

# **Pepco Group Limited**

(formerly known as Pepkor Europe Limited)

## **Annual report and consolidated financial statements**

For the year ended 30 September 2019

Registered number 09127609

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## Strategic report

The Directors present their strategic report for the year ended 30 September 2019.

### Principal activity

Pepco Group Limited (the Company) owns and operates pan European variety discount retail businesses with 2,694 stores located across 14 countries as at 30 September 2019. The Group's brands offer a combination of branded volume consumables (FMCG), general merchandise and apparel products with the majority of these products being own brand in nature, sourced via an integrated sourcing business, Fully Sun China Limited, which trades as Pepkor Global Sourcing or PGS. The Company provides a head office function for its subsidiaries, providing corporate and strategic support to the Group.

The Company's principal retail operations trade under the Pepco, Poundland or Dealz brands and alongside a range of smaller investments (details of which are set out in Note 11 to the Company Financial Statements), which together form the Group.

Pepco is a mono-brand discount retailer of apparel and general merchandise headquartered in Poland. Through a significant store roll-out programme, Pepco has grown to 1,804 stores across eleven countries in Central & Eastern Europe.

Acquired by the Group in April 2017, Poundland operates as a brand in the UK, where it is a well-established, fixed price discount retailer of FMCG, general merchandise and apparel (under the PEP&CO brand), having 771 stores. The Group also operates 119 stores under the Dealz brand in the Republic of Ireland, Spain and Poland.

### Business review

The Group continued its solid performance in the year ending 30 September 2019, where it delivered further strong growth against all of its key performance metrics of store numbers, revenue, EBITDA and cash generation. The success of the Group was Pepco led, which maintained its strong growth trajectory having opened 305 stores in total, representing a 20.3% increase in the portfolio. The Pepco brand also extended its presence to a new market during the period, entering Bulgaria and taking its total presence to eleven countries.

Furthermore, the Group continued to expand the Dealz offer in its existing Spanish and Polish markets adding 37 new stores in the year to 30 September 2019 across these countries. However, the decision was made to cease its lossmaking operations in France (which historically operated under the Dealz brand in a handful of stores) in March 2019, as management made the decision to exit this market (see note 25 for details) and focus attention on the growth opportunities in the Spanish and Polish markets.

Following the announcement of accounting irregularities in the Steinhoff International Holdings group in early December 2017 (noting that the report of the forensic accountant prepared at the request of the Steinhoff NV Board did not identify irregularities at the level of Pepco Group or any of its trading subsidiaries), the Pepco Group has continued to take steps to further reduce its exposure to the Steinhoff Group. 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 term facility at a more favourable coupon and notably as part of this re-financing, the Group repaid all of the outstanding shorter-term Steinhoff intercompany debt.

In November 2019 the Group also completed on an external revolving credit facility to enable access to normalised ancillary facilities and additional cash headroom.

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.

The Group continues to invest in the infrastructure necessary to support the planned future growth of the business. In the year under review this included construction of a new Pepco distribution centre due to open in 2020 and embarking on a project to roll out a Group wide ERP solution.

### Strategic aims and future developments

The Group's well-defined mission is to provide, its core customer, which is consistent across all of its trading formats, being a "mum on a budget", with her weekly shopping needs at the lowest price within apparel, general merchandise and FMCG.

The Group's vision is to build Europe's largest discount variety retailer by further strengthening its market-leading proposition and capitalising on the long-term opportunity to treble the size of the Group's current store portfolio, implying 20 years of roll-out potential at the Group's current rate of expansion. The Directors believe that this long-term expansion opportunity, concentrating on store roll-out in existing markets together with disciplined expansion into new markets that feature similarly supportive economic and demographic characteristics, is a low-risk strategy for growth.

## Strategic report *(continued)*

In addition, while the potential for further portfolio expansion of the Poundland brand is limited, the Directors believe there is a significant opportunity to improve operating margins in the Group's UK and Republic of Ireland-based businesses through reduction of rents in its existing stores and other targeted cost-cutting initiatives.

The Group's strategy is to build further competitive differentiation and strengthen the defensibility and sustainability of its operating model through the following five core principles:

- **Price leadership:**  
Price is the principal reason the Group's customers select a retailer. It is therefore imperative to offer the lowest prices in each market to deliver "amazing value every day" and to buy and operate at the lowest possible cost in order to deliver attractive economic returns.
- **Full suite product offer:**  
The Group's customer proposition is differentiated versus its key competitors within the discount sector, who tend to focus on a single category, by offering a multi-category assortment. Pepco's particular category strengths in childrenswear and homewares, designed and produced in-house, are targeted at the products that are of most importance to their core customer.
- **Flexible format model:**  
The Group has established expertise in three core product categories: apparel, general merchandise and FMCG, which are sold in different category mixes across each of the Group's four retail brands: Pepco, Dealz, PEP&CO and Poundland. The Group has adopted this tailored "mix and match" approach to market entry in order to maximise penetration.
- **Shared platform across the three brands:**  
The sharing of products, suppliers, regional infrastructure and services across the Group increases the buying scale and reduces operational costs.
- **Leverage integrated sourcing:**  
The Group has two strategies to achieve lowest cost sourcing. Firstly, it utilises PGS, its in-house direct sourcing operation, with hubs across Asia to source its own-brand apparel and general merchandise ranges and secondly, it leverages Poundland's relationships with pan-European suppliers to source its branded FMCG products.

### Covid-19 Pandemic

The Covid-19 global pandemic impacted each of the 14 territories in which the Group operates, most notably from mid-March 2020 when lockdowns began across Europe.

Poundland as an 'essential retailer', has continued to trade throughout the pandemic, albeit from c. 85% of the estate with the remaining stores closed voluntarily where reduced customer traffic made them unprofitable in the short-term. Pepco, as an apparel and general merchandise retailer, operated from less than half their estate for much of April, with some open stores also seeing government-imposed restrictions such as reduced trading hours in Hungary. Similar impacts have been seen in the Dealz businesses in Spain and Poland.

Across May 2020, as restrictions have lifted, stores have reopened progressively to the point where over 95% of the estate was trading by the end of May 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 Group's cash position, before focusing on the actions necessary to return the Group to a more normal trading position, particularly with regard to seasonal inventory, 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.

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 totalling over €300m, appropriately utilising government support schemes (such as the employee retention schemes) and reducing discretionary expenditure. However, recognising the growth focus of the Group no reductions were made to planned capital expenditure on new or relocated stores and we remain confident of opening over 300 stores across the Group in the full financial year.

## Strategic report *(continued)*

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

Whilst appropriate management focus will be necessary to navigate the business towards the post-Covid 'New Normal' and ensure the Group 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 Group's focus will be to:

- Continue the long-term new store growth opportunity focused on the opening of c.300 new Pepco stores in the fast-growing economies of Central & Eastern Europe;
- Further refine the Dealz format and proposition and accelerate its growth in both Poland and Spain as a further source of future store growth;
- Drive profit growth in Poundland 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 further integration of the Poundland and PEP&CO businesses;
- Drive further cost advantage through increasing the Group's volume of direct sourcing from PGS; and
- Continue to develop the Group's infrastructure (systems, logistics and people) to support future growth and improve efficiency.

### Results and key performance indicators

The results for the year are set out in the income statement on page 14. Group revenue and underlying operating profit increased by €372.5 million (12.2%) and €36.9 million (16.9%) respectively. Underlying group profit before tax of €200.3 million represented a growth of €22.9<sup>2</sup> million (12.9%) versus prior year. EBITDA increased by €54.6m (20%).

The Group remained strongly cash generative with cash generated by operations increasing by €111.5 million (89.6%).

The KPIs used by the Group are relevant to the sector in which it operates. These are revenue growth, EBITDA, year on year growth in number of stores and cash generation. Management do not consider there to be any non-financial KPIs relevant to assessing the performance of the Group other than store numbers.

	Year to 30 September 2019	Year to 30 September 2018
Revenue (€m)	3,417.1	3,044.6
EBITDA <sup>1</sup> (€m)	330.9	276.4
Underlying operating profit (€m)	256.0	219.1
Underlying profit before tax <sup>2</sup> (€m)	200.3	177.4
Cash generated by operations (€m)	235.9	124.4
Number of stores (at year end)	2,694	2,355 <sup>3</sup>

Reflecting the overall importance to long-term value creation and the scale of new store roll-out, total revenue growth is the Group's core KPI.

	Total revenue growth in the year	Net new stores opened / (closed) in year
Pepco	+26.8%	305
Poundland Group <sup>4</sup>	+1.4%	34

(1) A reconciliation between operating profit and EBITDA is shown in note 3 to the Group accounts.

(2) FY2018 underlying profit before tax excludes the impairment of goodwill.

(3) FY2018 excludes 5 stores relating to the discontinued operations in France.

(4) Poundland Group includes Poundland UK & ROI, Dealz Poland and Dealz Spain businesses

## Strategic report *(continued)*

### Principal risks and uncertainties

Effective risk management is essential to enable us to achieve our operational and strategic objectives and deliver long-term value creation. The Group's internal control and risk management systems are designed to manage rather than eliminate risk and can provide only reasonable but not absolute assurance against the failure to achieve business objectives.

The Group's principal risks, as determined by the Board, are outlined below together with examples of controls and mitigating actions.

#### *Competition*

**Risk:** The European retail industry, including the discount retail market, is highly competitive in a number of territories in which the Group operates, particularly with respect to price, product selection and quality, store location and design, inventory, customer service and advertising. The Group competes at national and local levels with a diverse group of retailers of varying sizes and covering different product categories. These competitors include other single price value general merchandise retailers, multi-price value general merchandise retailers, supermarkets, apparel retailers and certain other high street retailers in particular categories.

**Mitigation:** The Group has established category and operational management and apparel design capability that closely monitors both customer and competitor behaviour. We continually invest in and improve our inventory planning and management processes to enable better initial buys and allocation of stock and to respond more rapidly to inventory levels and opportunities. Commercial teams constantly review prices and property teams review store location opportunities.

#### *Business interruption – logistics and IT*

**Risk:** The Group's success depends on its ability to transport goods from its distribution centres to its stores throughout the European territories in which it operates 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 due to increased fuel costs could materially adversely impact the Group. Any significant failure in the IT processes of the retail operations in stores or in the supply chain could affect the ability to trade.

**Mitigation:** We continue to invest in new information technology systems and wider infrastructure to improve reliability, availability and, while the Group does not operate transactional websites, to enhance our IT security change freezes are applied during the Group's key trading year and the Group has detailed recovery plans in place in the event of a significant failure.

Longer-term the Group has invested in an enterprise systems solution with a leading global provider.

#### *Sourcing, product safety and quality*

**Risk:** The Group sources its products primarily via the Group sourcing office PGS as well as third party suppliers. It is essential that the Group continually identify, develop and maintain relationships with its suppliers. The Group is reliant on these suppliers being able to provide products in sufficient quantities, at low cost and in a timely manner.

**Mitigation:** The Group 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 Group, 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.

#### *Colleague attraction and retention*

**Risk:** The lack of appropriately skilled and experienced resource could result in a delay in achieving the Group's strategic growth.

**Mitigation:** Ongoing resourcing, talent and succession planning processes provide the necessary data to identify future skills and resource requirements across the business. Our approach to remuneration, including both annual and longer-term incentives, seeks to promote and reward performance, supporting recruitment and retention.

## Strategic report (continued)

### *Regulatory and political*

**Risk:** The Group is impacted by political, legal and regulatory changes, such as national minimum wage regulation, changes to national and international tax policy, consumer policy changes and significant international and national political events.

**Mitigation:** The Group's in-house legal functions work closely with the principal retail trading operations to identify and mitigate legal and regulatory risks using both internal resources and external advisors where either specialist or local knowledge is required. Both Poundland Group and Pepco are members of industry representative bodies in the key markets in which they operate, to ensure the Group's voice and that of its customers can be heard. Good governance practices are important to the Group and it actively monitors important developments.

The Group has commenced a programme to simplify its legal entity structure.

### *Macroeconomic environment*

**Risk:** Inflation, currency fluctuations or other macroeconomic factors may affect the Group's retail operation's ability to deliver their current pricing strategies. The Group pays certain suppliers overseas in US dollars and Chinese Yuan; however, customers pay for products in Euro, sterling and a small number of other European currencies. The Group therefore bears the risk of disadvantageous changes in exchange rates.

**Mitigation:** Hedging policies are in place for the primary currencies in which the Group trades in order to provide planning certainty. Hedging is performed through the use of foreign Group bank accounts and forward foreign exchange contracts and increasingly will be managed at a Group level to maximise natural hedges that are available.

### *Brexit (the exit of the UK from the European Union)*

**Risk:** Britain's decision to leave the European Union (Brexit) could lead to a more challenging and uncertain environment in the short and longer term in both the UK market and other European territories in which the Group operates and potentially introduces risks including tariffs on goods and delays in their movement, availability of labour and instability in global currency markets.

**Mitigation:** The extent to which the Company's operations and financial performance will be impacted in the longer term will only become clear as details emerge. Brexit working parties have been established, where necessary, modelling likely scenarios and taking action including positioning higher levels of inventory close to consumers. This risk mitigation was successfully executed in March 2019 and will be repeated as required.

### *Change of auditors*

During the year the company changed its auditors to Mazars LLP

Approved by the Board on 26 June 2020 and signed on its behalf by:



**N Wharton**  
Director

Taper Studios, Unit B  
120 Weston Street  
London  
England  
SE1 4GS

## **Directors' report**

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 September 2019. As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 2 to 6. These matters relate to the principal activity, financial risks and future developments and events subsequent to the reporting period.

### **Existence of branches outside the UK**

The Group 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**

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. 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.

### **Policy and practice on payment of creditors**

It is the Group's policy to include in contracts, or other agreements, terms of payment with suppliers. Provided that a supplier is complying with the relevant terms and conditions, including prompt and complete submission of all specified documentation, payment will be made in accordance with these agreed terms. The Group does not follow any code or standard on payment practice.

### **Environmental matters**

The Group recognises that its operations impact the environment and that this is an increasingly important issue for consumers. The principal retail operations within the Group, Pepco and the Poundland Group, design and implement policies to help to reduce their carbon footprint and costs and seek to reduce energy consumption to deliver efficiencies where possible.

### **Political donations**

The Group made no political donations in the year.

### **Financial risk management objectives and policies**

The Group'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 policies put in place by each operating company but monitored centrally for compliance. The Group does not use derivative financial instruments for speculative purposes. Further details of the Group's derivative financial instruments and hedging accounting policies are set out in note 1 to the consolidated financial statements.

#### ***Cash flow risk***

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

#### ***Credit risk***

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

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



## Directors' report *(continued)*

### *Liquidity risk*

As at 30 September 2019, the Group had available to it intercompany and external facilities which enable it to meet the cash demands of the current business plan and its commitments as they fall due. As noted above and in note 1.2 to the consolidated financial statements, in August 2019 the group refinanced its existing external debt with a thirty-month facility for €475 million. This refinancing replaces the existing external facility and a proportion of the intercompany funding. In November 2019, the Group secured a revolving credit facility through external providers, which provides ancillary facilities and additional cash headroom.

### **Dividends**

The Directors do not propose a final dividend and no dividend was paid in the prior financial year. During the year the Group settled a loan due to the parent company for €5m, which is treated as a deemed distribution in the financial statements.

### **Directors**

The Directors who held office during the year, and up to the date of this report (unless otherwise stated), were as follows:

S Cardinaal	
A Bond	
N Wharton	(appointed 7 June 2019)
L Du Preez	(appointed 6 December 2018)
N Brown	(appointed 19 November 2019)
H Lee	(appointed 19 November 2019)
P Soldatos	(appointed 19 November 2019)
M Elliott	(resigned 22 November 2019)
P Dieperink	(appointed 2 January 2018 and resigned 31 January 2019)
D Van Der Merwe	(appointed 6 March 2018 and resigned 6 December 2018)

### **Directors' indemnities**

The Group has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the comparative year and remain in force at the date of this report.

### **Employees**

The Group's employees are central to achieving our business objectives and we aim to attract, retain and develop the best talent at every level. We are committed to creating an environment where all individuals feel welcomed, respected and supported.

#### *Equal opportunities and diversity*

The Group prides itself on our diverse and inclusive culture and believe this contributes to our continued success.

Our colleagues represent a wide and diverse workforce from all backgrounds, sexual orientations, nationalities and ethnic and religious groups.

The Group's Diversity Policy provides that the Group will not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. It will not discriminate because of any other irrelevant factor and will build a culture that values meritocracy, openness, fairness and transparency.

#### *Gender pay*

The Group is committed to the principle that its male and female workers should receive equal pay for the same or similar work or work of equal value.

#### *Finding and developing top talent*

The Group is committed to finding top talent as well as providing ongoing training and development to ensure employees have the right skills to perform their jobs. The Group is also committed to creating the right development environment to ensure equality of opportunity for all.

Success is recognised and managed through various initiatives in the business. Employees are rewarded for meeting objectives that impact overall business performance. Certain employees are part of long term incentive plans.

## **Directors' report** *(continued)*

### *Employee involvement*

The Group seeks to engage employees in both its short and long term goals. This is achieved through a number of two-way communication methods including regular senior management briefings, employee engagement activities and informal discussions.

Employees are kept informed regarding the Group's affairs and are consulted on a regular basis through meetings wherever feasible and appropriate.

### **Auditors**

Mazars LLP was appointed as auditor in accordance with section 485 of the Companies Act 2006.

### **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 Group'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.

Approved by the Board on 26 June 2020 and signed on its behalf by:



**N Wharton**  
*Director*

Unit B  
120 Weston Street  
London  
England  
SE1 4GS

## Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

## **Independent auditor's report to the members of Pepco Group Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Pepco Group Limited (the 'Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Notes to the consolidated financial statements, Company statement of financial position, Company statement of changes in equity, Notes to the Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company is applicable law and United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) and, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30<sup>th</sup> September 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements**

In forming our opinion on the group and 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 3, and the consideration in the going concern basis of preparation on pages 20 to 21 and non- adjusting post balance sheet events on page 58. Since the balance sheet date 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 and Central Europe where stores are located.

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

#### **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.

## **The Impact of Uncertainties due to the United Kingdom exiting the European Union on our audit**

The Directors' view on the impact of Brexit is disclosed on page 6.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Group's and Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Group and Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Group and Company and this is particularly the case in relation to Brexit.

## **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 Group's or 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.

## **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 Group and 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

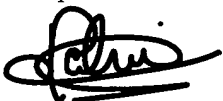
## Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://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.



David Herbinet (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  
Date: 26 June 2020

**Consolidated income statement**  
*for the year ended 30 September 2019*

	Note	Year to 30 September 2019 €000	Year to 30 September 2018 €000
<b>Continuing operations</b>			
Revenue	2	3,417,126	3,044,606
Cost of sales		<u>(1,974,676)</u>	<u>(1,773,527)</u>
<b>Gross profit</b>		<b>1,442,450</b>	<b>1,271,079</b>
Distribution costs		<b>(971,826)</b>	<b>(846,203)</b>
Administrative expenses		<b>(219,663)</b>	<b>(206,240)</b>
Other operating income		<b>7,311</b>	<b>2,593</b>
Loss on disposal of tangible and intangible fixed assets		<u><b>(2,270)</b></u>	<u><b>(2,148)</b></u>
<b>Underlying operating profit before goodwill impairment</b>		<b>256,002</b>	<b>219,081</b>
Goodwill impairment	10	<u>-</u>	<u>(112,838)</u>
<b>Operating profit</b>	3	<b>256,002</b>	<b>106,243</b>
<i>Non-GAAP table</i>			
<b>Underlying operating profit before goodwill impairment</b>		<b>256,002</b>	<b>219,081</b>
Underlying financial income	4	<b>12,834</b>	<b>13,583</b>
Underlying financial expense	5	<u><b>(68,508)</b></u>	<u><b>(55,208)</b></u>
<b>Underlying profit before taxation</b>		<b>200,328</b>	<b>177,456</b>
Goodwill impairment		<b>-</b>	<b>(112,838)</b>
Non-underlying financial income	4	<b>67,251</b>	<b>-</b>
Non-underlying financial expense	5	<u><b>(7,939)</b></u>	<u><b>-</b></u>
<b>Profit before taxation from continuing operations for the period</b>		<b>259,640</b>	<b>64,618</b>
Total financial income		<b>80,085</b>	<b>13,583</b>
Total financial expense		<u><b>(76,447)</b></u>	<u><b>(55,208)</b></u>
<b>Profit before taxation from continuing operations for the period</b>		<b>259,640</b>	<b>64,618</b>
Taxation	8	<u><b>(42,793)</b></u>	<u><b>(53,379)</b></u>
<b>Profit from continuing operations for the period</b>		<b>216,847</b>	<b>11,239</b>
Loss on discontinued operations	25	<u><b>(6,493)</b></u>	<u><b>(14,804)</b></u>
<b>Profit / (loss) for the year</b>		<u><b>210,354</b></u>	<u><b>(3,565)</b></u>

The notes on pages 20 to 58 form part of these financial statements.

**Consolidated statement of other comprehensive income**  
*for year ended 30 September 2019*

	<b>Year to 30 September 2019</b>	<b>Year to 30 September 2018</b>
	<b>€000</b>	<b>€000</b>
Profit / (loss) for the year	<b>210,354</b>	(3,565)
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation differences - foreign operations	<b>6,337</b>	1,529
Effective portion of changes in fair value of cash flow hedges	<b>14,665</b>	14,388
Net change in fair value of cash flow hedges reclassified to profit or loss	<b>3,138</b>	11,867
Deferred tax on items that are or may be reclassified subsequently to profit or loss	<b>(2,435)</b>	(4,462)
<b>Other comprehensive income/(expense) for the period, net of income tax</b>	<b>21,705</b>	23,322
<b>Total comprehensive income for the period</b>	<b>232,059</b>	19,757

The notes on pages 20 to 58 form part of these financial statements.



## Consolidated statement of financial position at 30 September 2019

	Note	30 September 2019 €000	30 September 2018 €000
<b>Non-current assets</b>			
Property, plant and equipment	9	348,040	298,260
Goodwill and other intangible assets	10	818,336	814,628
Trade and other receivables	12	-	75,142
Derivative financial instruments		8,971	3,530
Deferred tax asset	17	32,958	29,451
		<u>1,208,305</u>	<u>1,221,011</u>
<b>Current assets</b>			
Inventories	11	537,520	464,138
Tax receivable		2,243	1,974
Trade and other receivables	12	69,758	83,228
Derivative financial instruments		13,858	17
Cash and cash equivalents		246,974	184,485
		<u>870,353</u>	<u>733,842</u>
<b>Total assets</b>		<u>2,078,658</u>	<u>1,954,853</u>
<b>Current liabilities</b>			
Trade and other payables	13	409,958	391,456
Current tax liabilities		17,659	23,508
Borrowings	13	4,496	41,029
Derivative financial instruments		2,451	1,506
Provisions	18	42,333	32,818
		<u>476,897</u>	<u>490,317</u>
<b>Non-current liabilities</b>			
Other non-current liabilities	14	39,152	49,742
Borrowings	14	685,783	722,369
Derivative financial instruments		360	45
Provisions	18	80,372	121,432
		<u>805,667</u>	<u>893,588</u>
<b>Total liabilities</b>		<u>1,282,564</u>	<u>1,383,905</u>
<b>Net assets</b>		<u>796,094</u>	<u>570,948</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	19	2	2
Share premium reserve	19	-	433,491
Cash flow hedge reserve		8,031	(7,337)
Merger reserve		4,952	4,952
Translation reserve		(9,415)	(15,752)
Retained earnings		792,524	155,592
<b>Total shareholders' funds</b>		<u>796,094</u>	<u>570,948</u>

The notes on pages 20 to 58 form part of these financial statements. These financial statements were approved by the board of Directors on 26 June 2020 and were signed on its behalf by:



**N Wharton**

Director

Registered number: 09127609

**Consolidated statement of changes in equity**  
for the year ended 30 September 2019

	Share capital €000	Share premium <sup>4</sup> €000	Cash flow hedge reserve <sup>1</sup> €000	Translation reserve <sup>2</sup> €000	Merger reserve <sup>3</sup> €000	Retained earnings €000	Total equity €000
Balance at 1 October 2018	2	433,491	(7,337)	(15,752)	4,952	155,592	570,948
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	-	-	210,354	210,354
Other comprehensive income for the period	-	-	15,368	6,337	-	-	21,705
Total comprehensive income for the period	-	-	15,368	6,337	-	210,354	232,059
<b>Transactions with owners, recorded directly in equity</b>							
Share capital reduction	-	(433,491)	-	-	-	433,491	-
Equity settled share based payments (See note 20)	-	-	-	-	-	(1,913)	(1,913)
Distributions	-	-	-	-	-	(5,000)	(5,000)
Total contributions by and distributions to owners	-	(433,491)	-	-	-	426,578	(6,913)
<b>Balance at 30 September 2019</b>	<b>2</b>	<b>-</b>	<b>8,031</b>	<b>(9,415)</b>	<b>4,952</b>	<b>792,524</b>	<b>796,094</b>

<sup>1</sup> The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.

<sup>2</sup> The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

<sup>3</sup> The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the aggregate carrying value of assets and liabilities of the acquired.

<sup>4</sup> The Group reduced its share capital by eliminating the share premium reserve as part of the restructure undertaken during the year

The notes on pages 20 to 58 form part of these financial statements.

**Consolidated statement of changes in equity**  
*for the year ended 30 September 2018*

	Share capital €000	Share premium <sup>4</sup> €000	Cash flow hedge reserve <sup>1</sup> €000	Translation reserve <sup>2</sup> €000	Merger reserve <sup>3</sup> €000	Retained earnings €000	Total equity €000
Balance at 1 October 2017	2	433,491	(29,130)	(17,281)	4,952	162,815	554,849
<b>Total comprehensive income for the period</b>							
Loss for the period	-	-	-	-	-	(3,564)	(3,564)
Other comprehensive income for the period	-	-	21,793	1,529	-	-	23,322
Total comprehensive income for the period	-	-	21,793	1,529	-	(3,564)	19,758
<b>Transactions with owners, recorded directly in equity</b>							
Equity settled share based payments (See note 20)	-	-	-	-	-	(3,659)	(3,659)
Total contributions by and distributions to owners	-	-	-	-	-	(3,659)	(3,659)
Balance at 30 September 2018	2	433,491	(7,337)	(15,752)	4,952	155,592	570,948

<sup>1</sup> The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.

<sup>2</sup> The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

<sup>3</sup> The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the nominal value of the share capital acquired.

The notes on pages 20 to 58 form part of these financial statements.

**Consolidated statement of cash flows**  
*for the year ended 30 September 2019*

	Note	Year to 30 September 2019 €000	Year to 30 September 2018 €000
<b>Cash flows from operating activities</b>			
Profit for the period:			
Continuing operations		216,847	11,240
Discontinued operations		(6,493)	(14,804)
Adjustments for:			
Depreciation, amortisation and impairment	9,10	77,953	182,613
Financial income	4	(12,834)	(13,630)
Financial expense	5	77,731	55,311
Loss on sale of property, plant and equipment		1,955	2,672
Equity settled share-based payment expenses	20	(1,913)	(3,659)
Taxation	8	42,793	53,379
Gain on settlement of inter group loan relationships		(67,251)	-
		<u>328,788</u>	273,122
(Increase)/decrease in trade and other receivables		(1,238)	(8,628)
(Increase) in inventories		(77,543)	(93,972)
Increase/(decrease) in trade and other payables		17,483	(6,980)
Decrease in provisions and employee benefits		(30,738)	(39,152)
Settlement of derivatives		(893)	(1)
<b>Cash generated by operations</b>		<u>235,858</u>	124,389
Interest paid		(40,408)	(6,376)
Tax paid		(53,732)	(46,152)
<b>Net cash from operating activities</b>		<u>141,718</u>	71,861
<b>Cash flows (used in)/ from investing activities</b>			
Proceeds from sale of property, plant and equipment		801	762
Interest received		4,140	2,025
Acquisition of a subsidiary net of cash acquired	25	-	-
Acquisition of property, plant and equipment	9	(123,283)	(105,888)
Acquisition of other intangible assets	10	(12,528)	(8,817)
Loans made to group undertakings		-	(67,349)
Net cash used in investing activities		<u>(130,870)</u>	(179,267)
<b>Cash flows from financing activities</b>			
Proceeds from bank loan net of fees incurred		457,116	282,369
Repayment of bank loan		(302,534)	(825)
Proceeds from loan from group undertakings		-	17,283
Repayment of loan to group undertakings		(101,306)	(119,283)
Net cash from financing activities		<u>53,276</u>	179,544
Net increase/(decrease) in cash and cash equivalents		64,124	72,138
Cash and cash equivalents at beginning of period		184,485	113,003
Effect of exchange rate fluctuations on cash held		(1,635)	(656)
Cash and cash equivalents at end of period		<u>246,974</u>	<u>184,485</u>

The notes on pages 20 to 58 form part of these financial statements.

## Notes to the consolidated financial statements

### 1. Significant accounting policies

Pepco Group Limited (formerly Pepkor Europe Limited) (the “Company”) is a private Company limited by shares incorporated and domiciled in the United Kingdom and registered in England and Wales. The registered number is 09127609 and the registered address is Unit B, 120 Weston Street, London, England, SE1 4GS.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its parent Company financial statements in accordance with FRS 101; these are presented on pages 59 to 73.

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

The Functional currency of the Company is GBP which is the currency that the Company primarily operates in. The Euro is the presentational currency of the Pepco Group Limited Group based on this being the currency that the users of our financial statements across the countries that we operate in can easily interpret.

#### 1.1 Measurement convention

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

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 3, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

#### 1.2 Going concern

At the time of signing the financial statements, the Directors have a reasonable expectation that the Group 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. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. Further information regarding the Group’s business activities, together with the factors likely to affect its future development, performance and position including the response to Covid-19, is set out in the Strategic report.

The Group had €690.3m of borrowings as at 30th of September 2019, of which €212.9m was due to Group undertakings with a maturity falling in 2027. In August 2019 the Group successfully re-financed under a two-and-a-half-year term debt for €475m to replace its existing external facility and further reduce its exposure to the Steinhoff Group. The new facility contains financial covenants which are typical for this type of facility and include minimum levels of EBITDA and cash.

In Autumn 2019, the Group also successfully put in place a committed revolving credit facility to support local ancillary requirements and to provide cash headroom if needed. In response to the Covid-19 situation, in March 2020, the Group drew the remaining €53m from this facility to increase liquidity. Furthermore, in June 2020 the Group is in advanced negotiations access to up to a further €100m of funding through a mixture of a new shareholder term loan for €50m, estimated to be repayable in December 2021 and additional RCF facilities. Whilst prudent to have in place, based on its primary financial forecasts the Group does not expect to draw on these facilities.

## **1. Significant accounting policies (continued)**

### **1.2 Going concern (continued)**

Pepco Group undertakes a 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 has stress tested further downside scenarios which assume a level of future trading significantly lower than levels recently experienced, all of which suggests there is ample headroom in the Group to satisfy the liquidity covenants. The likelihood of a downside scenario identified in the 'reverse stress-test' analysis, or a scenario of a long lasting second virus wave without government support, is considered to be highly unlikely by the Directors and has therefore been discounted. It should be noted that given the short-term impact on profitability created by Covid-19 crisis the Group has agreed with its lenders a temporary waiver of its profitability covenant.

At the point of signing the accounts, the Group has traded significantly better than the conservative 'Covid' revenue forecast that was originally put in place, meaning the Group cash position has largely recovered to pre-Covid-19 levels, illustrating Group's resilience in navigating through this crisis.

### **1.3 Basis of consolidation**

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

#### *Acquisitions from entities under common control*

The Group has elected to account for common control transactions under book value accounting whereby the acquirer recognises the book values in the financial statements of the entity transferred at the date of acquisition where appropriate. Where a difference occurs between the consideration paid and the capital of the acquiree, a merger reserve is recognised. The Group has elected to re-present its comparatives and adjust its current reporting year before the date of the transaction as if the combination had occurred before the start of the earliest year presented. This has been applied to the Pepco acquisition. Fair value accounting has been applied to the Poundland Group acquisition for the reasons noted in 1.24 of these notes.

#### *Change in subsidiary ownership and loss of control*

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *Transactions eliminated on consolidation*

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements have been prepared in Euros (EUR or €), which is the Group's presentation currency.

### **1.4 Foreign currency**

Transactions in foreign currencies are translated to the Group's presentational currency 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. Significant accounting policies (continued)

### 1.4 Foreign currency (continued)

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, the Euro, at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the translation reserve, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1<sup>st</sup> of October 2017).

### 1.5 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

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

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 Group's own shares, the amounts presented in these financial statements for share capital exclude amounts in relation to those shares.

### 1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise 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.

#### *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.

### 1.7 Derivative financial instruments and hedging

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 Group does not hold or issue derivative financial instruments for speculative trading purposes. The Group uses the derivatives to hedge highly probable forecast transactions and, therefore, the instruments are designated as cash flow hedges.

## 1. Significant accounting policies (continued)

### 1.7 Derivative financial instruments and hedging (continued)

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.

### 1.8 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.

### 1.9 Business combinations

Subject to the transitional relief in IFRS 1, business combinations are accounted for by applying the acquisition method and predecessor accounting method (where applicable) based on the substance of the transaction. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.



**1. Significant accounting policies (continued)****1.10 Intangible assets and goodwill***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.

*Brand*

During the year the Group revised its judgement on the life of its brand asset from indefinite to 40 years.

Brand is stated at cost less any accumulated amortisation and accumulated impairment losses. Brand is amortised over 40 years on a straight line basis from 01 October 2018.

*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 Group 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 after making due allowance for obsolete and slow moving inventory. Cost is calculated on a weighted average basis. The Group estimates a slow moving inventory provision based on prior stock performance and current market conditions. The Group also provides for obsolete inventory.

**1.12 Impairment excluding inventories and deferred tax assets***Financial assets (including receivables)*

For the year ended 30 September 2018 the Group applied IAS 39 and accordingly any financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For the year ended 30 September 2019 the Group adopted IFRS 9 and the Group 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 Group'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.

## 1. Significant accounting policies (continued)

### 1.12 Impairment excluding inventories and deferred tax assets (continued)

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.

### 1.13 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.

### 1.14 Employee benefits

#### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Group 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 for equity settled schemes or liabilities for cash settled schemes, 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 where appropriate, 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.

### 1.15 Provisions

A provision is recognised in the statement of financial position when the Group 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. Significant accounting policies (continued)**

### **1.16 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 Group's policy to sell its products to customers with a right to return. The Group 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 Group 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 Group does not operate any loyalty programmes or offer gift cards.

For the year ended 30 September 2019, revenue was recognised according to IFRS 15, per Note 1.25, rather than IAS 8 which was applied for the years ending 30 September 2017 and 30 September 2018 as described above.

### **1.17 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 as an integral part of the total lease expense.

### **1.18 Finance lease payments**

Leases where the Group 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 borrowings 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.

### **1.19 Taxation**

Tax on the profit or loss for the year 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 year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

### **1.20 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 in store 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 Group 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.

## **1. Significant accounting policies (continued)**

### **1.20 Supplier income (continued)**

#### *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:

Where there is no practice of netting commercial income from amounts owed to the supplier, the Group 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 prepayments and accrued income.

### **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.

### **1.22 Reserves**

#### *Share Capital*

Called-up share capital represents the nominal value of shares that have been issued. Share premium represents the difference between the issue price and the nominal value of the shares issued.

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax from the proceeds.

#### *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.

#### *Translation reserve*

The translation reserve represents the cumulative translation differences for foreign operations.

#### *Merger reserve*

The merger reserve arises on consolidation as a result of the acquisition of the Pepco Group companies and Pepkor Import BV on 4 May 2016 and also the acquisition of Fully Sun China Limited and its subsidiaries on 18 January 2018. It represents the difference between the consideration paid and the share capital and reserves of their entities.

### **1.23 New standards and amendments**

#### *1.23a New standards and interpretations applied*

For the year ended 30 September 2019 the Group has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time using the modified retrospective method. 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 Group has applied IFRS 9 using the modified retrospective method, 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.

## 1. Significant accounting policies (continued)

### 1.23 New standards and amendments (continued)

The adoption of IFRS 9 has changed the Group'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 Group has not had a material impact on the level of provision held for impairment losses. As a retailer, the Group is not required to provide against undrawn credit under the ECL model as the Group is selling product (is a "Merchant of Goods") rather than a provider of financial instruments.

#### *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 Group's existing revenue recognition policy.

#### Sale of goods:

The contracts with customers entered into by the Group 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 the Group'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 Group offer customers the right to return within a specified period and are thus considered variable under IFRS 15.

The Group 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 Group 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 2019:

- 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 Group's accounting policies or had any other material impact on the financial position or performance of the Group.

#### *1.23b New standards and interpretations not applied*

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

- Amendments to IAS 19: Employee Benefits (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)

## 1. Significant accounting policies (continued)

### 1.23 New standards and amendments (continued)

- 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: Leases (applicable to accounting periods beginning on or after 1 January 2019)

IFRS 16 will have a material impact on the Group. '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 year of mandatory adoption for Pepco Group Limited will be the year ending 30 September 2020. The standard replaces IAS 17 'Leases' and related interpretations. The standard would require the Group to bring the substantial majority of the Group's current operating lease commitments calculated under IAS 17 (c. €1 billion on an undiscounted basis as shown in note 21 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 €810m and Lease liabilities of €851m as at 01 October 2019.

### 1.24 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 various other factors, including expectations of the 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 Group 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.

#### *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 are discussed below.

#### *Impairment of intangible assets (Goodwill)*

The Group 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 future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. A goodwill impairment of €112.8m was made in the year to 30 September 2018. See note 10 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.

Onerous lease provisions are included within the provisions detailed in note 18.

## 1. Significant accounting policies (continued)

### 1.24 Accounting estimates and judgements (continued)

#### *Critical judgements*

##### *Acquisition of the Pepco and Poundland Groups*

The Steinhoff Group acquired Poundland Group Limited on 16 September 2016, expanding its presence in European value retail across multiple product ranges. It presented the opportunity to accelerate the roll-out of the Pepco clothing brand in the United Kingdom and offered a platform to expand the offer into continental Europe. In April 2017, Poundland Group Limited was transferred to Poundland UK and Europe Limited to bring the corporate structure in line with the operational control and leadership of Pepco Group. Poundland Group was originally acquired by another Steinhoff Group entity before moving within the UK Group to align with existing businesses in a similar market segment.

Management applied the principles of IFRS 3 in recognising the acquisition of the Poundland Group in April 2017 due to Poundland UK & Europe paying consideration of fair value and the acquisition provides a true and fair view at fair value as the nature of the acquisition was in effect a third party acquisition albeit the Group transferred the entity to another vehicle shortly afterwards. Common control transactions are permitted to be accounted for at book or fair value and therefore management has elected to apply fair value accounting as this represents the substance of the transaction. Management considered the alternative treatment of book value accounting and such a treatment would have resulted in the elimination of the goodwill on the statement of financial position and fair value adjustments on acquisition and creation of a merger reserve. Management believes fair value accounting to be appropriate.

The Pepco Group comprising Pepco Poland Sp. z o.o. (and subsidiaries), Pepco Group GmbH (and subsidiaries) and Pepco Properties Sp. z o.o. was acquired by the Group on 4 May 2016 from Retail Holdings S.a.r.l. (the Group's immediate parent Company). The Pepco sub-group had been part of the wider Steinhoff Group for a number of years.

Management applied book value accounting on the basis the transaction was a common control transaction with the Group with predecessor book values used to determine the consideration value. The transaction fell under the definition of a business combination between companies under common control. As such, it was outside the scope of IFRS 3 Business Combinations and the Company elected not to apply acquisition accounting at fair value. Instead the Company applied merger accounting whereby Pepco was fully consolidated from the earliest date presented (i.e. 1 July 2015) as if it had always been part of the Group.

Whilst both transactions take place under common control the transactions are qualitatively and quantitatively different such that the different fundamentals for each transaction create two different classes of transactions which necessitate different accounting treatments.

Therefore, fair value was used in respect of the Poundland Group and book values in respect of Pepco.

##### *Acquisition of Fully Sun China*

Pepco Group Limited acquired Fully Sun China and its subsidiaries on 18 January 2018 from Retail Holdings S.a.r.l., another Company within the Steinhoff Group. This was for a nominal consideration and more appropriately reflected where this sourcing business should reside within the Group structure. Management applied book value accounting on the basis the transaction was a common control transaction with the Group with predecessor book values used to determine the consideration value. The transaction fell under the definition of a business combination between companies under common control. As such, it was outside the scope of IFRS 3 Business Combinations and the Company elected not to apply acquisition accounting at fair value. Instead the Company applied merger accounting whereby Fully Sun China and its subsidiaries were fully consolidated from the earliest date presented (i.e. 1 October 2016) as if they had always been part of the Group.

**1. Significant accounting policies** *(continued)*

**1.24 Accounting estimates and judgements** *(continued)*

*Life of Brand asset*

Subject to initial recognition, prior to 2019 intangible assets with an indefinite useful life were measured at cost less accumulated impairment charges. Management had assessed the brand to have an indefinite useful life assessing the factors outlined in IAS 38, however in light of the ongoing challenges in the retail sector, management consider a finite useful life to be more appropriate on an ongoing basis. The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on a prudent view. The brand will be amortised on a straight line basis.



## 2. Revenue

Revenue comprises the fair value of goods sold to customers, net of value added tax and promotional sales discounts. The Group's disaggregated revenue recognised under contracts with customers relates to the following geographical segments:

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
UK and Republic of Ireland	1,742,472	1,728,471
Rest of Europe	1,674,654	1,309,428
Rest of The World	-	6,707
	<u>3,417,126</u>	<u>3,044,606</u>

## 3. Operating profit

Year to 30 September 2019 €000	Year to 30 September 2018 €000
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**Operating profit for the period has been arrived at after charging/ (crediting):**

Payments under operating leases:		
Other	8,410	9,272
Land and buildings	270,497	214,173
Depreciation of tangible fixed assets:		
Owned	64,517	55,683
Leased	3,549	2,777
Impairment of property, plant & equipment	-	3,581
Amortisation of other intangibles	9,887	5,175
Impairment of Goodwill	-	112,838
Impairment of other intangible assets	-	2,559
Amortisation of landlord contributions in respect of property leases	(5,305)	(7,360)
Cost of inventories recognised as an expense	1,964,073	1,818,381
Write downs of inventories recognised as an expense	<u>8,628</u>	<u>12,176</u>

### Auditor's remuneration

Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	334	242
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries	789	274
Fees payable to other auditors and their associates for the audit of the Company's subsidiaries	450	373
Fees payable to other auditors and their associates in the current year in relations to prior year audit	159	
Total audit fees	<u>1,732</u>	<u>889</u>
Other services	-	-
Total non-audit fees	<u>-</u>	<u>-</u>
Total auditor's remuneration	<u>1,732</u>	<u>889</u>

**3. Operating profit (continued)**

***EBITDA reconciliation***

As described in the strategic report, EBITDA is a key KPI used by the Group. A reconciliation from operating profit to EBITDA is presented below:

	<b>Year to 30 September 2019 €000</b>	<b>Year to 30 September 2018 €000</b>
Operating profit	256,002	106,243
Add back		
Depreciation of property, plant & equipment	68,066	58,460
Impairment of property, plant & equipment	-	3,581
Amortisation of other intangibles	9,887	5,175
Non-underlying impairment of goodwill	-	112,838
Impairment of other intangible assets	-	2,559
Amortisation of landlord contributions in respect of property leases	(5,306)	(7,360)
Loss on disposal of tangible and intangible fixed assets	2,270	2,148
Discontinued operations	-	(7,288)
<b>EBITDA</b>	<b><u>330,919</u></b>	<b><u>276,356</u></b>

**4. Financial income**

	<b>Year to 30 September 2019 €000</b>	<b>Year to 30 September 2018 €000</b>
Bank interest receivable	1,291	238
Other interest receivable	4,152	5,660
Interest receivable from group undertakings	7,391	7,180
Ineffective portion of changes in fair value of cash flow hedges	-	505
	<b><u>12,834</u></b>	<b><u>13,583</u></b>
Non-underlying financial income*	<b><u>67,251</u></b>	<b><u>-</u></b>

\* Non-underlying financial income relates to gains made on settlement of loan relationships with related companies. The Group has assessed that the settlement of loan relationships is financial income as it relates to a loan extinguishment and not a capital contribution from related companies.

## 5. Financial expense

	Year to 30 September 2019	Year to 30 September 2018
	€000	€000
On bank loans and overdraft	41,872	20,121
On amounts owed to Group undertakings	26,514	30,015
Other interest payable	122	5,072
	<u>68,508</u>	<u>55,208</u>
Non-underlying financial expenses*	<u>7,939</u>	<u>-</u>
* Non-underlying financial expenses relate to interest costs incurred on the early settlement of loans		
Discontinued operations**	<u>1,284</u>	<u>-</u>
** Finance expenses relating to discontinued operations		

## 6. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during each year was as follows:

	Number of Employees	
	Year to 30 September 2019	Year to 30 September 2018
Administration	1,662	1,490
Selling and distribution	33,648	31,051
	<u>35,310</u>	<u>32,541</u>

The aggregate payroll costs of these persons were as follows:

	Year to 30 September 2019	Year to 30 September 2018
	€000	€000
Wages and salaries	468,768	445,092
Social security costs	49,251	42,225
Other pension costs (note 23)	5,234	11,815
Share based payments expense (note 20)	<u>(1,913)</u>	<u>(3,659)</u>
	<u>521,340</u>	<u>495,473</u>

As described in note 20, a number of cash settled share-based payment schemes came to an end in the Year ended 30 September 2018. Due to the accounting irregularities in the wider Steinhoff Group, share price based targets were not met. This has resulted in a reversal of previously recognised share-based payment expenses.

## 7. Remuneration of Directors

The remuneration of the Directors was as follows:

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Emoluments	2,508	1,909
Long term incentive schemes	-	382
	<u>2,508</u>	<u>2,291</u>

No Directors (2018: none) were members of defined contribution pension schemes and there was nil compensation (2018: nil) to Directors or past Directors in respect of loss of office. During the year some directors of the company were compensated by the parent company.

### *Highest paid Director*

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

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Emoluments	1,344	903
Long term incentive schemes	-	382
	<u>1,344</u>	<u>1,285</u>

## 8. Taxation

### *Analysis of charge for the year*

	Year to 30 September 2019		Year to 30 September 2018	
	€000	€000	€000	€000
<i>Current tax</i>				
Current tax on income for the period	(52,876)		(46,448)	
Adjustments in respect of prior periods <sup>1</sup>	3,773		(15,396)	
Total current tax charge		(49,103)		(61,844)
<i>Deferred tax</i>				
Origination and reversal of temporary timing differences	6,310		8,465	
Total deferred tax credit		6,310		8,465
Total charge for the period		<u>(42,793)</u>		<u>(53,379)</u>

**8 Taxation (continued)**

***Factors affecting the tax credit for the year***

The tax charge is reconciled with the standard rates of UK corporation tax as follows:

	<b>Year to 30 September 2019 €000</b>	Year to 30 September 2018 €000
Profit before tax - continuing operations	259,640	64,618
Loss before tax - discontinued operations	<u>(6,493)</u>	<u>(14,804)</u>
	<u>253,147</u>	<u>49,814</u>
Current tax at 19% (2018: 19.5%)	<b>(48,098)</b>	(9,465)
<i>Effects of:</i>		
Unrecognised deferred tax	<b>(4,613)</b>	(5,980)
Expenses not deductible for tax purposes	4,263	(27,744)
Overseas rate adjustment	2,689	1,590
Share based payments	-	(495)
Prior year adjustments <sup>1</sup>	3,773	(8,465)
Change in tax rate	<u>(807)</u>	<u>67</u>
Total tax charge for the period	<u><b>(42,793)</b></u>	<u><b>(53,379)</b></u>

***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.

<sup>1</sup> Adjustments in respect of prior year relates to changes in proposed use of group relief within the UK and the wider Steinhoff Group.

<sup>2</sup> Offset against the prior year current tax charge is the impact of prior year adjustments to temporary differences, principally in relation to fixed assets.

## 9. Property, plant and equipment

	<b>Leasehold property improvements €000</b>	<b>Fixtures and equipment €000</b>	<b>Total €000</b>
<b>Cost</b>			
Balance at 1 October 2017	136,376	200,927	337,303
Additions	39,194	66,694	105,888
Disposals	(5,010)	(10,715)	(15,725)
Differences on translation	(1,009)	(748)	(1,757)
Balance at 30 September 2018	<u>169,551</u>	<u>256,158</u>	<u>425,709</u>
Balance at 1 October 2018	169,551	256,158	425,709
Additions	65,895	58,425	124,320
Disposals	(8,221)	(16,418)	(24,639)
Differences on translation	(3,202)	(2,184)	(5,386)
Balance at 30 September 2019	<u>224,023</u>	<u>295,981</u>	<u>520,004</u>
<b>Depreciation</b>			
Balance at 1 October 2017	25,774	52,038	77,812
Charge for the period	12,245	46,215	58,460
Disposals	(3,604)	(8,751)	(12,355)
Impairment	-	3,581	3,581
Differences on translation	(83)	34	(49)
Balance at 30 September 2018	<u>34,332</u>	<u>93,117</u>	<u>127,449</u>
Balance at 1 October 2018	34,332	93,117	127,449
Charge for the period	24,788	43,278	68,066
Disposals	(7,364)	(14,516)	(21,880)
Differences on translation	(682)	(989)	(1,671)
Balance at 30 September 2019	<u>51,074</u>	<u>120,890</u>	<u>171,964</u>
<b>Net book value</b>			
<b>Balance at 30 September 2019</b>	<u><u>172,949</u></u>	<u><u>175,091</u></u>	<u><u>348,040</u></u>
Balance at 30 September 2018	<u>135,219</u>	<u>163,041</u>	<u>298,260</u>
Balance at 1 October 2017	<u>110,602</u>	<u>148,889</u>	<u>259,491</u>

The Group's obligations under finance leases (see note 16), all of which relate to fixtures and equipment and have a carrying amount of €11.5 million (2018: €14.0 million), are secured by the lessor's title to the assets.

Impairment relates to assets held in stores that have been closed or are due to be closed.

## 10. Intangible assets

	Goodwill €000	Brand €000	Favourable leases property €000	Software and trademarks €000	Total €000
<b>Cost</b>					
Balance at 1 October 2017	791,478	124,587	6,817	17,472	940,354
Additions	-	-	-	8,817	8,817
Disposals	-	-	-	(345)	(345)
Differences on translation	(4,915)	(769)	(42)	(23)	(5,749)
Restated balance at 30 September 2018	<u>786,563</u>	<u>123,818</u>	<u>6,775</u>	<u>25,921</u>	<u>943,077</u>
Balance at 1 October 2018	786,563	123,818	6,775	25,921	943,077
Additions	-	-	-	12,528	12,528
Disposals	-	-	-	(186)	(186)
Differences on translation	1,314	231	13	(457)	1,101
Balance at 30 September 2019	<u>787,877</u>	<u>124,049</u>	<u>6,788</u>	<u>37,806</u>	<u>956,520</u>
<b>Amortisation</b>					
Restated balance at 1 October 2017	-	-	1,016	7,489	8,505
Amortisation for the period	-	-	1,597	3,578	5,175
Impairments	112,838	-	-	2,559	115,397
Disposals	-	-	-	(282)	(282)
Differences on translation	(319)	-	(6)	(21)	(346)
Restated balance at 30 September 2018	<u>112,519</u>	<u>-</u>	<u>2,607</u>	<u>13,323</u>	<u>128,449</u>
Balance at 1 October 2018	112,519	-	2,607	13,323	128,449
Amortisation for the period	-	3,106	1,597	5,184	9,887
Disposals	-	-	-	(84)	(84)
Differences on translation	59	(4)	(16)	(107)	(68)
Balance at 30 September 2019	<u>112,578</u>	<u>3,102</u>	<u>4,188</u>	<u>18,316</u>	<u>138,184</u>
<b>Net Book Value</b>					
Balance at 30 September 2019	<u>675,299</u>	<u>120,947</u>	<u>2,600</u>	<u>19,490</u>	<u>818,336</u>
Restated balance at 30 September 2018	<u>674,044</u>	<u>123,818</u>	<u>4,168</u>	<u>12,598</u>	<u>814,628</u>
Restated balance at 1 October 2017	<u>791,478</u>	<u>124,587</u>	<u>5,801</u>	<u>9,983</u>	<u>931,849</u>

The Brand and Goodwill solely relate to the acquisition of the Poundland Group.

Management had assessed the brand to have an indefinite useful life assessing the factors outlined in IAS 38 on acquisition in April 2017. However, in light of the ongoing challenges in the retail sector, management evaluated the treatment of the brand for the 2019 year end and consider a finite useful life to be more appropriate on an ongoing basis. The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on a prudent view. Consequently, the Group amortises the brand using the straight-line method over the period of 40 years prospectively from 1 October 2018.

Amortisation is recognised in the income statement as follows:

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Administrative expenses	<u>9,887</u>	<u>5,175</u>

## 10. Intangible assets (continued)

### Impairment

Under IAS 36 'Impairment of assets', the Group is required to:

- review its intangible assets in the event of a significant change in circumstances that would indicate potential impairment; and
- review and test its goodwill and indefinite-life intangible assets annually or in the event of a significant change in circumstances

As part of the annual impairment review, the carrying value of the assets or if they do not generate independent cash flows individually, the carrying value of the Cash Generating Unit (CGU) that they belong to is compared to their recoverable amount.

CGUs represent the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows from other groups of assets. In accordance with internal management structures, the group of CGUs against which goodwill is monitored comprise the Poundland Group

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.

During the year, all goodwill was tested for impairment, and no impairment was booked to goodwill (2018: €112.8 million). The impairment in 2018 did not arise from a reduction in the expected future performance of Poundland, but predominantly from a required increase in the discount rate as a result of continued Brexit and UK retail market uncertainty.

The key assumptions on which the value in use calculations are based on relate to future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. The forecast cash flows include the Directors' latest estimates on future revenue, pricing and other operating costs, which underlie EBITDA. The management have reviewed and approved the assumptions inherent in the model as part of the annual budget process using historic experience and considering economic and business risks facing the Group.

In assessing the Poundland Group's value in use a pre-tax discount rate of 9.5% (2018: 10.4%) was used.

In assessing future EBITDA growth the Group has modelled the underlying movements in the constituents of EBITDA and has used a growth rate of the constituent elements ranging from 0.8% to 1.1% in the first five years which has resulted in an average EBITDA growth rate of 11.7% (2018: 17%) in the first five years and a terminal long-term growth rate of 1.2%. EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements to 5.6% of net sales in the terminal year from the current rate of 3.4%. The resulting growth in EBITDA is projected at a CAGR rate of 11.7% per annum from year 1 to year 5 (the period assessed in the DCF calculation), with higher growth in the earlier years (resulting from sales growth and efficiency improvements). The Group have also chosen to increase its WACC by 0.5% to reflect any cash flow uncertainties.

Management have considered reasonable possible changes in the key assumptions underpinning EBITDA growth and the pre-tax discount rate and have identified the following instances that could cause changes in available headroom. Sensitivity analysis has not been prepared based on changing any one element of the constituents of EBITDA because it is considered that this is not meaningful information as it does not consider the interrelationship of the cashflows of the business.

A 10% reduction in EBITDA in the terminal year will result in a goodwill impairment of €14m; If the pre-tax discount rate applied to the cash flow projections of Poundland had been 0.75% higher than the managements estimates the group would have had to recognise an impairment against Goodwill of €18m. Should the projected long-term growth rate applied to the cash flow projections of Poundland reduce to 0.2% the resulting impairment would have been €28m.

A 10% increase in EBITDA in the terminal year will result in an increase in recoverable amount of €159m; If the pre-tax discount rate applied to the cash flow projections of Poundland had been 0.75% lower than the managements estimates the recoverable amount would have been €189m. Should the projected long-term growth rate applied to the cash flow projections of Poundland increase to 2.2% the recoverable amount will increase by €207m.

Reduction in EBITDA in the terminal year of 8.4% or an increase in the pre-tax discount rate of 0.6% or a reduction in the long-term growth rate to 0.5% will reduce the recoverable amount to €nil.

The Group also sensitivity tested the cashflows by restricting the cashflows to 40 years into the future (to equal revised Brand life) and reduced the terminal year margin to equal the margin in the first five years of the forecast period. Neither of these sensitivity test resulted in a Goodwill impairment. The recoverable value of the Poundland Group CGU is estimated to exceed the carrying amount of the CGU as at 30 September 2019 by €72m.



## 10. Intangible assets (continued)

Cash EBITDA is significantly impacted by product mix, shrinkage rates and future rent reductions.

- Product mix:

The roll-out of the Pep&Co clothing range in Poundland stores, product mix improvements in general merchandise together with further buying efficiencies from increased intergroup trading is driving improvements in margin.

- ERP:

The Group is in the process of implementing an ERP system which is expected improve shrinkage rates and also improve inventory management. The business plan included a reduction in the shrinkage rate and working capital improvements as a result of this.

- Rent reduction rate:

There is an opportunity to re-negotiate lease costs to current market related rentals upon expiry of existing leases. Current leases are significantly above market rates. The majority of the lease portfolio comes up for renewal or termination by 2023.

## 11. Inventories

	30 September 2019	30 September 2018
	€000	€000
Goods purchased for resale	514,432	330,710
Goods in transit	<u>23,088</u>	<u>133,428</u>
	<u><u>537,520</u></u>	<u><u>464,138</u></u>

There is no material difference between the carrying value of inventory and its replacement cost.

## 12. Trade and other receivables

	30 September 2019	30 September 2018
	€000	€000
Loans to Group undertakings	<u>-</u>	<u>75,142</u>
	<u>-</u>	<u>75,142</u>
<b>Current trade and other receivables</b>		
Trade receivables	1,649	8,458
Other receivables	13,485	7,925
Amounts owed by Group undertakings	1,851	3,468
Prepayments and accrued income	51,553	61,654
Group relief receivable	<u>1,220</u>	<u>1,723</u>
	<u><u>69,758</u></u>	<u><u>83,228</u></u>

Included within non-current assets are amounts owed by Group undertakings of €nil (2018 €75.1 million).

Current amounts owed by Group undertakings of €1.9million (2018 €3.5 million) are non-interest bearing and are repayable on demand. These amounts were recovered in full post year end.

As the principal business of the Group is retail sales made in cash or with major credit cards, the Group's trade receivables are small and therefore credit risk primarily consists of accrued income and cash and cash equivalents. Accordingly, the Group does not systematically report outstanding receivables analysed by credit quality, in particular with respect to the credit quality of financial assets that are neither past due nor impaired.

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers that are widely dispersed. As such, any further detailed analysis of the credit risk of the Group's financial assets by category is not considered meaningful.

The carrying amount of trade and other receivables recorded in the financial statements represents the Group's maximum exposure to credit risk and any associated impairments are immaterial.

### 13. Trade and other payables

	30 September 2019	30 September 2018
	€000	€000
Trade payables	171,940	172,718
Other taxation and social security	49,898	41,296
Amounts owed to Group undertakings	-	763
Other payables	57,856	46,108
Accruals and lease incentives	130,264	130,571
<b>Trade and other payables</b>	<b>409,958</b>	<b>391,456</b>
Borrowings from credit institutions	799	2,386
Loans from group undertakings	-	35,239
Obligations under finance leases (note 16)	3,697	3,404
<b>Borrowings</b>	<b>4,496</b>	<b>41,029</b>
	<b>414,454</b>	<b>432,485</b>

Amounts owed to group undertakings are repayable on demand and non-interest bearing at 30 September 2019 and 30 September 2018, respectively.

### 14. Non-current liabilities

	30 September 2019	30 September 2018
	€000	€000
Accruals and deferred income	39,152	49,252
Amounts owed to Group undertakings	-	490
<b>Trade and other payables</b>	<b>39,152</b>	<b>49,742</b>
Borrowings from credit institutions	465,016	317,335
Obligations under finance leases (note 16)	7,832	10,608
Loans from group undertakings	212,935	394,426
Other borrowing	-	-
<b>Borrowings</b>	<b>685,783</b>	<b>722,369</b>
	<b>724,935</b>	<b>772,111</b>

Included within non-current liabilities are loans from Group undertakings of €212.9 million (2018: €394.4 million) which are interest bearing at a margin above LIBOR per annum repayable in 2027.

Included within non-current liabilities are loans from credit institutions of €475.0 million (2018: €312.2m). Costs incurred in obtaining the loans from credit institutions have been capitalised and are allocated to the Consolidated income statement over the life of the debt facility. At 30 September 2019 borrowings are stated net of unamortised issue costs of €17.3m (2018: €11.0m). Interest is being charged on the net borrowings amount at an effective rate of 7.8%. This facility contains financial covenants which are typical for this type of facility and include *minimum EBITDA* and *minimum cash measured at quarterly intervals*. The Group was compliant with these covenants for the year ended 30 September 2019.

The loans from credit institutions are secured over amounts owed by the Group to related party Steinhoff entities, share pledges over the shares of material overseas subsidiaries and debentures over other assets of the Group.

## 15. Financial instruments and related disclosures

### *Financial risk management*

The Directors have overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business has been developed. A register of strategic and operational risk is maintained and reviewed by the Directors, who also monitor the status of agreed actions to mitigate key risks.

### *Credit risk*

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligation. This risk arises from the Group's foreign exchange and commodity hedging agreements. The Group enters into these arrangements directly with the Steinhoff treasury function. It is this function which is responsible for monitoring the creditworthiness of its counterparties.

As the principal business of the Group is cash sales the Group's trade receivables are small. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk and any associated impairments are immaterial.

### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan.

The risk is measured by review of forecast liquidity each month to determine whether there are sufficient credit facilities to meet forecast requirements and by monitoring covenants on a regular basis. Cash flow forecasts are submitted monthly to the Directors. These continue to demonstrate the cash generating ability of the business and its ability to operate within existing agreed facilities.

### *Market risk*

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates will affect the Group's income. The Group's exposure to market risk predominantly relates to interest and currency risk.

### *Interest rate risk*

The Group's external borrowings comprise loans which incur interest rates with no variable elements.

The Group's intercompany borrowings with Steinhoff Group entities comprise loans which incur variable interest rate charges linked to Bank of England base rate, Euribor and LIBOR, which is added to the loan. The Group's policy aims to manage the interest cost of the Group within the Business Plan.

### *Foreign currency risk*

The Group has a significant transaction exposure with increasing, direct sourced purchases from its suppliers in the Far East, with most of the trade being in US dollars. In addition to this, the Group is exposed to transaction risk on the translation of surplus Euro balances, into sterling. The Group's policy allows these exposures to be hedged for up to 18 months forward in order to fix the cost in sterling. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of its businesses whilst they remain immaterial.

## 15. Financial instruments and related disclosures (continued)

### Foreign currency risk (continued)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	30 September 2019				30 September 2018			
	GBP €000	EUR €000	PLN €000	Others €000	GBP €000	EUR €000	PLN €000	Others €000
Cash and cash equivalents	56,106	48,169	45,164	97,535	34,415	8,599	39,615	101,854
Trade and other receivables	813	3,372	3,204	10,816	89,843	3,445	859	2,569
Borrowings	(212,202)	(461,551)	(4,966)	-	(633,770)	(104,136)	(5,933)	(5,546)
Trade and other payables	(238,950)	(11,721)	(124,145)	(24,396)	(293,672)	(13,503)	(80,710)	(76,820)
Provisions	(78,593)	(2,544)	(40,461)	(1,107)	(110,794)	(2,486)	(40,337)	(632)
Finance lease liabilities	(11,529)	-	-	-	(14,014)	-	-	-
	<u>(484,355)</u>	<u>(424,275)</u>	<u>(121,204)</u>	<u>82,848</u>	<u>(927,992)</u>	<u>(108,081)</u>	<u>(86,506)</u>	<u>21,425</u>

### Significant exchange rates used

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Average rate for the year		
Polish Zloty	4.30	4.24
Pound Sterling	<u>0.88</u>	<u>0.88</u>
Statement of financial position rates		
Polish Zloty	4.38	4.27
Pound Sterling	<u>0.89</u>	<u>0.89</u>

### Pension liability risk

The Group has no association with any defined benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for its colleagues.

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to optimise returns to its shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future growth. The Directors regularly monitor the level of capital in the Group to ensure that this can be achieved. Refer to note 14 for loan covenant requirements.

### Fair value disclosures

The fair value of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables, short term deposits and borrowings      The fair value approximates to the carrying value because of the short maturity of these instruments.

Long term borrowings      The fair value of bank loans and other loans approximates to the carrying value reported in the statement of financial position.

Forward currency contracts      The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

**15. Financial instruments and related disclosures (continued)**

***Fair value hierarchy***

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured using a Level 2 valuation method.

The fair value of financial assets and liabilities are as follows:

	<b>30 September 2019</b>	<b>30 September 2018</b>
	<b>€000</b>	<b>€000</b>
Cash and cash equivalents	<b>246,974</b>	184,485
Trade and other receivables	<b>18,205</b>	96,716
Derivative contracts used for hedging (assets)	<b>22,829</b>	3,546
<b>Total financial assets</b>	<b><u>288,008</u></b>	<b><u>284,747</u></b>
Trade and other payables	<b>399,212</b>	464,706
Borrowings at amortised cost	<b>678,750</b>	749,385
Finance lease liabilities	<b>11,529</b>	14,012
Derivative contracts used for hedging (liabilities)	<b>2,811</b>	1,551
<b>Total financial liabilities</b>	<b><u>1,092,302</u></b>	<b><u>1,229,654</u></b>

## 15. Financial instruments and related disclosures *(continued)*

### *Financial instruments sensitivity analysis*

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on its earnings. At the end of each reporting period, the effect of hypothetical changes in interest and currency rates are as follows:

#### *Interest rate sensitivity analysis*

The table below shows the Group's sensitivity to interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) if interest rates were to change by +/- 1%. The impact on the income statement and in net assets would be:

	<b>2019 Increase/ (decrease) in equity €000</b>	<b>2018 Increase/ (decrease) in equity €000</b>
+1 % movement in interest rates	(6,879)	(4,296)
-1% movement in interest rates	<u>6,879</u>	<u>4,296</u>

#### *Foreign exchange rate sensitivity analysis*

The table below shows the Group's sensitivity to foreign exchange rates for its Polish Zloty and Pound Sterling financial instruments, the major currency in which the Group's assets and liabilities are denominated:

	<b>2019 Increase/ (decrease) in equity €000</b>	<b>2018 Increase/ (decrease) in equity €000</b>
10% appreciation of the Euro against the Polish Zloty	5,084	3,461
10% depreciation of the Euro against the Polish Zloty	(5,084)	(3,461)
10% appreciation of the Euro against the Pound Sterling	48,475	92,799
10% depreciation of the Euro against the Pound Sterling	<u>(48,475)</u>	<u>(92,799)</u>

A strengthening/weakening of the Euro, as indicated, against the Polish Zloty at each year end would have increased/(decreased) the equity by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

A strengthening/weakening of the Euro, as indicated, against the Pound Sterling at each year end would have increased/(decreased) the equity by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

**15. Financial instruments and related disclosures (continued)**

**Contractual cash flows**

The contractual maturity of bank borrowings and trade payables, excluding the impact of netting agreements is shown below:

<b>30 September 2019</b>				
	<b>Due in less than one year €000</b>	<b>Expiring between two and five years €000</b>	<b>Expiring after five years €000</b>	<b>Total €000</b>
Borrowings	29,413	521,389	415,583	966,385
Trade and other payables	360,162	31,061	7,988	399,212
Finance lease liabilities	3,697	7,832	-	11,529
	<u>393,273</u>	<u>560,282</u>	<u>423,571</u>	<u>1,377,126</u>
<b>30 September 2018</b>				
	<b>Due in less than one year €000</b>	<b>Expiring between two and five years €000</b>	<b>Expiring after five years €000</b>	<b>Total €000</b>
Borrowings	44,151	437,122	674,555	1,155,828
Trade and other payables	414,964	41,978	7,764	464,706
Finance lease liabilities	3,717	11,013	-	14,730
	<u>462,832</u>	<u>490,113</u>	<u>682,319</u>	<u>1,635,264</u>

The following tables provide an analysis of the anticipated contractual cash flows for the Group's derivative contracts:

<b>GBP</b>	<b>30 September 2019</b>		<b>30 September 2018</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	-	-	(1)	-
Expiring between one and two years	-	-	-	-
Contractual cash flows	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Fair value	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
<b>EUR</b>				
	<b>30 September 2019</b>		<b>30 September 2018</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	(1,802)	560	(243)	689
Expiring between one and two years	-	-	-	-
Contractual cash flows	<u>(1,802)</u>	<u>560</u>	<u>(243)</u>	<u>689</u>
Fair value	<u>(1,802)</u>	<u>560</u>	<u>(243)</u>	<u>689</u>

**15. Financial instruments and related disclosures (continued)**

USD	30 September 2019		30 September 2018	
	Payable	Receivable	Payable	Receivable
	€000	€000	€000	€000
Due in less than one year	(634)	21,802	(1,262)	2,621
Expiring between one and two years	(360)	461	(45)	48
Contractual cash flows	(994)	22,269	(1,307)	2,669
Fair value	(994)	22,269	(1,307)	2,669
<b>CNY</b>	<b>30 September 2019</b>		<b>30 September 2018</b>	
	Payable	Receivable	Payable	Receivable
	€000	€000	€000	€000
Due in less than one year	-	-	-	-
Expiring between one and two years	-	-	-	-
Contractual cash flows	-	-	-	-
Fair value	-	-	-	-
<b>Fuel Contracts</b>	<b>30 September 2019</b>		<b>30 September 2018</b>	
	Payable	Receivable	Payable	Receivable
	€000	€000	€000	€000
Due in less than one year	(16)	-	-	188
Expiring between one and two years	-	-	-	-
Contractual cash flows	(16)	-	-	188
Fair value	(16)	-	-	188
<b>Total</b>	<b>30 September 2019</b>		<b>30 September 2018</b>	
	Payable	Receivable	Payable	Receivable
	€000	€000	€000	€000
Due in less than one year	(2,451)	22,369	(1,506)	3,498
Expiring between one and two years	(360)	461	(45)	48
Contractual cash flows	(2,811)	22,829	(1,551)	3,546
Fair value	(2,811)	22,829	(1,551)	3,546



## 15. Financial instruments and related disclosures *(continued)*

### *Changes in liabilities arising from financing activities*

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Loans to Group undertakings	Loans from Group undertakings	Borrowings from credit institutions	Total liabilities from financing activities
At 30 September 2018	75,142	(429,665)	(319,721)	(749,386)
Financing cash flows <sup>1</sup>	-	101,306	(154,582)	(53,276)
Interest cash flows <sup>1</sup>	-	977	34,805	35,782
Set-off <sup>2</sup>	(76,824)	137,847	-	137,847
Other changes <sup>3</sup>	1,435	(25,274)	(39,769)	(65,043)
Foreign exchange	247	1,876	13,452	15,328
At 30 September 2019	<u>-</u>	<u>(212,933)</u>	<u>(465,815)</u>	<u>(678,748)</u>

	Loans to Group undertakings	Loans from Group undertakings	Borrowings from credit institutions	Total liabilities from financing activities
At 30 September 2017	139,872	(657,767)	(6,708)	(664,475)
Financing cash flows <sup>1</sup>	50,066	119,283	(281,544)	(162,261)
Interest cash flows <sup>1</sup>	(840)	440	3,037	3,477
Set-off <sup>2</sup>	(124,868)	124,868	-	124,868
Other changes <sup>3</sup>	8,246	(21,021)	(35,346)	(56,367)
Foreign exchange	1,875	5,323	840	6,163
At 30 September 2018	<u>75,142</u>	<u>(429,665)</u>	<u>(319,721)</u>	<u>(749,386)</u>

(1) The financing cash flows from loans from Group undertakings and borrowings from credit institutions make up the net amount of proceeds from borrowings and repayments of borrowings and presented in the cash flow statement on a gross basis. Interest cash flows for these liabilities are presented separately.

(2) Set-off refers to the set-off of loans to Group undertakings and loans from Group undertakings with the same related party counterparty in January 2018.

(3) Other changes include interest accruals and payments.

### *Derivative financial instruments*

The below table illustrates the notional value of the hedged type of hedge type.

	30 September 2019	30 September 2018
	Cash flow hedges	Cash flow hedges
	€000	€000
Notional currency legs	842,774	485,476
Maturity date	<u>to Sep 2020</u>	<u>to Sep 2019</u>

**15. Financial instruments and related disclosures (continued)**

**Financial assets and liabilities by category**

	Amortised cost	Fair value through OCI	Fair value through income statement
<b>Non-current financial assets</b>			
Derivative financial instruments	-	8,971	-
	<u>-</u>	<u>8,971</u>	<u>-</u>
<b>Current financial assets</b>			
Trade receivables	18,205		
Derivative financial instruments	-	13,858	-
Cash and cash equivalents	246,974	-	-
	<u>265,179</u>	<u>13,858</u>	<u>-</u>
<b>Non-current financial liabilities</b>			
Interest bearing long term borrowings	677,951	-	-
Finance lease liabilities	7,832	-	-
Derivative financial instruments	-	360	-
Trade and other payables	39,152	-	-
	<u>724,935</u>	<u>360</u>	<u>-</u>
<b>Current financial liabilities</b>			
Current portion of Interest bearing			
long-term borrowings	799	-	-
Finance lease liabilities	3,697	-	-
Derivative financial instruments	-	2,451	-
Trade and other payables	360,060	-	-
	<u>364,556</u>	<u>2,451</u>	<u>-</u>

**16. Obligations under finance leases**

Analysis of assets held under finance leases:

	Fixtures and equipment	
	30 September 2019 €000	30 September 2018 €000
Cost	17,856	16,789
Accumulated depreciation	<u>(6,326)</u>	<u>(2,777)</u>
Net book value	<u>11,529</u>	<u>14,012</u>

Finance lease liabilities are payable as follows:

	30 September 2019			30 September 2018		
	Minimum lease payments €000	Interest €000	Principal €000	Minimum lease payments €000	Interest €000	Principal €000
Less than one year	3,950	253	3,697	3,717	313	3,404
Between one and five years	8,043	211	7,832	11,013	405	10,608
	<u>11,993</u>	<u>464</u>	<u>11,529</u>	<u>14,730</u>	<u>718</u>	<u>14,012</u>

## 17. Deferred tax

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

	30 September 2019 €000	30 September 2018 €000
Net deferred tax assets and liabilities at beginning of period	29,451	25,494
Recognised in the income statement (note 8)	6,310	8,465
Recognised in other comprehensive income	(2,435)	(4,462)
Acquired in business combination	-	-
Exchange differences	(368)	(46)
Net deferred tax assets and liabilities at end of period	32,958	29,451

	Deferred tax assets		Deferred tax liabilities		Net	
	30 September 2019 €000	30 September 2018 €000	30 September 2019 €000	30 September 2018 €000	30 September 2019 €000	30 September 2018 €000
Property, plant and equipment	15,809	15,638	(2,498)	(2,822)	13,311	12,816
Intangible assets	131	-	(21,087)	(21,048)	(20,956)	(21,048)
Provisions	14,625	13,333	-	-	14,625	13,333
Financial assets	9,811	12,187	(347)	(585)	9,464	11,602
Tax losses and other	16,514	12,748	-	-	16,514	12,748
	56,890	53,906	(23,932)	(24,455)	32,958	29,451

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

### *Movement in deferred tax during the year*

	1 October 2018 €000	Recognised in income statement €000	Recognised in equity €000	Exchange differences €000	30 September 2019 €000
Property, plant and equipment	12,816	566	-	(71)	13,311
Intangible assets	(21,048)	-	-	92	(20,956)
Provisions	13,333	1,544	-	(252)	14,625
Financial assets	11,602	310	(2,435)	(12)	9,465
Tax losses and other	12,748	3,890	-	(125)	16,513
	29,451	6,310	(2,435)	(368)	32,958

	1 October 2017 €000	Recognised in income statement €000	Recognised in equity €000	Exchange differences €000	30 September 2018 €000
Property, plant and equipment	10,978	1,908	-	(70)	12,816
Intangible assets	(21,180)	-	-	132	(21,048)
Provisions	11,495	1,779	-	59	13,333
Financial assets	23,295	(7,154)	(4,462)	(77)	11,602
Other	906	11,932	-	(90)	12,748
	25,494	8,465	(4,462)	(46)	29,451

## 18. Provisions

	Property provisions		Other provisions	
	30 September 2019 €000	September 2018 €000	30 September 2019 €000	30 September 2018 €000
At beginning of period	113,281	147,316	40,969	46,497
Provisions made during the period	1,196	4,125	17,696	18,666
Provisions utilised during the period	(33,217)	(37,386)	(16,132)	(24,520)
Provisions reversed during the period	(470)	23	97	-
Translation differences	250	(797)	(966)	326
	<u>81,040</u>	<u>113,281</u>	<u>41,664</u>	<u>40,969</u>
Current	23,936	29,303	18,397	3,515
Non-current	57,104	83,978	23,268	37,454
	<u>81,040</u>	<u>113,281</u>	<u>41,665</u>	<u>40,969</u>

Provision is made for the committed cost of future rentals or estimated exit costs of properties no longer occupied by the Group. The average remaining lease term for these properties is 4 years (2018: 4 years).

Property provisions also include a provision for market rent of €31.8m (2018: €44.6m), Onerous lease provision €27.8m (2018: €35.8m) and dilapidation provisions €11.2m (2018: €19.6m).

Other provisions include long term employee benefits where cash settlement is based on the Directors' best estimate of future cash flows of the Pepco business. The utilisation is expected within the following five years.

## 19. Share capital

	30 September 2019 €000	30 September 2018 €000
<i>Ordinary share capital</i>		
Authorised, Issued and fully paid		
1,763,056 A Ordinary shares of 0.1p each (2018: 1,763,056 A Ordinary shares of 0.1p)	2	2
29,000 B Ordinary shares of 0.1p each (2018: 29,000 B Ordinary shares of 0.1p)	-	-
9,186 C Ordinary shares of 0.1p each (2018: 9,186 C Ordinary shares of 0.1p)	-	-
	<u>2</u>	<u>2</u>

### Reconciliation of movements in share premium reserve during the year:

	30 September 2019 €000	30 September 2018 €000
Share premium reserve at beginning of period	433,491	433,491
Transfers to retained earnings	(433,491)	-
Share premium reserve at end of period	<u>-</u>	<u>433,491</u>

During the year, the Company carried out a share premium elimination. The full amount of the share premium was eliminated as part of this share premium reduction and credited to retained earnings.

The Ordinary A, Ordinary B and Ordinary C shares rank pari passu in all respects save for entitlements to income and capital and certain other matters which are set out in the Company's articles of association.

## 20. Share based payments

The Group benefits from share award plans. Following the acquisition of the Poundland Group, the Group benefitted from additional plans which originally granted employees options over shares in Poundland Group Plc. These schemes were equity settled by Poundland Group Plc (now Poundland Group Limited). The schemes from which the Group benefitted during the year are detailed below.

### *The Performance Share Plan (PSP)*

The PSP was adopted on 27 February 2014. All employees of the Poundland Group 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 year with no cash payment made. The cumulative share-based payment charged was therefore reversed.

### *The Company Share Option Plan (CSOP)*

The CSOP was adopted on 27 February 2014. Under the CSOP, the Directors of Poundland Group Plc 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 Poundland Group were eligible to participate in the CSOP at the discretion of the Directors of Poundland Group Plc.

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 Group Plc 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 current financial year with no cash payment made. The cumulative share-based payment charged was therefore reversed.

### *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 year to 30 September 2017.

**20. Share based payments (continued)**

*For the year ended 30 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 1 October 2019	4.23	1,052	-	-	-	-
Cancelled during the period	-	-	-	-	-	-
Outstanding at 30 September 2019	<u>4.23</u>	<u>1,052</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 were measured by reference to the fair value of the share options granted. The Steinhoff Awards and PSP awards were valued at 100% of the share price at the date of grant.

The fair value of CSOP awards was measured using the Black-Scholes valuation model. Measurement inputs and assumptions are as follows:

	27 March 2016
Share price at grant date	€3.12
Fair value at grant date	70.50p
Exercise price	€3.01
Expected volatility	29.3%
Option life (years)	10
Expected life (years)	4
Expected dividend yield	1.44%
Risk-free interest rate (based on national government bonds)	<u>1.1%</u>

There was a restricted history of share price movements in the prior year as Poundland Group plc 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.

**20. Share based payments (continued)**

*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 Poundland Group's employment at the end of the three-year savings period were entitled to use their savings to purchase shares in Poundland Group plc 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 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 year with no cash payment made. The cumulative share-based payment charged was therefore reversed.

A reconciliation of options movements is shown below:

	2018 Number of options 000	2018 Weighted average exercise price €
Outstanding at beginning of year	55	6.11
Forfeited/Cancelled	<u>(55)</u>	<u>(6.11)</u>
Outstanding at end of year	<u>-</u>	<u>-</u>
Exercisable at end of year	<u>-</u>	<u>-</u>

**20. Share based payments (continued)**

*Management Incentive Plan*

During 2016, the Company entered into a long term incentive plan with certain employees of the Company (the “MIP”) under which the employees subscribed and fully paid for “B” shares in the Company (note 19) at fair value. Accordingly the share based payment expense recognised in relation to the MIP is nil. The B shares are subject to certain restrictions including the requirement for the continuing employment of the employee by the Company. In the event that the employee ceased employment with the Company, the Company has rights of mandatory repurchase of the B shares from the employee. The B shares also include restrictions over the right of the employee to sell the B shares (which is subject to a pre-emption right of the Company) as follows:

- up to three sevenths of the shares owned from 1 January 2019;
- up to five sevenths of the shares owned from 1 January 2021;
- up to six sevenths of the shares owned from 1 January 2023; and
- the balance of the shares owned from January 2024.

In April 2017, the MIP was amended to include a new class of shares, “C” shares with similar rights to the B shares. The restrictions on selling B and C shares were also amended as follows:

- up to three sevenths of the shares owned after 3 years from 1 January 2019;
- up to five sevenths of the shares owned after 5 years from 1 January 2021;
- up to six sevenths of the shares owned after 6 years from 1 January 2023; and
- up to seven sevenths of the shares owned after 7 years 1 January 2024.

The rights of the B and C classes of shares are fully defined in the articles of association of the Company.

*Aggregate share based payment expense*

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

	<b>Year to 30 September 2019</b>	<b>Year to 30 September 2018</b>
	<b>€000</b>	<b>€000</b>
Equity settled share based payment (income)/expense	<u><b>(1,913)</b></u>	<u><b>(3,659)</b></u>



## 21. Operating lease commitments

The minimum lease payments under non-cancellable operating leases are follows:

	Land and buildings		Other	
	30 September 2019 €000	30 September 2018 €000	30 September 2019 €000	30 September 2018 €000
Operating leases which expire:				
Less than one year	240,153	230,817	3,533	5,237
Between one and five years	634,988	588,067	1,902	3,148
More than five years	159,066	192,336	-	-
	<u>1,034,207</u>	<u>1,011,220</u>	<u>5,435</u>	<u>8,385</u>

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

## 22. Capital commitments

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

	2019 €000	2018 €000
Acquisition of property, plant and equipment and intangible assets	<u>59,561</u>	<u>23,950</u>

## 23. Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to €5,234,000 (2018: €11,815,000). Contributions amounting to €1,269,108 (30 September 2018: €649,000) were payable to the scheme at the year end and are included in accruals.

## 24. Transactions with related parties

### *Transactions with key management personnel*

The compensation of key management personnel is as follows:

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Short-term employee benefits	2,352	2,168
Share related awards	-	382
	<u>2,352</u>	<u>2,550</u>

### *Other related party transactions*

	Interest incurred from		Interest receivable from	
	2019 €000	2018 €000	2019 €000	2018 €000
Steinhoff Group <sup>1</sup> companies	<u>(26,514)</u>	<u>(29,653)</u>	<u>7,391</u>	<u>9,226</u>

	Revenue from		Operating expenses incurred from	
	2019 €000	2018 €000	2019 €000	2018 €000
Steinhoff Group <sup>1</sup> companies	<u>8,244</u>	<u>6,707</u>	<u>-</u>	<u>(20,095)</u>

	Receivables outstanding		Payables outstanding	
	2019 €000	2018 €000	2019 €000	2018 €000
Steinhoff Group <sup>1</sup> companies	<u>3,071</u>	<u>80,333</u>	<u>(212,935)</u>	<u>(430,918)</u>

<sup>1</sup> Steinhoff Group refers to the ultimate parent Company, Steinhoff International Holdings BV, and its subsidiaries.

Interest receivable from and payable to Steinhoff companies relates to loans to and from Group undertakings as described in notes 12, 13 and 14.

Revenue from Steinhoff companies relates to product sourcing services provided to members of the Steinhoff Group.

Operating expenses incurred from Steinhoff companies relates to logistics services provided by members of the Steinhoff Group.

Receivables outstanding from and payables outstanding to Steinhoff companies are described in notes 12, 13 and 14.

## 25. Discontinued operations

On 31 March 2019 the group announced its intention to exit the business in France and initiated an active program to unwind its activities in France, Vaucluse Diffusion SAS. The associated assets and liabilities were consequently presented as discontinued in the 2019 financial statements.

### Financial performance and cash flow information

	Year to 30 September 2019 €000	Year to 30 September 2018 €000
Revenue	3,743	11,155
Expenses	<u>(10,236)</u>	<u>(25,959)</u>
<b>Loss before taxation</b>	<b>(6,493)</b>	<b>(14,804)</b>
Income tax	<u>-</u>	<u>-</u>
<b>Loss from discontinuing operation</b>	<b><u>(6,493)</u></b>	<b><u>(14,804)</u></b>
Exchange differences on the translation of discontinued operations	<u>-</u>	<u>-</u>
<b>Other comprehensive income from discontinued operation</b>	<b><u>-</u></b>	<b><u>-</u></b>
Net cash outflow from operating activities	<b>(1,152)</b>	(21,614)
Net cash inflow/(outflow) from investing activities	-	-
Net cash inflow/(outflow) from financing activities	<u>-</u>	<u>-</u>
<b>Net increase in cash generated by discontinued operation</b>	<b><u>(1,152)</u></b>	<b><u>(21,614)</u></b>

## 26. Subsequent events

Since the end of the reporting period, the Covid-19 global pandemic has impacted each of the 14 territories in which the Group operates, most notably from mid-March 2020 when lockdowns began across Europe. However since the easing of the lock down in these territories the Group's operations and cash flows have recovered back to almost pre-Covid-19 levels.

The Group has performed an assessment of the impact of Covid-19 on its future operations and its ability to operate as a going concern and have concluded that although Covid-19 has disrupted its operations in the short-term, no material and lasting impact is expected on the Group's long-term performance or on the Group's ability continue as a going concern. Please see the 'Strategic Report' and the 'Going Concern' note (Note 1) for further details.

The Group also performed an assessment of the impact of Covid-19 on the Group to ascertain if the impact of the outbreak or related government actions constitute an adjusting post balance sheet event under IAS 10 'Events after the Reporting Date'. Following our review we have concluded that the impact of Covid-19 and related government actions occurred after the end of the reporting period and is therefore a non-adjusting event.

Post year end the Group also disposed its investment in Sapphire 117 Limited

## 27. Ultimate parent Company

The Group is a direct subsidiary undertaking of Retail Holdings Sarl which is registered in Luxembourg. Retail Holdings Sarl's registered address is 58 Rue Charles Martel, L2134, Luxembourg.

At the reporting date, the Company's ultimate parent Company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange. The most senior parent entity producing publicly available financial statements is Steinhoff International Holdings N.V. These financial statements are available upon request at [www.steinhoffinternational.com](http://www.steinhoffinternational.com).

**Company statement of financial position**  
*as at 30 September 2019*

	Note	30 September 2019 €000	30 September 2018 €000
<b>Non current assets</b>			
Investments	3	878,770	942,457
Intangible fixed assets	4	<u>1,798</u>	<u>-</u>
		<u>880,568</u>	<u>942,457</u>
<b>Current assets</b>			
Debtors falling due within one year	5	14,923	13,591
Cash at bank and in hand		<u>29,857</u>	<u>6,904</u>
		<u>44,780</u>	<u>20,495</u>
Creditors: amounts falling due within one year	6	(737)	(19,711)
<b>Net current assets</b>		<u>44,043</u>	<u>784</u>
<b>Total assets less current liabilities</b>		<b>924,611</b>	<b>943,241</b>
Creditors: amounts falling due after more than one year	7	(221,809)	(668,688)
<b>Net assets</b>		<u><u>702,802</u></u>	<u><u>274,553</u></u>
<b>Capital and reserves</b>			
Called up share capital	8	2	2
Share premium account		-	433,491
Translation reserve		(22,253)	(22,159)
Retained losses		<u>725,053</u>	<u>(136,781)</u>
<b>Shareholders' funds</b>		<u><u>702,802</u></u>	<u><u>274,553</u></u>

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income and related notes have not been presented.

The Company made a post-tax profit for the year of €430,076,000 (2018: loss of €250,790,000). The profit is driven by the €234m impairment reversal as detailed in note 3 and dividends received of €291m.

The notes on pages 62 to 73 form part of these financial statements.

The financial statements were approved by the board of Directors on 26 June 2020 and signed on its behalf by:



**N Wharton**  
*Director*

Company registration number: 09127609

**Company statement of changes in equity**  
*for the year ended 30 September 2019*

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
	€000	€000	€000	€000	€000
Balance at 1 October 2018	2	433,491	(22,159)	(136,781)	274,553
<b>Total comprehensive income for the period</b>					
Profit for the period	-	-	-	430,076	430,076
Other comprehensive expense for the period	-	-	86	-	86
Total comprehensive expense for the period	-	-	86	430,076	430,162
<b>Transactions with owners, recorded directly in equity</b>					
Share capital reduction	-	(433,491)	-	433,491	-
Equity settled share based payments (See Group note 20)	-	-	-	(1,913)	(1,913)
Total contributions by and distributions to owners	-	(433,491)	-	431,578	(1,913)
Balance at 30 September 2019	<u>2</u>	<u>-</u>	<u>(22,073)</u>	<u>724,873</u>	<u>702,802</u>

The notes on pages 62 to 73 form part of these financial statements.

**Company statement of changes in equity (continued)**  
 for the year ended 30 September 2018

	Share capital €000	Share premium €000	Translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 October 2017	2	433,491	(20,021)	(12,467)	401,005
<b>Total comprehensive income for the period</b>					
Loss for the period	-	-	-	(250,790)	(250,790)
Other comprehensive expense for the period	-	-	(2,138)	-	(2,138)
Total comprehensive expense for the period	-	-	(2,138)	(250,790)	(252,928)
<b>Transactions with owners, recorded directly in equity</b>					
Return of capital <sup>1</sup>	-	-	-	127,419	127,419
Equity settled share based payments (See Group note 20)	-	-	-	(943)	(943)
Total contributions by and distributions to owners	-	-	-	126,476	126,476
Balance at 30 September 2018	<u>2</u>	<u>433,491</u>	<u>(22,159)</u>	<u>(136,781)</u>	<u>274,553</u>

<sup>1</sup> In January 2018 a €127 million loan due to Pepco Poland Sp. z o.o. (a direct subsidiary of Pepco Group Limited) was cancelled through a voluntary non-cash return of capital  
 The notes on pages 62 to 73 form part of these financial statements.

## Notes to the Company financial statements

*(forming part of the financial statements)*

### 1. Accounting policies

#### Company information

Pepco Group Limited is a private Company limited by shares incorporated in England and Wales. The registered office is Unit B, 120 Weston Street, London, England, SE1 4GS.

These financial statements present information about the Company as an individual undertaking and not about its Group.

#### 1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring its assets and liabilities are measured in compliance with FRS 101. The Company has made no measurement and recognition adjustments in the transition to FRS 101, therefore, no separate disclosure has been made.

The Company is included within the consolidated financial statements of Pepco Group Limited which are prepared under EU-IFRS and are publicly available. The Company complies with the accounting policies defined in note 1 to the Group consolidated financial statements except as disclosed below. In addition, the following disclosures are made in respect of the Company financial statements.

#### *Disclosure exemptions adopted*

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

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; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

#### 1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.3 Going concern

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The assumptions made by the Directors underpinning the going concern conclusion are more fully explained in note 1 to the accompanying consolidated financial statements.

In the normal course of business, the company has provided letters of support to its subsidiaries.

## Notes to the Company financial statements *(continued)*

### 1. Accounting policies *(continued)*

#### 1.4 Revenue

Revenue is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business and is shown net of VAT and other sales related taxes.

Revenue during the year related to management fees charged to subsidiary companies.

#### 1.5 Classification of financial instruments issued by the Company

Following the adoption of 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.

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 called up share capital and share premium account exclude amounts in relation to those shares.

#### 1.6 Non-derivative financial instruments

##### *Trade and other debtors*

Trade and other debtors 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 creditors*

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

##### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost less accumulated 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.

#### 1.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

#### 1.8 Impairment excluding deferred tax assets

##### *Financial assets (including trade and other debtors)*

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 Company expects to receive, discounted at an approximation of the original effective interest rate.



## Notes to the Company financial statements *(continued)*

### 1. Accounting policies *(continued)*

#### 1.8 Impairment excluding deferred tax assets *(continued)*

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than 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.

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.

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.

#### 1.9 Taxation

Tax on the profit or loss for the year 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 year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

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; 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 statement of financial position 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.

#### 1.10 Employee benefits

##### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *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.

## Notes to the Company financial statements *(continued)*

### 1. Accounting policies *(continued)*

#### 1.11 Leases

##### *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 as an integral part of the total lease expense.

#### 1.12 Foreign exchange

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 statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

#### 1.13 Employee Benefit Trust

Special purpose vehicles under the control of the entity are consolidated as part of the results of the Company.

#### 1.14 Key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 101 requires the Company's management to make certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements could differ from current estimates as a result of changes in these assumptions.

##### *Impairment of fixed asset investments*

The Company assesses whether there are any indicators of impairment as at the reporting date for all investments.

When value in use calculations are undertaken, the Directors must estimate the expected future cash flows from the investment 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. An investment impairment of €234 million was made in the year to 30 September 2018. See note 3 for details.

## Notes to the Company financial statements (continued)

### 2. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during each year was as follows:

	Number of Employees	
	Year to 30 September 2019	Year to 30 September 2018
Administration	16	25

The aggregate payroll costs of these persons were as follows:

	Year to 30 September 2019	Year to 30 September 2018
	€000	€000
Wages and salaries	5,619	7,435
Social security costs	580	581
Other pension costs (note 23)	77	27
Share based payments expense (note 20)	<u>(1,913)</u>	<u>(943)</u>
	<u>4,363</u>	<u>7,100</u>

As described in note 20 of the Group financial statements, the required share-based payment charge for the Management Incentive Plan is nil. The cumulative charge made to 30 September 2018 has been reversed in the year to 30 September 2019.

### 3. Fixed asset investments

	30 September 2019	30 September 2018
	€000	€000
Investments	878,270	290,244
Loans	<u>500</u>	<u>652,213</u>
	<u>878,770</u>	<u>942,457</u>

#### Fair value of financial assets carried at amortised cost

The Directors consider that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

#### Movements in non-current investments

	Shares in group undertakings	Loans to group undertakings	Total
	€000	€000	€000
<b>Cost</b>			
At 1 October 2018	524,368	652,213	1,176,581
Additions	354,194	8,503	362,697
Disposals	-	(662,356)	(662,356)
Interest capitalised	-	-	-
Foreign currency translation differences	<u>(292)</u>	<u>2,140</u>	<u>1,848</u>
<b>At 30 September 2019</b>	<u>878,270</u>	<u>500</u>	<u>878,770</u>
<b>Impairments</b>			
At 1 October 2018	234,124	-	234,124
Impairment reversals	<u>(234,124)</u>	<u>-</u>	<u>(234,124)</u>
<b>At 30 September 2019</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying amount</b>			
At 30 September 2019	<u>878,270</u>	<u>500</u>	<u>878,770</u>
At 30 September 2018	<u>290,244</u>	<u>652,213</u>	<u>942,457</u>

## Notes to the Company financial statements *(continued)*

### 3. Fixed asset investments *(continued)*

In April 2017, a subsidiary of the Company, Poundland UK & Europe Limited acquired 100% of the share capital of Poundland Group Limited from Steinhoff UK Holdings. The transaction was structured via a combination of a share for share exchange of €413.6 million and loan capital of €308.1 million, and is more fully described in note 1.24 to the accompanying consolidated financial statements of the Company.

In January 2018, Pepco Group Limited acquired 100% of the share capital of Fully Sun China for €96 from Retail Holdings S.a.r.l., another Company within the Steinhoff Group.

The additions to loans to group undertakings relate to new loans to subsidiaries. In August 2019, following a group re-organisation, the majority of the loans receivable from subsidiaries were disposed of to another group company. The new intercompany loan receivable that arose from this transaction was subsequently settled. The additions to shares in group undertakings relate to the capitalisation of an existing intercompany loan.

The impairment reversal recognised during the year relates to the Company's investment in Poundland UK and Europe Limited. This investment was disposed of to another group company at its original cost during the year.

The Company has not designated any financial assets that are not classified as financial assets at fair value through profit or loss.

### 4. Intangible fixed assets

	<b>Computer software</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>
<b>Cost or valuation</b>		
At 1 October 2018	-	-
Additions	1,800	1,800
Foreign currency translation differences	(2)	(2)
<b>At 30 September 2019</b>	<b>1,798</b>	<b>1,798</b>
<b>Carrying amount</b>		
At 30 September 2019	<b>1,798</b>	<b>1,798</b>
At 30 September 2018	-	-

The additions to computer software during the year relate to the development costs of a new enterprise management system. It is forecast that the asset will be ready for use in April 2020 therefore amortisation will commence from this date.

## Notes to the Company financial statements (continued)

### 5. Debtors

	<b>30 September 2019</b>	<b>30 September 2018</b>
	<b>€000</b>	<b>€000</b>
<i>Amounts falling due within less than one year:</i>		
Loans and other amounts receivable from related parties	-	498
Other receivables	<b>14,923</b>	<b>13,093</b>
	<b><u>14,923</u></b>	<b><u>13,591</u></b>

Trade receivables disclosed above are measured at amortised cost.

### 6. Creditors: amounts falling due within one year

	<b>30 September 2019</b>	<b>30 September 2018</b>
	<b>€000</b>	<b>€000</b>
Trade payables	<b>549</b>	2,295
Amounts owed to group undertakings	-	34
Other taxation and social security	<b>157</b>	221
Loans from group undertakings	-	3,308
Borrowings from credit institutions	-	1,567
Other payables	<b>31</b>	12,286
	<b><u>737</u></b>	<b><u>19,711</u></b>

Amounts owed to group undertakings are repayable on demand and non-interest accruing at 30 September 2019 and 30 September 2018, respectively.

### 7. Creditors: amounts falling due after one year

	<b>30 September 2019</b>	<b>30 September 2018</b>
	<b>€000</b>	<b>€000</b>
Loans from group undertakings	<b>212,935</b>	354,788
Borrowings from credit institutions	-	312,220
Other payables	<b>8,874</b>	1,680
	<b><u>221,809</u></b>	<b><u>668,688</u></b>

Loans from group undertakings include €212,935,000 (2018: €329,185,000) payable after 5 years.

### 8. Called up share capital

	<b>30 September 2018</b>	<b>30 September 2017</b>
	<b>€000</b>	<b>€000</b>
<i>Ordinary share capital</i>		
Issued and fully paid		
1,763,056 A Ordinary shares of 0.1p each (2017: 1,763,056 A Ordinary shares of 0.1p)	<b>2</b>	2
29,000 B Ordinary shares of 0.1p each (2017: 29,000 B Ordinary shares of 0.1p)	-	-
9,186 C Ordinary shares of 0.1p each (2017: 9,186 C Ordinary shares of 0.1p)	-	-
	<b><u>2</u></b>	<b><u>2</u></b>

## Notes to the Company financial statements *(continued)*

### 8. Called up share capital *(continued)*

#### Reconciliation of movements in share premium reserve during the year:

	30 September 2019	30 September 2018
	€000	€000
Share premium reserve at beginning of year	433,491	433,491
Share capital reduction during the year	<u>(433,491)</u>	<u>-</u>
Share premium reserve at end of year	<u><u>-</u></u>	<u><u>433,491</u></u>

During the year, the Company carried out a share capital reduction. The full amount of the share premium was eliminated as part of this share capital reduction and credited to retained earnings.

The Ordinary A, Ordinary B and Ordinary C shares rank *pari passu* in all respects save for entitlements to income and capital and certain other matters which are set out in the Company's articles of association.

### 9. Operating lease commitments

At the reporting end date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, as follows:

	30 September 2019	30 September 2018
	€000	€000
Due within one year	132	75
Due between one and five years	<u>209</u>	<u>-</u>
	<u><u>341</u></u>	<u><u>75</u></u>

### 10. Directors' transactions

During the year, the Company received consultancy services amounting to €63,000 (2018: €82,000) from Woodcliffe Associates Limited, a company in which A. Bond is materially interested as Director and shareholder. Amounts totalling €10,000 were outstanding at 30 September 2019 (2018: nil).

All transactions were made on a normal commercial basis.

## Notes to the Company financial statements (continued)

### 11. Subsidiaries

The group's principal subsidiaries at 30 September 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group or indirectly through a directly owned subsidiaries, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business. All these subsidiaries are fully consolidated into the Group.

Name of undertaking	Country of incorporation	Registered office address	Nature of business	Class of shares held	% Held	
					Direct	Indirect
Peu (Fin) Limited	England	Unit B, 120 Weston Street, London, United Kingdom, SE1 4GS	Group financing company	Ordinary	100.00	
Peu (Tre) Limited	England	Unit B, 120 Weston Street, London, United Kingdom, SE1 4GS	Group treasury company	Ordinary		100.00
Pepco Holdings sp. z o.o.	Poland	Strzeszyńska 73 A, 60-479 Poznań, Poland	Holding company	Ordinary		100.00
Pepco Poland Sp. z o.o.	Poland	Strzeszyńska 73 A, 60-479 Poznań, Poland	General merchandise retailer	Ordinary		100.00
Konopacka Holdings B.V.	Netherlands	Noord Brabantlaan 265, 5652LD Eindhoven, the Netherlands	Holding company	Ordinary	0.99	99.01
Rawska Holdings B.V.	Netherlands	Noord Brabantlaan 265, 5652LD Eindhoven, the Netherlands	Holding company	Ordinary	0.99	99.01
Cardina Investments Sp. z o.o.	Poland	Strzeszyńska 73B/4; 60-479 Poznań, Poland	Property holding	Ordinary		100.00
Evarts Investments Sp. z o.o.	Poland	Strzeszyńska 73B/4; 60-479 Poznań, Poland	Property holding	Ordinary		100.00
Pepkor Ingatlan Kft	Hungary	1138 Budapest Váci út 187	Property holding	Ordinary		100.00
Pepkor Europe GmbH	Switzerland	Kanzlei Pilatushof, Hirschmattstrasse 15, 6003 Luzern, Switzerland	Holding company	Ordinary		100.00
Pepco Croatia d.o.o.	Croatia	Damira Tomljanovića Gavrana 11, 10020 Zagreb, Croatia	General merchandise retailer	Ordinary		100.00
Pepco Czech Republic s.r.o.	Czech Republic	Hvezdova 1716/2b, 14078 Prague 4, Czech Republic	General merchandise retailer	Ordinary		100.00
Pepkor Hungary Kft.	Hungary	1138 Budapest Váci út 187	General merchandise retailer	Ordinary		100.00
Pepco Slovakia s.r.o.	Slovakia	Nevádzova 6; 821 01 Bratislava; Slovakia	General merchandise retailer	Ordinary		100.00
Pepco d.o.o.	Slovenia	Tržaška cesta 515, SI-1351 Brezovica pri Ljubljani, Slovenia	General merchandise retailer	Ordinary		100.00
Pepco Lithuania UAB	Lithuania	Viršuliškių al. 34-1, Vilnius, LT-05132	General merchandise retailer	Ordinary		100.00
Pepco Latvia SIA	Latvia	Strēlnieku 9-7, Riga, LV-1010	General merchandise retailer	Ordinary		100.00
Pepco Estonia OU	Estonia	Sõpruse pst 145C, Tallinn City, Harju county, 13417	General merchandise retailer	Ordinary		100.00
Pepco Retail SRL Sp. z.o.o.	Romania	17/3 Ceasornicului str., Sector 1, Bucharest	General merchandise retailer	Ordinary		100.00
Pepco Bulgaria EOOD	Bulgaria	Sofia 1574, "Slatina" district, "Nikola Tesla №5" str., Building BSR 2, fl.4	General merchandise retailer	Ordinary		100.00
Pepco d.o.o. Beograd-Stari Grad	Serbia	Francuska 27, 11000 Beograd-Stari Grad, Serbia	General merchandise retailer	Ordinary		100.00
Pepco Italy S.r.l	Italy	Via Michelangelo Buonarroti 39, 20145 Milano	General merchandise retailer	Ordinary		100.00

**Notes to the Company financial statements (continued)**

**11. Subsidiaries (continued)**

Name of undertaking	Country of incorporation	Registered office address	Nature of business	Class of shares held	% Held	
					Direct	Indirect
Pepco Properties Sp. z.o.o.	Poland	Strzeszyńska 73 A, 60-479 Poznań, Poland	Property holding	Ordinary		100.00
Poundland Group Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Holding company	Ordinary		100.00
Poundland Group Holdings Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Holding company	Ordinary		100.00
Poundland Holdings Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Holding company	Ordinary		100.00
Poundland Trustee Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Holding company	Ordinary		100.00
Poundland Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	General merchandise retailer	Ordinary		100.00
Poundland Far East Limited	Hong Kong	Suite 701, 168 Queen's Road Central, Hong Kong	Purchasing company	Ordinary		100.00
Pepkor UK Retail Limited	England	Oak House, Reeds Crescent, Watford, England, WD24 4QP	Clothing retailer	Ordinary		100.00
Poundland International Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Holding company	Ordinary		100.00
Vaucluse Diffusion SAS	France	1 bis avenue Guy de Maupassant, 13170 Les Pennes Mirabeau, France	General merchandise retailer	Ordinary		100.00
Dealz Espana SL	Spain	B86867515, Calle Bravo, Murillo 192, Madrid, Spain	General merchandise retailer	Ordinary		100.00
Dealz Poland Sp. z o.o.	Poland	Strzeszynska 73a Street, Poznan, Poland	General merchandise retailer	Ordinary		100.00
GHM Stores Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Non-trading entity	Ordinary		100.00
M&O Business Systems Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Bargain Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Poundland Value Retailing Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Sheptonview Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Homes & More Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Poundland Retail Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Dealz Retailing Ireland Limited	Republic of Ireland	Unit 3, Westend Retail Park, Blanchardstown, Dublin 15, Republic of Ireland	Dormant	Ordinary		100.00
Family Bargains (Retail) Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Pagewell Limited	Republic of Ireland	24/26 City Quay, Dublin 2, D02 NY19	Dormant	Ordinary		100.00



**Notes to the Company financial statements (continued)**

**11. Subsidiaries (continued)**

Name of undertaking	Country of incorporation	Registered office address	Nature of business	Class of shares held	% Held	
					Direct	Indirect
Pagewell Concession (Irac) Limited	Republic of Ireland	88 Harcourt Street, Dublin 2, D02 DK18	Dormant	Ordinary		100.00
Poundland Stores Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Poundland Willenhall Limited	England	Wellmans Road, Willenhall, West Midlands, WV13 2QT	Dormant	Ordinary		100.00
Pepkor Import B.V.	Netherlands	Naritaweg 165, 1043 BW, Amsterdam, the Netherlands	Holding company	Ordinary		100.00
Pepkor France SAS	France	1, Place Boieldieu, 75002 Paris, France	Non-trading company	Ordinary		100.00
Pepkor Retail Espana S.L.	Spain	1-3 Avenida Baix Llobregat, Barcelona 08820	Non-trading company	Ordinary		100.00
Sapphire 117 Limited	England	Unit B, 120 Weston Street, London, England, SE1 4GS	Non-trading company	Ordinary		100.00
Pepco Group Services Limited	England	Unit B, 120 Weston Street, London, England, SE1 4GS	Non-trading company	Ordinary		100.00
Fully Sun China Limited	Hong Kong	19/F., Seaview Commercial Building, 21-24 Connaught Road West, Hong Kong	Purchasing company	Ordinary		100.00
Pepkor GPS (Shanghai) Co Limited	The People's Republic of China	8th floor, 666(H) East Beijing Rd, Huangpu District, Shanghai, Shanghai 200001, China	Purchasing company	Ordinary		100.00
PGS Partner India Private Limited	India	UNIT NO-128, SUNCITY SUCCESS TOWER SECTOR-65, GOLF COURSE EXTN ROAD, GURUGRAM Haryana-122005, India	Purchasing company	Ordinary		100.00

The investments in subsidiaries are all stated at cost.

Sapphire 117 Limited and Pepco Group Services Limited have taken advantage of s479A exemption from audit.

## Notes to the Company financial statements *(continued)*

### 12. Subsequent events

Post year end the company disposed of its investment in Sapphire 117 Limited.

### 13. Parent and ultimate parent undertaking

At the year end the Company's ultimate parent Company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange. The most senior parent entity producing publicly available financial statements is Steinhoff International Holdings N.V. These financial statements are available upon request at [www.steinhoffinternational.com](http://www.steinhoffinternational.com).

#### *Relationship between entity and parents*

The parent of the largest and smallest 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