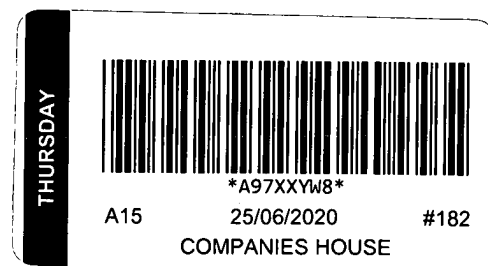


Poundland Limited

Annual report and financial statements

Registered number 2495645
for the 52 week period ended
29 September 2019



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Strategic report

Principal activity and business review

Poundland Limited (“Poundland” or “the Company”) operates in the value retail sector in the United Kingdom (UK), and in the Republic of Ireland (ROI) and the Isle of Man under the ‘Dealz’ brand.

The period under review has seen the business continue to implement a number of strategies in order to improve its profitability. These have largely proven to be successful with Company adjusted EBITDA increasing to £54.6m or 3.6% of sales, compared to the 52 week prior period Company adjusted EBITDA of £45.5m (3.0% of sales). This represents a year on year increase of 20%.

This result was achieved despite a number of headwinds faced by the business which were outside of its control. In particular, the UK retail landscape has remained challenging throughout the period under review, with a number of high street names entering into Company Voluntary Arrangements (“CVA’s”) to reduce their cost bases, or indeed falling into administration. Poundland’s continued resilience in such an environment is encouraging.

In August 2019 the Company’s parent undertaking, Pepco Group Limited (formerly known as Pepkor Europe Limited) (“the Group”) successfully re-financed the January 2018 external debt, which was due to expire in January 2020, with a replacement two-and-a-half-year term facility. As part of this re-financing the Group further reduced its exposure to the Steinhoff Group through repayment of all outstanding shorter-term intercompany debt.

In November 2019 the Group also completed an external revolving credit facility to enable access to further ancillary facilities and additional cash headroom. This ensures that the Company can continue to operate independently of the wider Steinhoff Group.

In order to continue to offer our customer amazing value everyday we have invested in our proposition and new product ranges during the period. Building on our existing multi-price offer, we trialled an expanded offer in our key FMCG categories of Grocery, Household and Health and Beauty. This was successful and subsequent to the year end we launched the new offer in all of our stores. Following on from the success of our ‘Shop-in-shop’ Pep&Co clothing offer we trialled a reduced offer in a smaller footprint and subsequent to the year end we have begun to roll-out to further stores. We also trialled a range of frozen products and an extended chilled offering to great success towards the end of the period and again subsequent to the year end we have begun to roll-out to further stores.

Our cost base remains a key focus for the Company. During the period we brought the warehousing and distribution of our Pep&Co clothing offer in house. We have also absorbed the back office functions of Pep&Co into our main Poundland operations. We have undertaken a range of initiatives to improve stock shrinkage in our stores which has contributed to our gross margin improving to 37.4 for the year, an increase of over one percentage point.

We continue to review and invest in our retail estate favouring quality over quantity and during the period we closed 30 loss-making/underperforming stores and opened 28 stores. At the period-end we were trading from 838 stores in the UK and ROI. In addition, the Directors believe there is a significant opportunity to expand operating margins through reduction of rents in our existing stores and during the year we have been successful in reducing rents on renewal of leases.

The Group is well progressed on an exercise to simplify its legal structure. This has resulted in certain Company investment and intercompany balances being moved around the Group and will consequently result in some dormant or redundant entities being struck off in 2020.

During the period we have continued to invest in our IT systems, notably in a new ERP system. We commenced the detailed design and implementation of these new systems during the period and will complete their implementation during 2020 and 2021.

Strategic aims

The Company’s strategy is to create amazing value for its customers every day, through price leadership and product innovation.

The Company continues to focus on optimising the existing store portfolio, targeting average transaction value and number of in store transactions. Where appropriate, stores are re-sited to larger units or improved locations to maintain their longer term sustainability.

Strategic report (continued)

Key performance indicators

The KPIs used by the Company are relevant to the sector in which it operates. These are revenue, Company adjusted EBITDA and number of stores. Performance against these KPIs is summarised in the table below.

	52 weeks to 29 September 2019	52 weeks to 30 September 2018
Revenue (£m)	1,543	1,523
Company adjusted EBITDA (£m) (note 4)	54.6	45.5
Number of stores	838	822

Results for the period

The results for the period are set out in the income statement on page 13.

Revenue in the 52 week period is £1.5 billion (*52 weeks to 30 September 2018: £1.5 billion*). Like-for-Like (LFL) sales growth in the period were stable but this represents a 2 year LFL sales growth of 2.7%. This growth has been driven by the new and maturing Pep&Co 'Shop in Shops' including the clothing and accessories line, the introduction of new ranges and towards the end of the prior period the demise of a significant competitor, Poundworld, where formerly competed stores benefited from a transfer of trade. Offsetting these positive impacts, we continued to see a challenging retail environment, which was exacerbated by the relaunch of certain Poundworld sites by competitors, continued negative footfall on the high street and poorer summer weather compared with the prior period.

Our gross margin in the period was 37.3% (52 weeks to 30 September 2018: 36.2%) reflecting reduced levels of stock shrinkage and better stock management.

Total costs represented 35.7% of net sales (52 weeks to 30 September 2018: 34.7%) mainly arising from the absorption of the Pep&Co back office functions into the main Poundland operations.

Operating profit of £26.7m has been recorded compared to an operating profit of £22.5m in the previous period. In addition, profit for the period of £14.3m has been recorded compared to profit of £14.4m in the previous period.

Principal risks and uncertainties

Competition

The retail industry, including the value general merchandise retail market is highly competitive, particularly with respect to price, product selection and quality, store location and design, inventory, customer service and advertising. The Company competes at national and local levels with a diverse group of retailers of varying sizes and covering different product categories. These competitors include value general merchandise retailers, supermarkets, apparel retailers and certain other high street retailers in particular categories. Declining high street footfall is intensifying the competitive environment, further raising the importance of price, product selection and customer service.

Business interruption – logistics and IT

The Company's success depends on its ability to transport goods from its UK distribution centres to its stores through the UK and Ireland in a timely and cost effective manner. Any unexpected delivery delays, for example, the result of severe weather or disruption to the national or international transportation infrastructure, or increase in transportation costs, such as increased fuel costs could materially adversely affect the business. Any significant failure in the IT processes of the retail operations in stores or in the supply chain could impact the ability to trade. The Company has detailed recovery plans in place in the event of a significant failure.

Stock / inventory management – shrink and impact on working capital

The Company's cash flows from operations may be negatively affected if it is not successful in managing its inventory balances or level of stock.

Strategic report (continued)

Principal risks and uncertainties (continued)

Sourcing, product safety and quality

The Company sources its products via third party suppliers. It is essential that the Company continually identifies, develops and maintains relationships with its suppliers. The Company is reliant on these suppliers being able to provide products in sufficient quantities, at appropriate cost and in a timely manner. The Company has good, long-term relationships with its suppliers which continue to improve as an overwhelming number of primary manufacturers supply on a direct basis. The safety and quality of product is very important to the Company, as is the adherence of all suppliers to principles of ethical sourcing which are enshrined into codes of conduct. All suppliers are required to adhere to the code of conduct and factories and suppliers are audited and supported to ensure these standards are met. This includes an assessment of all new suppliers that are onboarded as well as regular compliance audits of active supplier factories. In addition, legal or regulatory requirements that suppliers should comply with are clearly laid out.

Trading environment

Inflation, currency fluctuations or other factors may affect Poundland's ability to keep its current pricing strategy. The current pricing strategy is predicated on providing a wide range of merchandise for profitable resale for the majority of products at a single price point of £1 in the UK or €1.50 in ROI. The Company has been able to profitably maintain its pricing strategy by managing its product range (such as by introducing new higher margin branded and own label products or discontinuing low margin products, moving sources of supply to lower cost economies, re-engineering pack sizes and renegotiating with suppliers). The Company pays certain suppliers overseas in US dollars, however, customers pay for products in sterling in the UK or Euros in ROI. The Company therefore bears the risk of disadvantageous changes in exchange rates and has policies in place to hedge forwards. Hedging is performed through the use of foreign company bank accounts and forward foreign exchange contracts.

Regulatory and political – including national living wage, VAT, sugar tax

The Company is impacted by legal and regulatory changes, such as the National Living Wage, VAT changes and consumer policy changes. The Company is a member of industry representative bodies, e.g. the British Retail Consortium, to ensure its voice and its customers' and colleagues' voices can be heard. Good governance practices are important to the Company and it actively monitors important developments.

Colleague retention

The success of the Company's strategy depends on the continuing services of the Board and its ongoing ability to attract, motivate and retain other highly qualified employees. Retention of highly qualified employees is especially important due to the limited availability of experienced and talented retail executives.

Brexit

Britain's decision to leave the European Union could lead to a more challenging environment in the short and longer term due to ongoing uncertainties about how the exit will be engineered. Therefore, the extent to which the Company's operations and financial performance will be impacted in the longer term will only become clear as more details emerge. During the period since the referendum, consideration has been given to the possible consequences of Brexit, particularly with regard to its future impact on the Company's workforce, the movement of goods into and out of the UK and our foreign exchange management as we buy and sell in multiple currencies.

Covid-19 Pandemic

The Covid-19 global pandemic impacted both the UK and ROI, from mid-March 2020 when lockdowns began across each territory.

Poundland as an 'essential retailer', has continued to trade throughout the pandemic, albeit from c85% of the estate with the remaining stores closed voluntarily where reduced customer traffic made them unprofitable in the short-term.

Across May 2020, as restrictions have lifted, stores have reopened progressively and revenue has encouragingly trended back towards pre-lockdown levels.

Given the significant impact on revenues and consequent adverse impact on cash, in mid-March management acted swiftly and effectively to implement a clear three-stage strategy. This strategy initially focused on ensuring both colleague and customer safety while preserving and maximising the Company's cash position, before focusing on the actions necessary to return to a more normal trading position, and to taking advantage of the longer term opportunities, for example through a changed competitor set arising from the pandemic.

The safety of our colleagues and customers remains paramount leading to significant operational changes in our stores including PPE provisions where relevant for staff and customers, for example Perspex screens at till points, introduction of sanitisation stations, social distancing practices and encouraging card payments. All of this has been achieved through strict adherence to country specific government regulations and clear communication to our customers.

Strategic report (continued)

Covid-19 Pandemic (continued)

In parallel, the Group's cash position was maximised via both immediately drawing committed facilities totalling €53m while working collaboratively with key suppliers to defer or cancel stock commitments, appropriately utilising government support schemes (such as the employee retention schemes) and reducing discretionary revenue and capital expenditure.

Pleasingly, with countries easing lockdown provisions earlier than the Company's forecasts expected, and with sales performance materially better than these forecasts estimated, the Company's cash position as of mid June is significantly stronger than anticipated, as summarised in more detail in the going concern section of the accounts. Despite this the Group Board has concluded that with the prevailing uncertainty regarding the development of the Covid-19 virus, the Group should secure additional committed facilities to ensure appropriate levels of cash headroom can be maintained in the event of future waves.

While appropriate management focus will be necessary to navigate the business towards the post-Covid-19 'New Normal' and ensuring the Company retains the financial strength to mitigate any further pandemic outbreaks, the longer term strategic goals of the business remain unchanged such that over the next 12 months, the Company's focus will be to drive profit growth:

- continuing the roll-out of our multi-price initiative in other FMCG categories and our general merchandise products;
- further roll-out of our frozen, extended chilled and smaller format Pep&Co clothing offers; and
- via a number of operating cost initiatives centred on reducing property costs in line with market rates, returning levels of store shrinkage to historic norms and streamlining our warehousing and distribution capabilities.

Future developments

The Company will continue to invest in new products and product categories to provide amazing value to our customers. We will also continue to focus on the profitability of our store estate, closing loss-making or underperforming stores and opening in selected locations which will benefit from our full product offering. In addition, the investment in technology will facilitate the management of our cost base as we meet the challenges of the evolving retail landscape in all the territories in which we operate.

Approval

Approved by the Board and signed on its behalf:



D Williams
Director

Wellmans Road
Willenhall
West Midlands
WV13 2QT

24 June 2020

Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 29 September 2019 (2018: 52 weeks ended 30 September 2018).

The Company is a private company limited by shares and is registered in England and Wales.

Existence of branches outside the UK

The Company has branches outside the UK in the Republic of Ireland and the Isle of Man, as defined in section 1046(3) of the Companies Act 2006.

Going concern

At the time of signing the financial statements, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operation for the foreseeable future, which is not less than twelve months from signing these financial statements. In doing so the Directors have considered reasonable downside sensitivities including assessing the impacts of the Covid-19 global pandemic on the going concern position and the availability of further liquidity from the Group. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 of the financial statements and on the Covid-19 pandemic impacts in the strategic report.

Financial risk management objectives and policies

The Company has a formal process for reviewing and managing risk in the business. A register of strategic and operational risks is maintained and reviewed by the directors who also monitor the status of agreed actions to mitigate key risks.

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts to hedge these exposures.

Credit risk

The Company's principal financial assets are bank balances, cash and intercompany receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The Company has available to it intercompany facilities which enable it to meet the cash demands of the current business plan and its commitments as they fall due.

Covid-19 risk

The Directors will continue to monitor any impacts of Covid-19 on the company, but as at the date of signing the accounts do not believe that there has been any significant impact requiring disclosure.

Dividends

The directors do not propose a final dividend. In the prior period no dividends were paid.

Directors' report (continued)

Directors

The directors who held office during the period, except as noted, were as follows:

M Burton	(resigned 28 February 2019)
A Garbutt	(resigned 16 November 2018)
T Goalen	
B Williams	
R Ellis	(resigned 11 October 2018)
A Cooke	
P Allen	
S Cardinaal	
D Williams	

Other than those disclosed above, there have been no changes in directors after the period end.

Director indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Future developments and events subsequent to the reporting date

Future developments and events subsequent to the reporting date have been disclosed in the strategic report.

Policy and practice on payment of creditors

Provided that a supplier is complying with the relevant terms and conditions, including prompt and complete submission of all specified documentation, payment will continue to be made on the same basis as in previous periods. Company policy is to ensure that suppliers know the terms on which payments will take place at the time of entering into a transaction. The Company does not follow any code or standard on payment practice.

Environmental matters

The Company recognises that its operations impact the environment and that this is an increasingly important issue for consumers. The Company actively pursues policies that help to reduce its carbon footprint and costs. It focuses on four key areas: using less electricity, maximising recycling opportunities; improving fuel efficiency; and reducing packaging waste. The Company actively pursues policies that help to reduce the environmental impact of its operations and constantly seeks to reduce energy consumption to deliver efficiencies and meet the exacting environmental requirements of its socially aware customers.

Employees

The Company is committed to the ongoing training and development of all colleagues to ensure they have the right skills to perform their jobs and create the right development to ensure equality of opportunity for all.

The Company is an equal opportunities employer and makes every effort to ensure disabled people are not discriminated against on the grounds of their disabilities. In the event of employees becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged.

All employees are rewarded with long service awards in five year intervals. Success is recognised and managed through various initiatives in the business. Employees are rewarded for meeting objectives that impact overall business performance and show evidence of living the Company values via the annual bonus scheme. Certain employees are part of long term incentive plans.

Employees are kept informed regarding the Company's affairs and are consulted on a regular basis through meetings wherever feasible and appropriate. Employees are represented at the biannual JCC meetings held between the Company and its union (USDAAW). The Company also operates a whistleblowing policy which allows colleagues to raise any concerns in confidence.

Directors' report (continued)

Strategic report

Information on principal activity and business review, principal risks and uncertainties, results and dividends, is included within the Strategic report.

Approved by the Board and signed on its behalf by:



D Williams
Director

Wellmans Road
Willenhall
West Midlands
WV13 2QT

24 June 2020

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including *FRS 101 Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Poundland Limited

Opinion

We have audited the financial statements of Poundland Limited (the 'company') for the year ended 29 September 2019 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 September 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements 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 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, 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.

Emphasis of matter – Impact of the outbreak of Covid-19 on the financial statements

In forming our opinion on the company financial statements, which is not modified, we draw your attention to the directors' view on the impact of the Covid-19 as disclosed on page 4, and the consideration in the going concern basis of preparation of page 17 and non-adjusting post balance sheet events on page 40.

Since the balance sheet there has been a global pandemic from the outbreak of Covid-19. The potential impact of Covid-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK.

The full impact following the recent emergence of the Covid-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the company's trade, customers, suppliers and the wider economy.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Independent auditor's report to the members of Poundland Limited (continued)

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 this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Poundland Limited (continued)

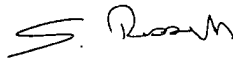
Auditor's responsibilities for the audit of the financial statements

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 the audit 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.



Samantha Russell (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

24 June 2020

Income statement
for the 52 weeks ended 29 September 2019

	<i>Notes</i>	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Revenue	2	1,543,234	1,522,633
Cost of sales		(965,308)	(971,866)
Gross profit		577,926	550,767
Distribution costs		(484,200)	(471,984)
Administrative expenses		(67,037)	(56,283)
Operating profit		26,689	22,500
Finance income	5	7,461	4,670
Finance expense	6	(15,685)	(11,880)
Profit before taxation	3	18,465	15,290
Taxation	10	(4,167)	(939)
Profit for the period		14,298	14,351

The notes on pages 17 to 40 form part of these financial statements.

The Income Statement has been prepared on the basis that all operations are continuing operations in the current and prior period.

Statement of other comprehensive income
for the 52 weeks ended 29 September 2019

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Profit for the period	14,298	14,351
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Effective portion of changes in fair value of cash flow hedges	4,150	1,682
Net change in fair value of cash flow hedges reclassified to profit or loss	(1,089)	10,500
Income tax on items that are or may be reclassified subsequently to profit or loss	(284)	(2,147)
Other comprehensive income for the period, net of income tax	2,777	10,035
Total comprehensive income for the period	17,075	24,386

The notes on pages 17 to 40 form part of these financial statements.

Statement of financial position

At 29 September 2019

	<i>Note</i>	29 September 2019 £000	30 September 2018 £000
Non-current assets			
Property, plant and equipment	11	117,865	128,707
Intangibles	12	94,977	94,537
Investments in subsidiaries	13	171	171
Derivative financial instruments		7,436	3,131
Deferred tax asset	21	29,197	26,963
		<hr/>	<hr/>
		249,646	253,509
Current assets			
Inventories	14	155,594	168,828
Tax receivable		835	434
Trade and other receivables	15	193,302	221,108
Derivative financial instruments		509	-
Cash and cash equivalents		26,369	25,170
		<hr/>	<hr/>
		376,609	415,540
		<hr/>	<hr/>
Total assets		626,255	669,049
Current liabilities			
Trade and other payables	16	(211,833)	(230,598)
Derivative financial instruments		(2,171)	(688)
Amounts due to group undertakings	17	-	(219,961)
Provisions	22	(10,882)	(11,273)
		<hr/>	<hr/>
		(224,886)	(462,520)
Non-current liabilities			
Trade and other payables	18	(38,953)	(49,237)
Loans from parent undertakings	19	(203,177)	-
Derivative financial instruments		(319)	(40)
Provisions	22	(29,501)	(44,908)
		<hr/>	<hr/>
		(271,950)	(94,185)
		<hr/>	<hr/>
Total liabilities		(496,836)	(556,705)
		<hr/>	<hr/>
Net assets		129,419	112,344
		<hr/>	<hr/>
Equity attributable to equity holders of the parent			
Share capital	23	-	50
Share premium	23	-	112,959
Capital contribution reserve		9,517	9,517
Cash flow hedge reserve		3,581	804
Retained earnings/ (losses)		116,321	(10,986)
		<hr/>	<hr/>
Total equity		129,419	112,344
		<hr/>	<hr/>

The notes on pages 17 to 40 form part of these financial statements.

These financial statements were approved by the board of directors on 24 June 2020 and were signed on its behalf by:



D Williams
Director

Registered number: 2495645

Statement of changes in equity
for the 52 weeks ended 29 September 2019

	Share capital	Share premium	Capital contribution reserve	Cash flow hedge reserve	Retained earnings/(losses)	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 October 2017	50	-	9,517	(9,231)	(22,934)	(22,598)
Total comprehensive income for the period						
Profit for the period	-	-	-	-	14,351	14,351
Other comprehensive income	-	-	-	10,035	-	10,035
Total comprehensive income for the period	-	-	-	10,035	14,351	24,386
Transactions with owners, recorded directly in equity						
Equity-settled share based payment transactions (note 24)	-	-	-	-	(2,403)	(2,403)
Share premium on share issues	-	112,959	-	-	-	112,959
Total contributions by and distributions to owners	-	112,959	-	-	(2,403)	110,556
Balance at 30 September 2018	50	112,959	9,517	804	(10,986)	112,344
Balance at 1 October 2018	50	112,959	9,517	804	(10,986)	112,344
Total comprehensive income for the period						
Profit for the period	-	-	-	-	14,298	14,298
Other comprehensive income	-	-	-	2,777	-	2,777
Total comprehensive income for the period	50	112,959	9,517	3,581	3,312	129,419
Transactions with owners, recorded directly in equity						
Share capital reduction ^[1] (note 23)	(50)	-	-	-	50	-
Share premium reduction ^[1] (note 23)	-	(112,959)	-	-	112,959	-
Total contributions by and distributions to owners	(50)	(112,959)	-	-	113,009	-
Balance at 29 September 2019	-	-	9,517	3,581	116,321	129,419

¹The company reduced its share capital and share premium reserve as part of the restructure undertaken during the year. Both Cash flow hedge reserve and Capital contribution reserve are described in notes 1 (1.6) and 23 respectively. The notes on pages 17 to 40 form part of these financial statements.

Notes to the financial statements (forming part of the financial statements)

1 Significant accounting policies

Poundland Limited (the “Company”) is a private company limited by shares incorporated and domiciled in the United Kingdom and is registered in England and Wales. The registered address for Poundland Limited is disclosed on page 5.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements are presented in Sterling, which is the functional currency of the company. The financial statements are rounded to the nearest thousand.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s intermediate parent undertaking, Pepco Group Limited (previously Pepkor Europe Limited) includes the Company in its consolidated financial statements. The consolidated financial statements of Pepco Group Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Unit B, 120 Weston Street, London, SE1 4GS.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IAS 7 requirement to produce a Cash Flow Statement and related notes;
- IAS 1 requirement for full comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- IAS 24 requirement in respect of disclosing remuneration of key management personnel;
- IAS 24 requirement in respect of disclosures of transactions with group companies; and
- IAS 8 requirement to disclose information about the effects of new but not yet effective IFRSs.

As the consolidated financial statements of Pepco Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments and acquisitions.

1.2 Going concern

The Company is provided with intercompany funding to support its working capital requirements and investment needs.

After its acquisition by the Steinhoff Group, the Company operated a facility with Steinhoff Europe AG. Following the ultimate parent company’s announcement of accounting irregularities in December 2017, the Company, together with its indirect parent, Pepco Group Limited (“PGL”), sought to unwind these intercompany facilities to enable it to operate independently of the wider Steinhoff group. PGL obtained in January 2018 independent third party funding consisting of a two year facility of £180 million. In August 2019 the Group successfully re-financed its existing (January 2018) external debt, which was due to expire in 2020. It replaced it with a two-and-a-half-year facility for €475m, alongside a revolving credit facility to provide additional working capital headroom for the Group. The Company now draws on this facility, together with the wider Pepco Group Limited Group’s (“the Group”) positive operating cash flows, to meet its cyclical working capital requirements and capital investment needs.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

1.2 *Going concern (continued)*

As part of this re-financing the Group has also taken the opportunity to further reduce exposure to the Steinhoff Group through repayment of all of the short-term intercompany debt. The earliest repayment date for the remaining intragroup debt owed to the Steinhoff Group is September 2027. There is cash headroom available to manage potential future liquidity risk.

The PGL Group had €685.8m of borrowings as at 29 September 2019 (30 September 2018: €722.4m), of which €212.9m (30 September 2018: €329.2m) was due to Group undertakings.

Alongside the re-financing, Group are expected to be strongly cash generative throughout the foreseeable future. PGL undertakes full spectrum of long-term strategic financial planning and shorter-term operational cash flow planning to ensure the cash and funding requirements of the Group are robustly reviewed and managed. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group and Company have adequate resources, thus they continue to use the going concern basis of accounting in preparing the financial statements.

The Company prepares detailed cash forecasts on a regular basis to anticipate and manage future funding requirements from intercompany facilities, extending for a period of at least 12 months from the date of approval of these financial statements. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. The directors have obtained a letter of support from its parent undertaking, Pepco Group Limited, and have considered the ability of the PGL Group to be able to give this letter of support for a period of 12 months from the date of these accounts. It has available to it intercompany funding to support its requirements.

Consequently, the directors believe that the Company is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future, which is not less than twelve months from the date of signing of these financial statements. Thus, they continue to adopt the going concern basis, having also considered the impact of Covid-19, in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic report.

1.3 *Foreign currency*

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

1.4 *Classification of financial instruments issued by the Company*

In accordance with IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.4 Classification of financial instruments issued by the Company (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for share capital exclude amounts in relation to those shares.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

1.6 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments (comprising foreign currency forward contracts and commodity hedges) are used to manage risks arising from changes in foreign currency exchange rates (relating to the purchase of overseas sourced products) and fuel price fluctuations. The Company does not hold or issue derivative financial instruments for speculative trading purposes. The Company uses the derivatives to hedge highly probable forecast transactions and, therefore, the instruments are designated as cash flow hedges.

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the cash flow hedge reserve.

The associated cumulative gain or loss is reclassified from the statement of changes in equity and recognised in the income statement in the same period or periods during which the hedged transaction affects the income statement. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within financial income or financial expenses.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss which was reported in other comprehensive income is recognised immediately in the income statement.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months or as a current asset or liability if the remaining maturity of the hedged item is less than twelve months from the reporting date.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.7 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

The Company recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. These losses are calculated with reference to the difference between contractual cash flows and cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.8 Investments

Shares in subsidiary undertakings are stated at costs less any provision for impairment where in the opinion of the directors there has been a diminution in the value of the investment.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

1.9 Property, plant and equipment

Property, plant and equipment are stated at purchase cost (together with incidental costs of acquisition) less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Short leasehold property (less than 50 years)	- over the term of the lease
Fixtures and equipment	- 3 to 25 years (dependent upon lease term)

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

Capital contributions from landlords in respect of property leases are held as a liability and amortised over the shorter of the lease term of the UEL of the assets to which they relate.

1.10 Intangible assets and goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment.

Company law requires goodwill to be written off over a finite period. Non-amortisation of goodwill, in accordance with International Financial Reporting Standards, is a departure from the requirements of company law for the overriding purpose of giving a true and fair view. If this departure from company law had not been made, the profit for the financial year would have been reduced by amortisation of goodwill. However, the amount of amortisation cannot reasonably be quantified other than by reference to an arbitrary assumed period for amortisation.

Favourable leases

On acquisition as part of a business combination, when contractual lease payments are lower than market rents, an asset is recognised which reflects the fair value of the difference between contractual lease payments and current market rates, less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each reporting date.

Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Favourable leases	over the remaining term of the lease
Trademarks	5 years
Software	3 years

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Inventory cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payment transactions

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1.13 Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.14 Revenue

Revenue comprises the fair value of goods sold to external customers, net of value added tax and promotional discounts. Revenue is recognised on the sale of goods when the product is sold to the customer.

It is the Company's policy to sell its products to customers with a right to return. The Company uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Company will be entitled. However, the level of returns are not considered material therefore no right of return asset or refund liability is recognised. On the basis of materiality revenue is therefore recognised at the full value of the consideration received. This is assessed on an on-going basis.

The Company does not operate any loyalty programmes or offer gift cards.

1.15 Other operating income

Other operating income relates to management charges received from subsidiary undertakings. The income is recognised on an accruals basis.

1.16 Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement on a straight-line basis over the term of the lease.

1.17 Finance lease payments

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in trade and other payables and presented as current or non-current as required. The interest element of the finance lease is charged to the income statement so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

1.18 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.19 Supplier income

Rebate income

Rebate income consists of income generated from volume related rebate agreements and other supplier funding received on an ad hoc basis for instore promotional activity. The income received is recognised as a deduction from cost of sales.

Volume related income is recognised based on the expected entitlement at the reporting date based on agreed and documented contractual terms. Where the contractual period is not yet complete, the Company will estimate expected purchase volumes taking into account current performance levels to assess the probability of achieving contractual target volumes.

Other supplier funding is recognised as invoiced to the suppliers, subject to satisfaction of any related performance conditions. To minimise the risk arising from estimate, supplier confirmations are obtained at the reporting date prior to amounts being invoiced.

Promotional funding

Promotional pricing income relates to income received from suppliers to invest in the customer offer. It is considered an adjustment to the core cost price of a product and as such is recognised as a reduction in the purchase price of a product. Timing of invoicing of amounts due is agreed on an individual basis with each supplier.

Uncollected supplier income at the reporting date is presented within the financial statements as follows:

Trade payables – it is common practice for the Company to net income due from suppliers against amounts owing to that supplier. Any outstanding invoiced commercial income relating to these suppliers at the reporting date will be included within trade payables.

Trade receivables – where there is no practice of netting commercial income from amounts owed to the supplier, the Company will present amounts due within trade receivables. Where commercial income is earned but not invoiced to the supplier at the reporting date, the amount due is included within other debtors.

1.20 Cash flow reserve

The cash flow hedge reserve represents the effective portion of cash flow hedges where the contract has not yet expired. The reserve is stated net of the associated tax. On expiry of the contract, the effective portion is recycled to the income statement.

1.21 Financial income and expenses

Financial expenses comprise interest payable and the ineffective portion of change in the fair value of cash flow hedges that are recognised in the income statement. Financial income comprises interest receivable on funds invested and the ineffective portion of changes in the fair value of cash flow hedges.

Interest income and interest payable are recognised in the income statement as they accrue, using the effective interest method.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.22 Critical accounting estimates and judgements

The preparation of these financial statements requires the exercise of judgement, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period impacted.

The Company makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The directors continually evaluate the estimates, assumptions and judgements based on available information and experience. The directors do not consider there to be any critical judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Impairment of intangible assets

The Company assesses whether there are any indicators of impairment as at the reporting date for all intangible assets. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, the directors must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key source of estimation uncertainty is the growth rates applied. See Note 12 for details.

Onerous lease provisions

Onerous lease provisions represent the lowest possible cost of fulfilling the lease contract over its remaining lease term and are made using the Directors' best estimate of future cash flows of the loss making store based on the current level of information available to them. This will include assessments of future trading or currently uncontracted rental income, together with the variable costs of occupying and trading that property.

The most significant estimate in calculating the provisions are the estimates of future cash flows a leasehold property may generate. The Directors' consider the assumptions made represent their best estimate of future cash flows generated by onerous lease stores and have considered reasonably possible changes in this estimate when making their assessment. A 5% reduction in trading performance of these stores will result in an increase in provision of £1.0m and an increase in trading performance of 5% will result in a decrease in provision of £1.1m.

Onerous lease provisions are included within the provisions detailed in Note 22. Of the total onerous lease provisions of £24,582,066 (2018: £31,660,418), £6,747,444 (2018: £7,078,352) is expected to unwind in less than one year and £17,834,622 (2018: £24,582,066) is expected to unwind in more than one year.

1.23 Standards and interpretations applied by the Company for the first time in current period

For the 52 week period ended 29 September 2019 the Company has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time. The nature and effect of these changes is discussed in detail below.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has applied IFRS 9 retrospectively, except for the hedge accounting requirements which were applied prospectively. The impact of the application of IFRS 9 was not material to the net assets or profit for the period or prior period. Prior year balances have not been restated for IFRS 9.

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The new methodology adopted by the Company has not had a material impact on the level of provision held for impairment losses. As a retailer, the Company is not required to provide against undrawn credit under the ECL model as the Company is selling product (is a "Merchant of Goods") rather than a provider of financial instruments.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

1.23 Standards and interpretations applied by the Company for the first time in current period *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 8 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. In assessing the impact of the adoption of IFRS 15, management considered each revenue stream individually and applied the five-step model in recognising revenue for each respective stream. On conclusion of this assessment, revenue for each revenue stream would be recognised at the same point as if the existing policy had remained in place and therefore there have been no changes to the Company's existing revenue recognition policy.

Sale of goods:

The contracts with customers entered into by the Company generally include only one performance obligation and therefore revenue should be recognised at the point in time when control of the asset is transferred to the customer (i.e. at the point of sale in stores). There is therefore no change to the Company's accounting policy meaning the adoption of IFRS 15 does not have an impact on the timing of revenue recognition.

Variable consideration:

Sales of products made by the Company offer customers the right to return within a specified period and are thus considered variable under IFRS 15.

The Company uses the expected value method to estimate the value of goods that will be returned as this is considered the best way of predicting the variable consideration. Previously, expected returns were estimated using a similar approach and it has always been concluded that the value of expected returns is not material and therefore no adjustment has been made. This is assessed on an ongoing basis.

Should it be determined in the future that the expected value of returns is material, the Company will present a separate right of return asset (based on the value of the stock sold) and a refund liability.

The following other amendments and interpretations have also been applied for the first time in the period under review.

- Annual improvements to IFRS cycle 2014-2016
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Amendments to clarify the classification and measurement of share based payment transactions

The adoption of these new standards, amendments and interpretations has not led to any changes in the Company's accounting policies or had any other material impact on the financial position or performance of the Company.

Notes to the financial statements *(continued)*

1 Significant accounting policies *(continued)*

1.24 Standards and interpretations issued but not yet applied by the Company

The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. These will be adopted by the Company in line with their effective date. Their adoption is not expected to have a material effect on the financial information unless otherwise indicated:

- IFRS 16: Leases (applicable to accounting periods beginning on or after 1 January 2019)
- IFRS 17: Insurance contracts (applicable to accounting periods beginning on or after 1 January 2021)
- Amendments to IAS 19: Employee Benefits (applicable to accounting periods beginning on or after 1 January 2019)
- Amendments to IAS 28: Long-term Interests in Associate and Joint Venture (applicable to accounting periods beginning on or after 1 January 2019)
- Amendments to IFRS 9: Prepayment features with negative compensation (applicable to accounting periods beginning on or after 1 January 2019)
- IFRIC 23: Uncertainty over income tax improvements (applicable to accounting periods beginning on or after 1 January 2019)
- Annual improvements to IFRS cycle 2015-2017 (applicable to accounting periods beginning on or after 1 January 2019)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (applicable to accounting periods beginning on or after 1 January 2019)
- IFRS 10 and IAS 28: Consolidated Financial: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined)

IFRS 16 will have a material impact on the Company. IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to recognise a lease liability reflecting the discounted amount of future lease payments and a "right of use asset" for all leases subject to practical expedients available in the standard. IFRS 16 is effective from 1 January 2019 and therefore the first period of mandatory adoption for the Company will be the period commencing 30 September 2019. The standard replaces IAS 17 'Leases' and related interpretations. The standard would require the Company to bring the substantial majority of the Group's current operating lease commitments calculated under IAS 17 (c. £491m on an undiscounted basis as shown in note 25 of the financial statements offset by onerous lease provisions held) onto the statement of financial position, resulting in significant assets and liabilities which would be required to be depreciated and amortised separately. The implementation of IFRS 16 is expected to result in a Right of Use asset of £386m and Lease liabilities of £404m as at 01 October 2019.

2 Revenue

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
United Kingdom	1,391,406	1,373,106
Republic of Ireland	148,439	146,045
Isle of Man	3,389	3,482
	<u>1,543,234</u>	<u>1,522,633</u>

Revenue stated above relates solely to the sale of goods.

Notes to the financial statements *(continued)*

3 Profit for the period

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
<i>Profit for the period has been arrived at after charging/(crediting):</i>		
Payments under operating leases:		
Other	7,395	7,855
Land and buildings	117,449	110,973
Depreciation and other amounts written off tangible fixed assets	25,643	21,049
Amortisation of other intangibles	2,280	1,958
Cost of inventories recognised as an expense	974,707	1,020,043
Write downs of inventories recognised as an expense	4,328	7,631
(Gain)/loss on foreign exchange	(6,703)	(780)
	=====	=====
	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
<i>Auditor's remuneration</i>		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	630	513
	=====	=====

No non-audit services have been performed by the company's auditor in either the current or prior period. Depreciation charge for the period includes amortisation of capital contributions of £4.7 million (*52 weeks to 30 September 2018: £4.2 million*).

4 Reconciliation of adjusted profit measure ("EBITDA")

The directors consider Earnings Before Interest, Taxes, Depreciation, and Amortisation ("EBITDA") to be a more consistent measure of operating performance. Operating profit is adjusted to exclude the impact of amortisation of goodwill, depreciation and impairment of fixed assets.

Adjusted EBITDA excludes the impact of those distribution costs and administrative expenses which do not contribute to current trading activities. The directors consider that this measure more fairly reflects actual operating performance:

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Operating profit	26,689	22,500
Exclude:		
Amortisation of intangibles	2,280	1,958
Depreciation (excluding reclassification of capital contributions)	25,643	21,049
	=====	=====
EBITDA	54,612	45,507
	=====	=====

Notes to the financial statements (continued)

5 Finance income

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
On amounts owed by group undertakings	7,270	4,173
Bank interest receivable	191	50
Ineffective portion of changes in fair value of cash flow hedges	-	447
	<u>7,461</u>	<u>4,670</u>

6 Finance expense

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
On amounts owed to group undertakings	15,383	11,591
Bank interest payable	-	2
Finance lease interest	292	287
Ineffective portion of changes in fair value of cash flow hedges	10	-
	<u>15,685</u>	<u>11,880</u>

7 Dividends

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Amounts recognised as distributions to owners in the financial period	-	-
	<u>-</u>	<u>-</u>

Notes to the financial statements *(continued)*

8 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period was as follows:

	Number of employees	
	52 weeks ended 29 September 2019	52 weeks ended 30 September 2018
Administration	374	433
Selling and distribution	17,164	17,431
	17,538	17,864
	17,538	17,864

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	227,757	223,232
Social security costs	13,334	13,357
Other pension costs (note 27)	2,988	2,218
Share based payments expense (note 24)	-	(2,403)
	244,079	236,404
	244,079	236,404

9 Remuneration of directors

Remuneration

The remuneration of the directors was as follows:

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Emoluments	2,361	3,753
Company contribution to defined contribution pension scheme	84	202
Compensation for loss of office	750	333
	3,195	4,288
	3,195	4,288

9 directors (*52 weeks ended 30 September 2018: nine*) were members of the defined contribution pension schemes.

Highest paid director

The amounts for remuneration include the following in respect of the highest paid director:

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Emoluments	554	776
Company contribution to defined contribution pension scheme	(2)	40
Compensation for loss of office	434	-
	986	816
	986	816

Notes to the financial statements (continued)

10 Taxation

Analysis of charge for the period

	52 weeks ended 29 September 2019		52 weeks ended 30 September 2018	
	£000	£000	£000	£000
<i>Current tax</i>				
Current tax on profit for the period	6,196		5,719	
Adjustments in respect of prior periods	(556)		5,961	
	<hr/>		<hr/>	
Total current tax charge		5,640		11,680
<i>Deferred tax</i>				
Origination and reversal of timing differences	(2,709)		(2,362)	
Effect of change in tax rate	283		-	
Adjustment in respect of prior periods	953		(8,379)	
	<hr/>		<hr/>	
Total deferred tax credit		(1,473)		(10,741)
	<hr/>		<hr/>	
Total charge for the period		4,167		939
	<hr/>		<hr/>	

Factors affecting the tax charge for the period

The tax charge for the year is higher (52 weeks ended 30 September 2018: lower) than the standard rate of corporation tax in the UK of 19% (52 week period ended 30 September 2018: 19%). The differences are explained below:

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Profit before tax	18,465	15,290
	<hr/>	<hr/>
Current tax at 19% (52 weeks ended 30 September 2018: 19%)	3,508	2,905
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,002	803
Adjustments to tax charge in respect of previous period	421	(2,418)
Overseas rate adjustment	(1,047)	(978)
Effect of share based payments	-	438
Change in tax rate	283	189
	<hr/>	<hr/>
Total tax charge for the period	4,167	939
	<hr/>	<hr/>

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and tax rates are expected to remain at this level for the foreseeable future. The deferred tax asset at 30 September 2019 has been calculated based on these rates.

Notes to the financial statements *(continued)*

11 Property, plant and equipment

	Short leasehold property £000	Fixtures and equipment £000	Total £000
Cost			
At beginning of period	138,743	182,409	321,152
Additions	4,010	15,756	19,766
Disposals	(5,375)	(8,795)	(14,170)
Reclassification	-	(249)	(249)
	<hr/>	<hr/>	<hr/>
At end of period	137,378	189,121	326,499
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation			
At beginning of period	66,378	126,067	192,445
Charge for the period	10,379	19,980	30,359
On disposal	(5,375)	(8,795)	(14,170)
	<hr/>	<hr/>	<hr/>
At end of period	71,382	137,252	208,634
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 29 September 2019	65,996	51,869	117,865
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 September 2018	72,365	56,342	128,707
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Company's obligations under finance leases (see note 20), all of which relate to fixtures and equipment and have a carrying amount of £10.2 million (2018: £12.4 million), are secured by the lessor's title to the assets. Depreciation charged on assets under finance leases in the 52 week period is £2.9 million (52 weeks to 30 September 2018: £2.5 million). Depreciation charge for the period includes reclassification of capital contributions of £4.7 million (52 weeks to 30 September 2018: £4.2 million).

Notes to the financial statements (continued)

12 Intangible assets

	Goodwill	Favourable leases	Trademarks	Software	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of period	91,284	1,112	123	10,777	103,296
Additions	-	-	-	2,720	2,720
Disposals	-	-	-	-	-
At end of period	91,284	1,112	123	13,497	106,016
Amortisation					
At beginning of period	-	467	117	8,175	8,759
Amortisation for the period	-	141	6	2,133	2,280
Disposals	-	-	-	-	-
At end of period	-	608	123	10,308	11,039
Net book value					
At 29 September 2019	91,284	504	-	3,189	94,977
At 30 September 2018	91,284	645	6	2,602	94,537

Following Poundland Group plc's acquisition of the entire share capital of 99p Stores on 28 September 2015, the PGL Group commenced a rebranding programme in October 2015. This consisted of a transfer of the trade and assets from 99p Stores to the Company. The total programme entailed rebranding 236 stores to the Poundland fascia. The trade and assets were transferred at fair value, and consideration was paid, again at fair value. Goodwill arising on the total transaction was £91.3 million.

Impairment

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. The recoverable amount has been determined based on value in use. Where the recoverable amount is less than the carrying value, an impairment results. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which the directors monitor that goodwill. In this instance the goodwill arising in the Company has been assessed as part of the Poundland Stores CGU. During the period, all goodwill was tested for impairment, with no impairment charge resulting (2018: *No impairment*).

In assessing the value in use, the five year business plan was used to provide cash flow projections to the period ended September 2024 and thereafter a terminal P&L for future years into perpetuity. The cash flow projections are subject to key assumptions in respect of discount rates and achievement of future revenue and EBITDA growth. The directors have reviewed and approved the assumptions inherent in the model as part of the annual business plan and budget process using historic experience and considering economic and business risks facing the Company.

In assessing the Company's value in use a pre-tax discount rate of 9.5% (2018: 10.4%) has been applied for the first five years and 8.5% (2018: 9.4%) for the terminal value. In assessing future revenue growth of 1.1% CAGR was assumed for the first 5 years, in line with business plan assumptions and 2% for the terminal value.

In addition to the projected sales growth modelled above, EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements from 4.0% in FY2020 to 5.6% of net sales by FY2024 and then to 5.6% in perpetuity.

Notes to the financial statements *(continued)*

12 Intangible assets (continued)

Amortisation is recognised in distribution and administrative expenses in the income statement as follows:

	52 weeks ended 29 September 2019 £000	52 weeks ended 30 September 2018 £000
Distribution costs	233	361
Administrative expenses	2,047	1,597
	<u>2,280</u>	<u>1,958</u>

13 Investments in subsidiaries

	29 September 2019 £000	30 September 2018 £000
Shares in subsidiary undertakings, at cost	171	171
Additions	-	-
Less: Impairment provision	-	-
	<u>171</u>	<u>171</u>

The Company's subsidiary undertakings at the period-end which are directly held are:

	Principal activity	Country of incorporation	Proportion of ordinary shares held %
M & O Business Systems Limited	Dormant	England	100
Bargain Limited	Dormant	England	100
Homes & More Limited	Dormant	England	100
Poundland Far East Limited	Product sourcing	Hong Kong	100
Poundland Stores Limited	Dormant	England	100
Sheptonview Limited	Dormant	England	100
Dealz Retailing Ireland Limited	Dormant	Republic of Ireland	100
Pepkor UK Retail Limited	Value retailer	England	100
GHM Stores Limited	Value retailer	England	100
Poundland Elgin Limited	Property	England	100

Notes to the financial statements *(continued)*

13 Investments in subsidiaries *(continued)*

All subsidiaries incorporated in the United Kingdom are registered at Wellmans Road, Willenhall, West Midlands, WV13 2QT, with the exception of Pepkor UK Retail Limited whose registered address is Oak House, Reeds Crescent, Watford, WD24 4QP.

Poundland Far East Limited's registered address is: Suite 701, 168 Queen's Road Central, Hong Kong.

14 Inventories

	29 September 2019 £000	30 September 2018 £000
Goods purchased for resale	135,145	141,144
Goods in transit	20,449	27,684
	<u>155,594</u>	<u>168,828</u>

Goods in transit relates to imported stock on water not yet received into distribution centres and not yet available for sale.

15 Trade and other receivables

	29 September 2019 £000	30 September 2018 £000
Trade receivables	1,768	7,317
Amounts owed by Group undertakings	151,950	175,017
Prepayments and accrued income	39,584	38,554
Other debtors	-	220
	<u>193,302</u>	<u>221,108</u>

Amounts owed by group undertakings which are interest bearing total £107,200,000 (2018: £94,800,000). The remaining balance is non-interest bearing. All amounts owed by group undertakings are repayable on demand.

Analysis of the accrued income debtor is as follows:

	29 September 2019 £000	30 September 2018 £000
Brought forward balance	11,951	8,925
Amounts released in the period	(11,951)	(8,925)
Amounts recognised in the period	13,960	11,951
	<u>13,960</u>	<u>11,951</u>

Notes to the financial statements *(continued)*

16 Trade and other payables

	29 September 2019 £000	30 September 2018 £000
Trade payables	89,382	102,778
Other taxation and social security	19,792	17,898
Amounts owed to Group undertakings	14,699	24,798
Other payables	5,165	-
Obligations under finance leases	3,276	3,021
Accruals	79,519	82,103
	<hr/>	<hr/>
	211,833	230,598
	<hr/> <hr/>	<hr/> <hr/>

As part of the banking arrangements, Poundland Limited has a guarantee with Glas Trust Corporation Limited (as security agent). This is a fixed and floating charge on all the property or undertaking of the company.

17 Current liabilities – Amounts owed to group undertakings

Included within current liabilities are amounts owed to group undertakings of £nil which are interest bearing at the Bank of England base rate plus 2.35% and repayable on three months' notice (2018: £219,961,000).

18 Non-current liabilities

	29 September 2019 £000	30 September 2018 £000
Accruals and deferred income	32,017	39,824
Obligations under finance leases	6,936	9,413
	<hr/>	<hr/>
	38,953	49,237
	<hr/> <hr/>	<hr/> <hr/>

19 Non-current liabilities – Loans from parent undertakings

Included within non-current liabilities are amounts loans from parent undertakings of £203,177,000 which are interest bearing at a rate of 6% and repayable after 5 years (2018: £nil).

20 Obligations under finance leases

Analysis of assets held under finance leases:

	29 September 2019 £000	30 September 2018 £000
Cost	13,112	14,895
Accumulated depreciation	(2,900)	(2,500)
	<hr/>	<hr/>
	10,212	12,395
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)

20 Obligations under finance leases - continued

Finance lease liabilities are payable as follows:

	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	3,542	224	3,318
Between one and five years	7,081	187	6,894
Over five years	-	-	-
	<u>10,623</u>	<u>411</u>	<u>10,212</u>

21 Deferred tax

Full provision without discounting has been made under the liability method for taxation deferred by accelerated depreciation and other timing differences. The amounts involved are as follows:

	£000
Deferred tax asset at beginning of period	26,963
Recognised in the income statement	1,473
Recognised in other comprehensive income	(284)
Intercompany transfer	1,045
Deferred tax asset at end of period	<u>29,197</u>

	29 September 2019 £000	30 September 2018 £000
Property, plant and equipment – Accelerated capital allowances	15,378	13,146
Other financial assets – Capital contributions	2,671	2,210
Trade and other payables - LTIPS	31	251
Other financial liabilities - Derivatives	(1,148)	124
Other timing differences	197	162
Tax losses	12,068	11,070
Deferred tax asset	<u>29,197</u>	<u>26,963</u>

The deferred tax asset is available for offset against future taxable profits, which are expected to be sufficient to recover the asset's value.

Notes to the financial statements *(continued)*

22 Provisions

	29 September 2019 £000	30 September 2018 £000
At beginning of period	56,181	64,560
Provisions made during the period	676	3,184
Provisions utilised during the period	(16,474)	(11,490)
Provisions reversed during the period	-	(73)
	40,383	56,181
	40,383	56,181
Non-current	29,501	44,908
Current	10,882	11,273
	40,383	56,181
	40,383	56,181

All provisions are associated with expected future costs for specific leasehold properties and include costs associated with vacant properties, outstanding rent reviews, off market rental arrangements acquired in business combinations and dilapidations. As such, the timing of utilisation will depend on the individual lease terms.

23 Share capital

	29 September 2019 £000	30 September 2018 £000
<i>Authorised, allotted, called up and fully paid:</i>		
100 (2018: 50,001) ordinary shares of £1 each	-	50
	-	50
	-	50

From January 2018, Poundland Limited's working capital requirements are funded by Pepco Group Limited ("PGL"), which obtained independent, third party funding consisting of a two year facility, enabling it to fund Pepcor Group Limited Group's ("the Group") normal working capital cycle and to meet its capital investment requirements, independently of the wider Steinhoff Group.

On 18 January 2018, intercompany loans payable to Steinhoff Europe AG were novated to PGL. These consisted of loans repayable on 3 months' notice of £190 million and €18.4 million and cash pool accounts of £17.0 million.

On 12 February 2018, the £190 million loan was split into loan A for £110.7 million and loan B for £79.3 million. On 12 February 2018, the loans of £79.3 million, €18.4 million and £17.0 million were novated to Poundland Holdings Limited. Poundland Limited issued one ordinary £1 share at a premium of £113 million in settlement of this loan.

During the year the share capital of the company was reduced by cancelling and extinguishing 49,901 issued and fully paid ordinary shares of £1 each in the capital of the Company and cancelling the Company's share premium reserve in full (the "Reduction") with the amount of the Reduction being credited to the Company's Retained earnings.

The capital contribution reserve arose in August 2014 when the Company was released from amounts owed to various group companies, all of which were part of the group headed by Poundland Group Limited (formerly Poundland Group plc).

Notes to the financial statements (continued)

24 Share based payments

The Company benefits from share award plans. These originally granted its employees options over shares in the previous ultimate parent company, Poundland Group Plc. These schemes were equity settled by Poundland Group Plc. Following the acquisition by the group headed by Steinhoff International, N.V. in September 2016, these schemes were amended as detailed below. Additionally, new schemes were launched in the period.

The Performance Share Plan (PSP)

The PSP was adopted by the directors on 27 February 2014. All employees of the Company were eligible to participate in the PSP at the discretion of the Remuneration Committee. The first issue of awards was made on 17 March 2014. All awards were granted for nil consideration. Further awards were made on 4 July 2014 and 19 June 2015.

Under the scheme rules the awards would vest on change of control in September 2016, however the performance conditions were not met. As part of its offer for the Poundland Group, Steinhoff agreed to exchange the options held by colleagues under PSP plans for an equivalent number of Steinhoff shares, calculated on the basis of its offer price of 227p per Poundland share and at an exchange rate of £1:€1.1735 (the prevailing rate as at the date of acquisition).

This scheme came to an end in the previous financial period with no cash payment made. The cumulative share-based payment charged was therefore reversed in the previous financial period.

The Company Share Option Plan (CSOP)

The CSOP was adopted by the directors on 27 February 2014. Under the CSOP, the directors were able to grant to eligible employees' options to acquire Ordinary Shares in Poundland Group Plc at an exercise price which was not less than the market value of an Ordinary Share in Poundland Group Plc on the date of grant.

All employees of the Company were eligible to participate in the CSOP at the discretion of the directors.

The CSOP options may be subject to performance conditions, however, the initial award made on 18 March 2014, together with awards made on 4 July 2014 and 19 June 2015, did not have any related performance conditions. All rewards were granted for nil consideration.

A CSOP option would normally only be exercisable from the third anniversary of the date of grant and when all conditions applying to it had been satisfied. No dividends are paid on shares awarded. Under the scheme rules the awards were due to vest on change of control in September 2016. The option price was above the market value at the date of acquisition. Subsequently, the scheme was amended by Steinhoff, who agreed to exchange the options held by colleagues under CSOP plans for an equivalent number of Steinhoff shares, calculated on the basis of its offer price of 227p per Poundland share and at an exchange rate of £1:€1.1735 (the prevailing rate as at the date of acquisition).

Steinhoff awards

The Steinhoff share awards were adopted by the Directors on 15 December 2016. Members of the executive management of the Group were eligible to participate in the scheme. The first issue of awards was made on 1 March 2016. All awards were granted for nil consideration. Further awards were made on 1 March 2017. No awards have been made in the 52 week period to 30 September 2018 nor the 52 week period to 29 September 2019.

For the 52 weeks ended 29 September 2019

	Steinhoff Awards		PSP		CSOP	
	Weighted average exercise price (€)	Number of options	Weighted average exercise price (€)	Number of options	Weighted average exercise price (€)	Number of options
	€	000	€	000	€	000
Outstanding at 30 September 2018	3.96	634	-	-	-	-
Cancelled during the period	-	-	-	-	-	-
Outstanding at 29 September 2019	<u>3.96</u>	<u>634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equivalent replacement Steinhoff shares	-	-	-	-	-	-

The fair value of services received in return for share options granted are measured by reference to the fair value of the share options granted. The Steinhoff Awards, PSP and RSP awards are valued at 100% of the share price at the date of grant.

Notes to the financial statements *(continued)*

24 Share based payments *(continued)*

There was a restricted history of share price movements in the prior period as the parent company had recently listed. The expected volatility was therefore a proxy volatility figure, which has been derived as the average volatility of FTSE 250 companies within the General Retailers sector over the four years prior to grant date (i.e. the period equivalent to the expected term).

The risk free rate is equivalent to the prevailing UK Gilts rate at grant date, which is commensurate with the expected term. CSOP awards are granted under a service condition. This is not taken into account in the grant date fair value measurement of the services received. The share based payments expense has been calculated using recent employee turnover levels.

Save As You Earn (SAYE)

Poundland Group plc operated a savings related share options scheme which was open to all UK and Republic of Ireland employees with more than three months' continuous service. This is an approved HMRC Scheme. Under the SAYE scheme, participants remaining in the Group's employment at the end of the three-year savings period were entitled to use their savings to purchase shares in the Group at a stated exercise price. Under restricted circumstances, employees leaving for certain reasons were able to use their savings to purchase shares within six months of their leaving. Under the scheme rules, the awards were due to vest on change of control in September 2016. The option price was above the market value at the date of acquisition. The scheme was amended following acquisition, with options transferring to equivalent numbers of Steinhoff shares calculated on the basis of its offer price of 227p per Poundland share and at an exchange rate of £1:€1.1735 (the prevailing rate as at the date of acquisition).

The fair value of the awards is expensed over the service period of three years on the assumption that, dependent upon the grade of the colleagues between 5 and 15 per cent of options will be cancelled over the service period as colleagues leave the SAYE scheme.

This scheme came to an end in the previous financial period with no cash payment made. The cumulative share-based payment charged was therefore reversed.

Aggregate share based payment expense

The aggregate share based payments expense recognised in the period for the several share based payment arrangements described above is as follows:

	29 September 2019 £000	30 September 2018 £000
Equity settled share based payment (income)/expense	-	(2,403)
	-	(2,403)

25 Operating lease commitments

The Company has total commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	29 September 2019 £000	30 September 2018 £000	29 September 2019 £000	30 September 2018 £000
Operating leases which expire:				
Less than one year	100,261	111,078	3,129	4,512
Between one and five years	269,930	307,709	1,684	2,783
More than five years	115,574	158,499	327	-
	485,765	577,286	5,140	7,295

Operating lease payments represent rental payable by the Company for its property portfolio. The Company also leases vehicles and equipment. Leases are negotiated on an individual basis.

Notes to the financial statements *(continued)*

26 Capital commitments

Capital commitments for which no provision has been made in the financial statements of the Company were as follows:

	29 September 2019 £000	30 September 2018 £000
Acquisition of property, plant and equipment	2,217	2,582

27 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £2,988,000 (52 weeks ended 30 September 2018: £2,218,000). Contributions amounting to £1,134,000 (30 September 2018: £524,000) were payable to the scheme at the period end and are included in accruals.

28 Transactions with related parties

The Company has taken advantage of the exemption conferred by paragraph 8(j) of FRS 101 not to disclose transactions with other Group companies.

29 Ultimate parent company

The Company is a direct subsidiary undertaking of Peu (Tre) Limited and an indirect subsidiary of Pepco Group Limited which are both registered in England and Wales. Peu (Tre) Limited's registered address is Unit B, 120 Weston Street, London, SE1 4GS.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Steinhoff International Holdings N.V., incorporated in The Netherlands. The address of Steinhoff International Holdings N.V. is: Building B2, Vineyard Office Park, Cnr Adam Tas & Devon Valley Road, Stellenbosch 7600, South Africa.

The parent of the smallest group in which these financial statements are consolidated is Pepco Group Limited, incorporated in England and Wales. The address of Pepco Group Limited is: Unit B, 120 Weston Street, London, SE1 4GS.

30 Subsequent events

Following the year end, a significant uncertainty has arisen due to the impact of the Covid-19. As this uncertainty only emerged after the year end, the Directors view is that any future significant changes is considered to be a non-adjusting event in relation to these accounts.

The Directors will continue to monitor any impacts of Covid-19 on the company, but as at the date of signing the accounts do not believe that there has been any significant impact requiring disclosure.