions

The five-year management forecasts are extrapolated in perpetuity using a growth rate of 2.0%. This is not considered to be higher than the average long-term industry growth rate. The long-term growth rate is common to all CGUs.

Discount rate assumptions

The discount rate applied to the cash flows is calculated using a pre-tax rate based on the weighted average cost of capital ("WACC") which would be anticipated for a market participant investing in the Group. Management believes it is appropriate to use a single common discount rate for all impairment testing as each CGU shares similar risk profiles. The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing.

At 2 April 2018, the pre-tax rate used to discount the forecasted cash flows has been determined to be 11% (2017: 10.0%).

The Group has carried out a sensitivity analysis on the impairment test of each group of CGUs to which goodwill has been allocated. An increase in the discount rate to 20% would cause the carrying value of goodwill in the French retail CGU to equal its recoverable value. There is significant headroom in the Naked Wine Group goodwill.

Notes to the financial statements
continued**16 Property, plant and equipment**

	Land & buildings			Equipment, fittings and vehicles £'000	Total £'000
	Freehold £'000	Long leasehold £'000	Leasehold improvements £'000		
Cost					
At 28 March 2016	40,309	6,178	26,025	37,231	109,743
Additions	223	30	413	2,645	3,311
Disposals	–	–	(237)	(424)	(661)
Foreign currency	–	–	55	222	277
At 3 April 2017	40,532	6,208	26,256	39,674	112,670
Additions	81	6	468	2,366	2,921
Disposals	–	–	(48)	(138)	(186)
Foreign currency	–	–	12	(111)	(99)
At 2 April 2018	40,613	6,214	26,688	41,791	115,306
Accumulated depreciation					
At 28 March 2016	(4,037)	(330)	(13,144)	(22,194)	(39,705)
Charge for the year	(452)	(104)	(1,739)	(3,155)	(5,450)
Disposals	–	–	227	400	627
Foreign currency	–	–	(48)	(83)	(131)
At 3 April 2017	(4,489)	(434)	(14,704)	(25,032)	(44,659)
Charge for the year	(453)	(105)	(1,696)	(3,099)	(5,353)
Impairment and impairment reversals	–	–	(222)	(225)	(447)
Disposals	–	–	48	108	156
Foreign currency	–	–	(14)	43	29
At 2 April 2018	(4,942)	(539)	(16,588)	(28,205)	(50,274)
Net book value					
At 2 April 2018	35,671	5,675	10,100	13,586	65,032
At 3 April 2017	36,043	5,774	11,552	14,642	68,011
At 28 March 2016	36,272	5,848	12,881	15,037	70,038

Freehold land and buildings includes £17,869,000 (2017: £17,869,000) in respect of land that is not depreciated. The gross value of fully depreciated assets in use was £26,071,000 (2017: £23,072,000).

Included within additions are assets held under construction totalling £nil (2017: £nil).

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the balance sheet date. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. The key estimates for the value in use calculations are those regarding discount rates and expected changes to future cash flows.

The Group estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on long-term average growth rates, which are derived from inflation forecasts by recognised bodies.

Directors have reviewed the key financial assumptions and sensitivities and were satisfied that sufficient growth initiatives and other self-help measures have been implemented during the transformation plan to drive the forecast future cash flows in a more difficult UK market. The review identified a net increase of 7 stores out of the estate of 212 stores that were unlikely to deliver sufficient cash flow to justify their full carrying value. Accordingly store impairment provision was increased by £447,000 and was charged to Group Income Statement.

17 En primeur

En primeur refers to the practice of purchasing wines before they are bottled and released onto the market. This method of purchasing gives the consumer the opportunity to secure wines that may be in limited quantity and very difficult to acquire after release. Receipts and payments for these wines may be up to two years before the wines are available to customers. Payments to suppliers are treated as prepayments and receipts from customers as deferred income until the wines are available to customers.

Analysis of en primeur balances

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
En primeur purchases included in non-current assets	2,390	1,841
En primeur purchases included in current assets	3,779	3,030
Total en primeur purchases	6,169	4,871
En primeur income included in current liabilities	(4,824)	(3,937)
En primeur income included in non-current liabilities	(2,822)	(2,122)
Total en primeur deferred income	(7,646)	(6,059)
Net en primeur balance	(1,477)	(1,188)
Movement in en primeur balances		
Opening net balance	(1,188)	(671)
Movement in en primeur balance	(289)	(517)
Closing net balance	(1,477)	(1,188)

Notes to the financial statements
continued**18 Prepaid operating leases**

	Prepaid operating leases £'000
Cost	
At 28 March 2016	4,550
Additions	22
Disposals	(51)
At 3 April 2017	4,521
Additions	–
Disposals	(27)
At 2 April 2018	4,494
Amortisation	
At 28 March 2016	(2,435)
Charge for the year	(233)
Reversal of impairment	39
Disposals	13
At 3 April 2017	(2,616)
Charge for the year	(226)
Impairment	(39)
Disposals	27
At 2 April 2018	(2,854)
Net book value	
At 2 April 2018	1,640
At 3 April 2017	1,905
At 28 March 2016	2,115

The amortisation of prepaid lease costs is included within distribution costs in the income statement.

19 Inventories

	2 April 2018 £'000	3 April 2017 £'000
Raw materials	356	4,688
Work in progress	20,993	22,675
Finished goods	75,910	67,471
	97,259	94,834

The cost of inventories recognised as an expense during the year was £349,032,000 (2017: £343,366,000).

Inventory of £922,000 (2017: £612,000) was expensed through the income statement in the year relating to samples and tasting products.

20 Trade and other receivables

	2 April 2018 £'000	3 April 2017 £'000
Trade receivables	6,921	6,208
Other debtors	4,550	5,386
Prepayments and accrued income	4,409	3,379
	15,880	14,973

20 Trade and other receivables (continued)

Trade receivables are shown net of a provision for impairment. The movements in the provision for impairment of receivables were as follows:

	2 April 2018 £'000	3 April 2017 £'000
At beginning of year	(218)	(206)
Charge for the year	(111)	(95)
Uncollected amounts written off	204	83
	(125)	(218)

21 Trade and other payables

	2 April 2018 £'000	3 April 2017 £'000
Trade payables	40,066	35,082
Other taxes and social security	9,452	10,139
Accruals and other payables	10,061	10,798
	59,579	56,019

Amounts payable in respect of defined contribution pension schemes were £125,000 (2017: £114,000)

22 Bank and other borrowings

	2 April 2018 £'000	3 April 2017 £'000
Current		
Bank overdrafts	8,837	12,537
Customer bond finance	2,445	2,619
Total bank and other borrowings due within one year	11,282	15,156
Non-current		
Revolving credit facility	13,500	34,000
Debt issuance costs	(707)	(488)
Total bank and other borrowings due after one year	12,793	33,512
Total bank and other borrowings	24,075	48,668

During the year, the Group amended an existing revolving credit facility to reduce from £85m to £60m. The amended facility is due to mature in December 2022. Interest has been charged at margins between 1% and 1.25% above LIBOR, depending on the Group's leverage (being net debt/EBITDA).

Banking covenants are in place and are tested quarterly. The covenants tested are the Group's leverage and fixed charge cover.

Notes to the financial statements

continued

23 Financial instruments

The Group's financial instruments, other than derivatives, comprise cash, bank borrowings and various balances, such as trade receivables and trade payables, all arising directly from its operations.

The Group also enters into forward foreign currency derivative contracts. The purpose of these transactions is to manage the currency risk arising from the Group's operations. The Group does not hold or issue financial instruments for speculative purposes and does not engage in speculative trading.

The principal financial risks to which the Group is exposed relate to liquidity risk, credit risk, interest rates, market risk and foreign exchange rates.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. In order to manage liquidity risk, each business unit prepares short-term and medium-term cash flow forecasts. These forecasts are consolidated and reviewed centrally to ensure the Group has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without risking damage to the Group's reputation. The Group has access to a revolving credit facility agreed with Barclays Bank PLC. The facility was reviewed and amended in December 2017 and expires in December 2022. The facility consists of a revolving credit term facility and an overdraft. The aggregate of the total borrowing facilities at 2 April 2018 were £60m (2017: £85m) of which £13.5m was drawn down at the balance sheet date.

The Group's net debt level can vary from month to month and there is some volatility within months. This reflects seasonal trading patterns, timing of receipts from customers and payments to suppliers, patterns of inventory holdings and the timing of the spend on major capital and restructuring projects. For these reasons the debt levels at the period end date may not be indicative of debt levels at other points throughout the period.

The following table analyses the Group's financial assets and liabilities into relevant maturity groupings based on the contractual undiscounted cash flows.

	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Due after 3 years £'000	Total £'000
At 2 April 2018					
Financial assets					
Trade and other receivables	15,880	–	–	–	15,880
Cash and cash equivalents	15,618	–	–	–	15,618
	31,498	–	–	–	31,498
Financial liabilities					
Trade and other payables	(50,127)	–	–	–	(50,127)
Bank overdraft	(8,837)	–	–	–	(8,837)
Revolving credit facility	(700)	(700)	(700)	(14,250)	(16,350)
Financial instruments at fair value	(897)	–	–	–	(897)
Customer funded bond	(2,445)	–	–	–	(2,445)
	(63,006)	(700)	(700)	(14,250)	(78,656)

	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Due after 3 years £'000	Total £'000
At 3 April 2017					
Financial assets					
Trade and other receivables	14,973	–	–	–	14,973
Cash and cash equivalents	23,007	–	–	–	23,007
	37,980	–	–	–	37,980
Financial liabilities					
Trade and other payables	(45,881)	–	–	–	(45,881)
Bank overdraft	(12,537)	–	–	–	(12,537)
Revolving credit facility	–	–	–	(34,000)	(34,000)
Financial instruments at fair value	(1,090)	–	–	–	(1,090)
Customer funded bond	(2,619)	–	–	–	(2,619)
	(62,127)	–	–	(34,000)	(96,127)

Financial assets consist of cash and cash equivalents and trade and other receivables which are classified as loans and receivables. Financial liabilities held at amortised cost consist of trade and other payables, bank overdraft and customer funded bond. All other financial liabilities are classified as financial liabilities at fair value through profit and loss.

23 Financial instruments (continued)**Liquidity risk (continued)**

The following table analyses the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows.

	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Total £'000
At 2 April 2018				
Outflow	(45,211)	–	–	(45,211)
Inflow	44,314	–	–	44,314
	(897)	–	–	(897)
At 3 April 2017				
Outflow	(61,216)	–	–	(61,216)
Inflow	60,126	–	–	60,126
	(1,090)	–	–	(1,090)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by its carrying value as at the balance sheet date limited to the value of trade receivables. The Group uses a credit referencing agency to establish a third party's credit worthiness before offering to sell on deferred terms. Credit limits are assigned to each debtor account and compliance is monitored. In addition, trade debtor balances are regularly reviewed with the result that the Group's exposure to bad debts is not significant.

As at the balance sheet date, the ageing analysis of trade receivables that were past due but not impaired is as follows:

	Total trade debtors £'000	Current £'000	Up to 3 months past due £'000	3-6 months past due £'000	Over 6 months past due £'000
At 2 April 2018	6,921	4,361	1,952	275	333
At 3 April 2017	6,208	3,787	2,012	146	263

There are no indicators of impairment for those debtors that are neither past due nor impaired.

At 2 April 2018, trade and other receivables of £125,000 (2017: £218,000) were determined to be specifically impaired and provided for. The total includes receivables from customers which are considered to be experiencing difficult economic situations.

Movements in the provision for impairment of trade receivables are as follows:

	2 April 2018 £'000	3 April 2017 £'000
At beginning of year	(218)	(206)
Charge for the year	(111)	(95)
Uncollected amounts written off	204	83
	(125)	(218)

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group ensures that the banks used for the financing of loan facilities and foreign exchange forward contracts are reputable, large institutions with acceptable risk ratings.

Interest rate risk

The Group's interest rate risk arises primarily from its revolving credit facility. As at 2 April 2018, the Group had £13.5m drawn down on its revolving credit facility. A 1% change in interest rate will result in £0.3m impact on the Group's profit.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group manages foreign currency risk as detailed below. The Group does not currently enter into any interest rate swaps or other derivative financial instruments to mitigate the risk of rising interest rates.

Notes to the financial statements
continued**23 Financial instruments (continued)****Foreign currency exchange rates**

The Group's presentation currency is sterling, although some transactions are executed in non-sterling currencies, including euros, US dollars and Australian dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against sterling. It is the Group's policy to manage the exposures arising using forward foreign currency exchange contracts. Hedge accounting is not sought for these transactions. The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the euro, US dollar and Australian dollar. The principal foreign currencies affecting the translation of subsidiary undertakings within the Group financial statements are these currencies. The rates applicable are as follows:

Principal rate of exchange	2 April 2018 £'000	3 April 2017 £'000
Euro : Sterling		
Period end	1.141	1.172
Average	1.135	1.192
US dollar : Sterling		
Period end	1.403	1.248
Average	1.329	1.311
Australian dollar : Sterling		
Period end	1.829	1.643
Average	1.715	1.709

The Group does not use derivatives to hedge balance sheet and profit and loss translation exposures arising on the consolidation of the French, US and Australian subsidiaries.

The following table demonstrates the sensitivity to a reasonably possible change in sterling against the exchange rates with all other variables held constant, of the Group's profit before tax:

	Sensitivity in exchange rate	Impact of increase in rate £'000	Impact of decrease in rate £'000
Year ended 2 April 2018			
Euro : Sterling	5%	(2,646)	2,105
US dollar : Sterling	5%	(60)	40
Australian \$: Sterling	5%	(3)	3
New Zealand \$: Sterling	5%	(116)	38
Year ended 3 April 2017			
Euro : Sterling	5%	(342)	1,940
US dollar : Sterling	5%	(66)	201
Australian \$: Sterling	5%	26	83

The table below shows the Group's currency exposures that gave rise to net currency gains and losses recognised in the consolidated statement of profit or loss as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

Currency:	2 April 2018 £'000	3 April 2017 £'000
Sterling	9,784	14,730
Euro	3,027	5,153
US dollar	1,548	2,259
Australian dollar	1,259	865
Sub-total	15,618	23,007
Bank overdraft:		
Sterling	(8,837)	(12,537)
Total	6,781	10,470

23 Financial instruments (continued)**Fair value**

The Group enters into forward foreign currency exchange contracts in order to manage the Group's forecast currency requirements. These are held for hedging purposes with fair value movements being recognised in the income statement.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There have been no financial instruments which have transferred between the levels in the hierarchy as detailed above.

The nominal and fair value of forward currency contracts is shown in the following table. All contracts have maturity dates within one year. The fair value of these instruments was determined using quoted forward exchange rates matching the maturities of the contracts. The Group's measurement of their financial instruments meets the criteria of Level 2 and hence all have been included in this classification.

	Fair value		
	Nominal value £'000	Assets £'000	Liabilities £'000
Forward foreign currency contracts as at 2 April 2018	51,371	–	(897)
Forward foreign currency contracts as at 3 April 2017	60,116	–	(1,090)

There is no material difference between the book value and the fair value of any financial asset or liability.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group considers capital to consist of the total equity of the Group.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current year.

The Group is not subject to externally imposed capital requirements.

24 Provisions for liabilities

	Dilapidations £'000	Social security costs £'000	Total £'000
At 28 March 2016	268	479	747
Provided in the year	–	406	406
Released in the year	(42)	–	(42)
Utilised in the year	(10)	(37)	(47)
At 3 April 2017	216	848	1,064
Provided in the year	79	501	580
Released in the year	–	(159)	(159)
Utilised in the year	(4)	–	(4)
At 2 April 2018	291	1,190	1,481

Dilapidations

The Group occupies various leasehold premises. In relation to stores that have either closed or are marked for closure in the near future, the Group provides for the costs of making good the leasehold property, in accordance with the terms of each lease. The provision is based on the Directors' best estimate of the expected costs involved. The expectation is that the amounts provided at the balance sheet date will be utilised in the next 12 months.

Social security costs

National Insurance contributions which will become payable on exercise of share options have been provided. The share options can be exercised at various dates from the balance sheet date to 17 December 2024. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision which is allocated on a time weighted basis over the period from date of grant to the date that employees become unconditionally entitled to the options has been calculated on the share price at the balance sheet date of £3.98 and the assumption that 100% of employees will exercise their share options and that the rate of NIC is 13.8%.

Notes to the financial statements
continued**25 Deferred lease inducements**

	2 April 2018 £'000	3 April 2017 £'000
Current	657	437
Non-current	1,672	2,215
	2,329	2,652

Deferred lease inducements comprise rent free periods and premiums received from lessors in respect of operating leases. These lease incentives are recognised in the income statement on a straight line basis over the full term of each relevant lease.

26 Share capital and reserves

	2 April 2018		3 April 2017	
	Number of shares	Value £'000	Number of shares	Value £'000
Authorised				
Ordinary shares of 7.5p each	140,000,000	10,500	140,000,000	10,500
Allotted, called up and fully paid				
At beginning of the year	70,778,262	5,309	70,756,562	5,307
Exercise of share options	147,100	11	21,700	2
Issue of shares into the Majestic Wine plc Share Incentive Plan	139,609	10	–	–
Issue of acquisition related shares	434,115	33	–	–
At end of year	71,499,086	5,363	70,778,262	5,309

During the year, 720,824 (2017: 21,700) ordinary shares of 7.5p each were allotted for a consideration of £538,000 (2017: £65,000). These shares were allotted under the terms of the Company's share option schemes which are described in note 28.

Share premium account

The share premium account represents the amounts received by the Company on the issue of ordinary shares that are in excess of the nominal value of the issued shares.

Capital reserve – own shares

The Group holds shares in an Employee Share Ownership Trust (see note 27). The reserve represents the cost of acquired shares that have not as yet fully vested with employees.

Capital redemption reserve

The Company, when cancelling its ordinary shares, transfers amounts equivalent to the nominal value of the cancelled shares into the capital redemption reserve so as to maintain the level of non-distributable reserves in shareholders' equity.

Currency translation reserve

The currency translation reserve represents exchange differences arising from the translation of foreign currency subsidiary undertakings.

27 Employee Share Ownership Trust

The Employee Share Ownership Trust acquires shares in Majestic Wine plc to satisfy awards under the deferred bonus scheme. The shares are distributed to participants of the scheme at the end of a two-year deferral period.

At the year end, the trust held 3,934 (2017: 3,934) shares with a nominal value of 7.5p each. The total acquisition cost of these shares was £17,000 (2017: £17,000). At the year end, the market value of these shares was £16,000 (2017: £13,000).

28 Share-based payments

The total charge recognised in the income statement in respect of share based payments, including social security, is £4,860,000 (2017: £7,678,000) relating to share option schemes and share bonus payments under the Company's deferred bonus scheme and in relation to the contingently returnable shares and share options that were issued to employees as part of the consideration for the acquisition of the Naked Wines group.

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Share option schemes	607	599
Acquisition related share schemes	3,800	6,673
NIC provided on share option schemes	501	406
At end of year	4,908	7,678

The Company operated four share option schemes during the year, all of which are equity settled.

- The Majestic Wine plc Approved Executive Share Option Scheme (2006) was adopted on 4 August 2006 and achieved HMRC approval for tax purposes on 7 December 2006. The first grant of options under the rules of this scheme was made in January 2007.
- The Majestic Wine plc 2006 Unapproved Employee Share Option Scheme was adopted on 4 August 2006. The first grant of options under the rules of this scheme was made in January 2007.
- The Majestic Wine plc Long Term Incentive Plan (LTIP) was adopted on 20 July 2016. The first grant of options under the rules of the scheme was made in July 2016. This scheme is unapproved.
- The Majestic Wine Share Incentive Plan (SIP) was adopted on 20 July 2016. The first grant of shares under the rules of the scheme was in July 2017.
- The Acquisition Related Share Schemes arose following the acquisition of Naked Wines on 10 April 2015. These schemes are unapproved.

Approved and unapproved executive share option schemes (schemes (a) to (d) per above)

These schemes permit the grant of options in respect of ordinary shares to selected employees. Options are normally exercisable between three and 10 years from the date of grant for consideration not less than market value at grant date. Apart from grants of options to Executive Directors, the exercise of options is not subject to any conditions other than continuous employment. The exercise of options granted to Executive Directors is conditional on the achievement of specified performance targets related to growth in earnings per share over a three-year period. The Executive Directors' participation in the Group's executive share option schemes is limited such that they are eligible to receive options over shares in value up to a maximum of two times gross salary at the date of grant which will only become exercisable on the achievement of performance criteria determined by the Remuneration Committee.

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Year ended 2 April 2018		Year ended 3 April 2017	
	Options	WAEP	Options	WAEP
Outstanding at the beginning of the year	2,946,766	£1.72	1,514,400	£4.26
Exercised	(147,355)	£3.39	(21,700)	£3.01
Lapsed	(1,019,081)	£1.69	(497,050)	£2.66
Granted	373,666	–	1,951,116	–
Outstanding at the end of the year	2,153,996	£1.34	2,946,766	£1.72
Exercisable at the end of the year	673,900	£4.29	803,000	£4.43
Weighted average remaining contractual life in years	3.14		4.37	
Range of exercise prices	£nil – £5.41		£nil – £5.41	

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was £3.39 (2017: £3.01).

The following table shows the number of share options outstanding by share option scheme:

	Year ended 2 April 2018	Year ended 3 April 2017
2006 Approved Scheme	436,200	751,600
2006 Unapproved Scheme	217,700	439,400
Share Incentive Plan	132,527	–
Long Term Incentive Plan	1,367,569	1,755,766
Outstanding at the end of the year	2,153,996	2,946,766

The fair value of equity-settled share options is estimated as at the date of grant using the Black-Scholes option pricing model for schemes (a), (b) and (d) and using the Monte Carlo model for scheme (c).

Notes to the financial statements
continued**28 Share-based payments (continued)**

The following table lists the range of assumptions applied to the options granted in the respective periods shown.

	Year ended 2 April 2018		Year ended 3 April 2017	
	Long Term Incentive Plan	Share Incentive Plan	Long Term Incentive Plan	Share Incentive Plan
Weighted average share price at grant	£3.43	£3.12	£3.79	–
Weighted average exercise price	–	–	–	–
Expected life of options (years)	3	3	3–5	–
Contractual life (years)	3	3	3–5	–
Volatility (%)	37.69% – 37.75%	37.1%	31.8%–38.7%	–
Dividend yield (%)	2.1%	N/A	–	–
Risk free interest rate (%)	0.34% – 0.52%	0.2%	0.25%–0.33%	–
Weighted average fair value of options granted during the year	£1.97	£3.12	£2.20	–

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Acquisition related share schemes (scheme (e) per above)

As part of the consideration for the acquisition of Naked Wines, an amount of up to £20 million is payable to the previous shareholders and employees of Naked Wines in Majestic plc's ordinary share capital conditional on the achievement of certain performance criteria (the 'acquisition related share schemes'). The number of shares was calculated with reference to the share price as at the date of acquisition.

A portion of the shares were issued in the form of contingently returnable shares and the remaining portion represented share awards that will vest upon achievement of the performance criteria over a maximum period of four years. As continuing employment is a requirement for the final vesting of these shares IFRS 2 Share Based Payments has been applied to this element of the consideration and the amounts are being recorded in the Group income statement over the next four years.

	Issued	To be issued	Total
Number of shares	3,067,028	969,791	4,036,819

Subsequent to the balance sheet date, the performance criteria were met for the second tranche of these share awards and consequently 498,071 shares vested and were issued on 26 April 2018. Additionally, 1,852,357 contingently returnable shares became unrestricted on the same date.

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Year ended 2 April 2018		Year ended 3 April 2017	
	Options	WAEP	Options	WAEP
Outstanding at the beginning of the year	6,112,981	–	6,286,259	–
Exercised	(2,287,950)	–	–	–
Granted as future share issues	291,730	–	–	–
Lapsed	(79,942)	–	(173,278)	–
Outstanding at the end of the year	4,036,819	–	6,112,981	–
Exercisable at the end of the year	–	–	–	–
Weighted average remaining contractual life in years	0.99	–	1.99	–
Range of exercise prices	£nil	–	£nil	–

The fair value of equity-settled share options is estimated as at the date of grant using the Black-Scholes option pricing model. The following table lists the range of assumptions applied to the options granted in the respective years shown:

	2 April 2018	3 April 2017
Weighted average share price at grant	£3.12	–
Weighted average exercise price	–	–
Expected life of options (years)	0.72–1.72 years	–
Contractual life (years)	0.72–1.72 years	–
Volatility (%)	39%	–
Dividend yield (%)	3.1%	–
Risk free interest rate (%)	1.3%	–
Weighted average fair value of options granted during the year	£2.94	–

29 Commitments**Operating lease commitments where the Group is lessee:**

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2 April 2018 £'000	3 April 2017 £'000
Future minimum amounts payable under non-cancellable operating leases:		
Within one year	12,558	12,157
Between one and five years	39,151	40,242
Over five years	33,536	33,765
	85,245	86,164

Operating lease commitments where the Group is lessor:

The Group leases surplus space in various owner-occupied stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2 April 2018 £'000	3 April 2017 £'000
Future minimum amounts receivable under non-cancellable operating leases:		
Within one year	933	940
Between one and five years	2,783	3,159
Over five years	592	954
	4,308	5,053

The total of future minimum payments expected to be received under non-cancellable subleases amounts to £2,051,000 (2017: £2,304,000).

Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £775,000 for the Group (2017: £137,000).

30 Notes to the cash flow statement**(a) Reconciliation of profit to cash generated/(utilised) by operations**

	Year ended 2 April 2018 £'000	Year ended 3 April 2017 £'000
Cash generated by operations		
Operating profit/(loss)	9,292	(246)
Add back:		
– Depreciation and amortisation	9,899	11,301
– Profit on disposal of property, plant and equipment	28	(6)
– Impairment of property, plant and equipment	447	–
– Impairment of prepaid operating leases	39	(38)
– Fair value movement on foreign exchange contracts	(193)	957
– En primeur movement in income statement	289	517
– Share based payment charges	4,407	7,678
Operating cash flows before movements in working capital	24,208	20,163
(Increase)/decrease in inventories	(2,425)	(9,787)
Increase in customer funds in deferred income	4,137	8,044
(Increase)/decrease in trade and other receivables	(130)	(4,876)
Increase/(decrease) in trade and other payables	2,880	(4,417)
Cash generated by operations	28,670	9,127

Notes to the financial statements
continued**30 Notes to the cash flow statement (continued)****(b) Cash and cash equivalents**

	2 April 2018 £'000	3 April 2017 £'000
Cash and cash equivalents		
Cash and cash equivalents	15,618	23,007
Bank overdraft	(8,837)	(12,537)
Total cash and cash equivalents	6,781	10,470

(c) Analysis of movement in net borrowings

	At 3 April 2017 £'000	Cash flows £'000	Non-cash movements £'000	At 2 April 2018 £'000
Cash and cash equivalents	23,007	(6,002)	(1,387)	15,618
Bank overdrafts	(12,537)	3,700	–	(8,837)
Net cash and cash equivalents	10,470	(2,302)	(1,387)	6,781
Borrowings – revolving credit facility	(34,000)	20,500	–	(13,500)
Borrowings – customer funded bond	(2,619)	174	–	(2,445)
Gross borrowings net of cash	(36,619)	20,674	–	(15,945)
Debt issuance costs	488	411	(192)	707
Total net borrowings	(25,661)	18,783	(1,579)	(8,457)

31 Post balance sheet events

Subsequent to the balance sheet date, the performance conditions were met for the second tranche of Naked Wines acquisition shares. As a result, this tranche vested on 26 April 2018 and members of the Naked Wines management team were granted 498,071 new ordinary shares of 7.5p each in the Company. The trading restrictions in place over 1,852,357 acquisition shares were removed on the same date.

32 Related party transactions

Sales and purchases between related parties are made at arm's length prices. The Group has not benefitted from any guarantees for any related party receivables or payables. During the year ended 2 April 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2017: nil).

The Group considers its key management personnel to be the Directors of the Company. The compensation of key management personnel is disclosed in note 10.

There are no other related party transactions which require disclosure.

Company balance sheet

As at 2 April 2018

	Note	2 April 2018 £'000	3 April 2017 £'000
Non-current assets			
Investments in subsidiaries	34	65,717	70,777
Intangible fixed assets		607	52
Deferred tax assets		206	–
		66,530	70,829
Current assets			
Trade and other receivables	35	97	4
Amounts due from Group undertakings	35	10,556	18,852
Cash and cash equivalents		48	6
		10,701	18,862
Total assets		77,231	89,691
Current liabilities			
Trade and other payables	36	(2,236)	(1,118)
Provisions	37	(273)	–
Amounts due to Group undertakings	36	(14,090)	–
		(16,599)	(1,118)
Non-current liabilities			
Provisions	37	(917)	(358)
Bank loan	38	(12,793)	(33,512)
		(13,710)	(33,870)
Total liabilities		(30,309)	(34,988)
Net assets		46,922	54,703
Shareholders' funds			
Called up share capital	26	5,363	5,309
Share premium	26	20,989	20,505
Capital redemption reserve		363	363
Retained earnings		20,207	28,526
Equity shareholders' funds		46,922	54,703

For the year ended 2 April 2018, the Company reported a loss of £8,477,000 (2017: profit of £4,463,000).

The financial statements of Majestic Wine plc were approved by the Board of Directors and authorised for issue on 13 June 2018. They were signed on its behalf by James Crawford.

Company statement of changes in equity

For the year ended 2 April 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total shareholders' funds £'000
At 28 March 2016	5,307	20,441	363	17,851	43,962
Total comprehensive (loss)/income for the period	–	–	–	4,463	4,463
Shares issued	2	64	–	–	66
Share based payment charges – subsidiary employees	–	–	–	2,007	2,007
Share based payment charges – Company	–	–	–	5,267	5,267
Capital contribution to subsidiary undertaking	–	–	–	(1,062)	(1,062)
At 3 April 2017	5,309	20,505	363	28,526	54,703
Total comprehensive loss for the period	–	–	–	(8,477)	(8,477)
Shares issued	54	484	–	(43)	495
Share based payment charges – subsidiary employees	–	–	–	1,540	1,540
Share based payment charges – Company	–	–	–	2,618	2,618
Dividends paid	–	–	–	(3,993)	(3,993)
Deferred taxation	–	–	–	36	36
At 2 April 2018	5,363	20,989	363	20,207	46,922

Notes to the Company financial statements

33 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective and certain related party transactions.

No income statement is presented by the Company as permitted by section 408 of the Companies Act 2006. The loss attributable to the Company is disclosed in the footnote to the Company's Balance Sheet.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investment

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

34 Investments in subsidiaries

	£'000
Cost or valuation:	
At 3 April 2017	70,777
Net movement on share options granted/(lapsed) to subsidiary companies' employees	1,540
At 2 April 2018	72,317
Amounts provided for:	
At 3 April 2017	
Impairment	(6,600)
At 2 April 2018	(6,600)
Net book value	
At 2 April 2018	65,717
At 3 April 2017	70,777

During the year, due to the economic downturn and uncertainties on Brexit, the Company carried out a review of the recoverable amount of carrying value of its investment in Les Celliers de Calais S.A.S. The review led to the recognition of an impairment loss of £6,600,000, which has been recognised in profit and loss.

Notes to the Company financial statements
continued**34 Investments in subsidiaries (continued)**

Details of the Company's subsidiaries at 2 April 2018 are as follows:

Subsidiary	Primary activity	Place of incorporation and operation	Proportion of ownership interest %
Majestic Wine Warehouses Limited	Retailing of wines, beers and spirits	United Kingdom	100
Lay & Wheeler Limited	Retailing and cellarage of fine wines	United Kingdom	100
Les Celliers de Calais S.A.S.	Retailing of wines, beers and spirits	France	100
Majestic Wine Employee Share Ownership Trust Limited	Trust company	United Kingdom	100
Naked Wines International Limited	Holding company	United Kingdom	100
Vinotheque Holdings Limited	Property management	United Kingdom	100
www.Nakedwines.com Limited	Retailing of wines	United Kingdom	100
Naked Wines Prepayments Trustee Company Limited	Trustee company	United Kingdom	100
Nakedwines.com Inc	Retailing of wines	United States of America	100
Nakedwines.com Prepayments Protection Company LLC	Trustee company	United States of America	100
Naked Wines Australia Pty Ltd.	Retailing of wines	Australia	100
NWA (Prepayments) Pty Ltd.	Trustee company	Australia	100
Naked Fine Wine Bonds plc	Funding company	United Kingdom	100

With the exception of Les Celliers de Calais S.A.S. all of the Company's subsidiary undertakings share the same period end date. Les Celliers de Calais S.A.S. has a period end date of 31 March.

Registered addresses of subsidiaries are as follows:

	Registered Address
Subsidiaries incorporated in the United Kingdom	Majestic House, The Belfry, Colonial Way, Watford, WD24 4WH
Subsidiaries incorporated in France	Rue de Judée, Zone Marcel Doret, 62100 Calais, France
Subsidiaries incorporated in the United States of America	222 Gateway Road West, Napa, CA, 94558, USA
Subsidiaries incorporated in Australia	1 Queens Parade, Newport, NSW 2106, Australia

35 Trade and other receivables

	2 April 2018 £'000	3 April 2017 £'000
Amounts due from Group undertakings	10,556	18,852
Prepayments and accrued income	97	4
	10,653	18,856

The amounts due from Group undertakings have no fixed payment terms and are interest free.

36 Trade and other payables

	2 April 2018 £'000	3 April 2017 £'000
Current		
Amounts due to Group undertakings	14,090	–
Accruals and other payables	2,236	1,118
	16,326	1,118

37 Provisions

	Social security costs £'000	Total £'000
At 28 March 2016	–	–
Charged in the year	358	358
At 3 April 2017	358	358
Charged in the year	832	832
At 2 April 2018	1,190	1,190

National Insurance contributions which will become payable on exercise of share options have been provided. The share options can be exercised at various dates from the balance sheet date to 17 December 2024. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision which is allocated on a time weighted basis over the period from date of grant to the date that employees become unconditionally entitled to the options has been calculated on the share price at the balance sheet date of £3.98 and the assumption that 100% of employees will exercise their share options and that the rate of NIC is 13.8%.

38 Bank and other borrowings

	2 April 2018 £'000	3 April 2017 £'000
Non-current		
Revolving credit facility	13,500	34,000
Debt issuance costs	(707)	(488)
Total bank and other borrowings	12,793	33,512

Terms, amendments and maturity of the revolving credit facility is disclosed in note 22 of the Consolidated financial statements.

39 Share capital and share premium account

Details are disclosed in note 26 to the consolidated financial statements.

Shareholder information

Annual General Meeting

At the forthcoming AGM, Greg Hodder, Rowan Gormley and Justin Apthorp will be offering themselves for re-election. David Stead will be offering himself for election during his first AGM since being appointed Non-Executive Director in November 2017.

The AGM will be held at 11.30am on 8 August 2018 at Majestic House, The Belfry, Colonial Way, Watford, WD24 4WH. The Notice of Meeting will be separately distributed to shareholders.

Key contacts:

Company Secretary	Head of Public and Investor Relations
Alex Iapichino Registered Office Majestic House The Belfry Colonial Way Watford WD24 4WH	Gabriella Clinkard Email: investor.relations@majestic.co.uk Phone: 01923 298200 Majestic House The Belfry Colonial Way Watford WD24 4WH
Nominated Adviser and Joint Broker	Joint Broker
Investec Bank (UK) Limited 2 Gresham Street London EC2V 7QP	Liberum Capital Ltd 25 Ropemaker Street London EC2Y 9LY
Auditor	Tax Advisers
Deloitte LLP 3 Victoria Square Victoria Street St Albans Herts AL1 3TF	PricewaterhouseCoopers LLP 10 Bricket Road St Albans Herts AL1 3JX
Registrars	Bankers
Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	Barclays Bank PLC Floor 27 1 Churchill Place London E14 5HP
PR Advisers	
Instinctif Partners 65 Gresham Street London EC2V 7NQ	

Financial calendar:

8 August 2018 – Annual General Meeting
1 October 2018 – Half Year End
November 2018 – Interim Results
January 2019 – Christmas Trading Statement
1 April 2019 – Full Year End
June 2019 – Full Year Results

Definitions and operational KPIs

Definitions		Operational KPIs	
Contribution	A profit measure between gross profit and EBIT, calculated as gross profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer facing staff costs) and marketing expenses. We often split contribution into that from new and repeat customers as they can have different levels of profitability.	Product availability	% of targeted range available in stores/on websites as indicated by our inventory reporting.
Repeat customer	A customer who has bought from one of our businesses more than once, recently. For Naked Wines these are 'Angels' who have subscribed. For Majestic they are people who have shopped with us at least once within the last 12 months, with that shop not being their first time.	Team retention	% of key staff (e.g. store managers) as of 12 months ago still working per payroll records.
New customer	A customer who, at the time of purchase, does not meet our definition of a repeat customer; for example, because they are brand new, were previously a repeat customer and have stopped shopping with us at some point or cannot be identified.	Buy It Again ratings	% of "Yes" scores in the last 12 months as recorded by websites/apps.
Majestic Wine plc	"The Company", "Group", "Majestic" or "Majestic Wine"	5* Service ratings	% of service ratings scoring 5* in last two months as recorded by websites/apps/telephone feedback.

Alternative performance measures (APMs)

Since last year we have replaced Customer Retention with Customer Sales Retention and have not separately disclosed like-for-like as there has been no change in store numbers.

Alternative performance measures		New investment measures	
Underlying movement	<p>a) includes en primeur revenues in year of order not year of fulfilment; (b) is calculated using constant FX rates for translation; (c) restates the prior year to a 52 week period comparable to the current year.</p> <p>Divisional reconciliations can be found on pages 22–27. Group reconciliation is found on page 36.</p>	Lifetime payback	<p>The ratio of the future contribution we expect to earn from the customers recruited this year to the investment we made recruiting them. We calculate this by reviewing the level of sales and contribution generated in the current year from new customers and compare this to a reference level based on historic behaviour of all new customers, then projecting forwards to a 20 year lifetime to estimate the payback ratio.</p> <p>An explanation of why this is used is on page 21.</p> <p>As this is an undiscounted forward looking estimate it cannot be reconciled back to reported financial results. As we can refine this expectation over time, we also update the expected returns from prior year investment on page 37.</p>
EBIT	Operating profit as disclosed in the Group income statement.	Repeat customer sales	<p>These are the revenues derived from orders placed by customers meeting our definition of a repeat customer at the time of ordering.</p> <p>An explanation of why this is used is on page 21.</p> <p>A reconciliation and analysis including this metric is shown for the Naked Wines and Retail businesses on page 103.</p>
Adjusted EBIT	<p>Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, share based payment charges, impairment of goodwill, restructuring costs, fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment.</p> <p>Divisional reconciliations can be found on pages 22–27. Group reconciliation is found on page 36 and in Note 7.</p>	Repeat customer contribution	<p>The profit attributable to those sales after fulfilment and service costs.</p> <p>An explanation of why this is used is on page 21.</p> <p>A reconciliation and analysis including this metric is shown for the Naked Wines and Retail businesses on page 103.</p>
EBITDA	EBIT plus Depreciation and Amortisation.	Repeat customer sales retention	<p>The proportion of sales made to customers who met our definition of 'Repeat' last year that were realised again this year from the same customers. Using our till and website data the population who were active in the prior year are identified and their sales in the current year then assessed. This is done for each month and summed to calculate the full year retention.</p> <p>An explanation of why this is used is on page 21.</p> <p>This APM replaces customer retention as it gives a better indicator of our retention rates.</p>
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any costs included in our adjusted items, e.g. amortisation of acquired intangibles.	Fixed costs	<p>Administrative costs by division excluding marketing spend.</p> <p>An explanation of why this is used is on page 21.</p> <p>A reconciliation and analysis including this metric is shown for the Naked Wines and Retail businesses on page 103.</p>
Adjusted PBT	Adjusted EBIT less net finance charges.		
	Divisional reconciliations can be found on pages 22–27. Group reconciliation is found on page 36.		
Adjusted effective tax rate	Defined as the current year's tax charge divided by the adjusted profit before tax.		
Free cash flow	<p>Cash generated by operating activities less capital expenditure and before adjusting items and taxation.</p> <p>A reconciliation of Free cash flow is shown on page 104.</p>		
Net debt	<p>Borrowings less cash and debt issuance cost.</p> <p>Reconciliation is found in Note 30.</p>		
Return on investment	<p>A measure of the money we subsequently earn from investment in new customers. This measure is akin to a yield on an upfront capital investment, defined as the annual contribution per repeat customer less the cost of replenishment, all divided by the cost per repeat customer. Note that we are phasing this measure out and replacing it with lifetime return, but is still currently used as part of our remuneration policy.</p>		
Operating costs	Defined as administrative expenses less other operating income, excluding adjusted items.		
New investment measures			
Investment in new customers (also referred to as new customer contribution)	<p>The contribution earned from sales to new customers.</p> <p>An explanation of why this is used is on page 23.</p> <p>A reconciliation and analysis including this metric is shown for the Naked Wines and Retail businesses on page 103.</p>		
New customer sales	<p>Revenues derived from transactions with customers who meet our definition of a new customer.</p> <p>An explanation of why this is used is on page 23.</p> <p>A reconciliation and analysis including this metric is shown for the Naked Wines and Retail businesses on page 103.</p>		

Naked Wines: Reconciliation of reported to underlying performance, including calculation of contribution and split of new and repeat customer components

Naked Wines	As reported £m	Constant FX £m	52 weeks £m	IT cost reallocation £m	Underlying £m	Analysed as:	
						Repeat £m	New £m
FY17							
Sales	144.3	(2.1)	(2.0)	–	140.2	114.3	25.9
Contribution (= EBIT exc. fixed costs)	13.3	(0.5)	(0.7)	–	12.1	26.9	(14.8)
EBIT	1.4	(0.4)	(0.7)	1.0	1.3	N/A	N/A
Memo							
Admin costs, analysed as:	(24.9)	0.1	–	1.0	(23.8)		
– Marketing	(13.0)	0.1	–	–	(12.9)		
– Fixed costs	(11.9)	0.1	–	1.0	(10.8)		
FY18							
Sales	156.1	–	–	–	156.1	134.5	21.6
Contribution (= EBIT exc. fixed costs)	19.8	–	–	–	19.8	33.8	(14.0)
EBIT	8.7	–	–	–	8.7	N/A	N/A
Memo							
Admin costs, analysed as:	(22.4)				(22.4)		
– Marketing	(11.3)				(11.3)		
– Fixed costs	(11.1)				(11.1)		

Retail: Reconciliation of reported to underlying performance, including calculation of contribution and split of new and repeat customer components

Retail	As reported £m	Cost recategorisation £m	Restated £m	Constant FX £m	52 weeks £m	IT cost reallocation £m	Underlying £m	Analysed as:	
								Repeat £m	New £m
FY17									
Sales	262.2	–	262.2	0.4	(3.8)	–	258.8	204.1	54.8
Contribution (= EBIT exc. fixed costs)	28.5	(0.8)	27.7	0.1	(1.1)	–	26.7	22.3	4.4
EBIT	13.3	–	13.3	0.1	(1.1)	1.0	13.3	N/A	N/A
Memo									
Admin costs, analysed as:	(20.1)	0.8	(19.3)	–	–	1.0	(18.3)		
– Marketing	(4.9)	–	(4.9)	–	–	–	(4.9)		
– Fixed costs	(15.2)	0.8	(14.4)	–	–	1.0	(13.4)		
FY18									
Sales	263.8	–	–	–	–	–	263.8	207.9	55.9
Contribution (= EBIT exc. fixed costs)	24.6	–	–	–	–	–	24.6	20.1	4.5
EBIT	13.3	–	–	–	–	–	13.3	N/A	N/A
Memo									
Admin costs, analysed as:	(16.7)						(16.7)		
– Marketing	(5.4)						(5.4)		
– Fixed costs	(11.3)						(11.3)		

Alternative performance measures (APMs)
continued

Free cash flow

	2 April 2018 £m	3 April 2017 £m
Adjusted EBIT	18.2	14.1
Add back depreciation and amortisation (excludes adjusted amortisation of acquired intangibles)	6.5	6.9
Adjusted EBITDA	24.7	21.0
Naked Wines growth spend	3.7	4.8
Working capital movement		
– Inventories	(2.4)	(9.8)
– Deferred income	4.1	8.0
– Trade and other receivables	(0.1)	(4.9)
– Trade and other payables	2.4	(4.6)
Working capital movement	4.0	(11.3)
Pre-tax operating cash flow excluding growth	32.4	14.5
Investments supporting growth		
Naked Wines growth spend	(3.7)	(4.8)
Capital expenditure	(3.8)	(3.5)
	(7.5)	(8.3)
Pre-tax operating cash flow/Free cash flow'	24.9	6.2
Reconciliation to statutory cash flow statement		
Free cash flow	24.9	6.2
Cash adjusted items	–	(0.5)
Capital expenditure	3.8	3.5
Cash generated by operations	28.7	9.2



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