

## **Poundland Limited**

Annual report and financial statements

Registered number 2495645  
for the 52 week period ended  
30 September 2018



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## Strategic report

### Principal activity and business review

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

The period under review has seen the business implement a number of strategies in order to improve its profitability. These have largely proven to be successful with Company adjusted EBITDA increasing to £45.5m or 3.0% of sales, compared to the 79 week prior period Company adjusted EBITDA of £41.3m (1.8% of sales).

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

Furthermore, on 5 December 2017, the ultimate parent company, Steinhoff International Holdings N.V., announced it was undertaking an independent forensic accounting investigation into accounting irregularities in the wider Steinhoff Group. It further announced the Steinhoff Group CEO’s resignation. The immediate impact of this announcement was to precipitate the unwinding of the intercompany funding arrangements established during the prior period. Cash pooling ceased in December 2017, and the outstanding balance, together with the intercompany loans were novated to Poundland Limited’s intermediate holding company, Pepkor Europe Limited (“PEL”) in January 2018.

With the aim of stabilising the Pepkor Europe Limited Group (the “Group”) and providing ongoing working capital and other financing independent of previously provided Steinhoff Group facilities, an independent £180 million medium-term bank financing facility was arranged in January 2018. In July 2019 the Group successfully re-financed the January 2018 external debt, which was due to expire in January 2020, with a replacement two-and-a-half-year term facility. As part of this re-financing the Group will further reduce its exposure to the Steinhoff Group through repayment of all outstanding shorter-term intercompany debt. This ensures that the Company can continue to operate independently of the wider Steinhoff Group.

In February 2018 the Company’s Statement of Financial Position was re-capitalised with £113m of the Company’s intercompany debt converted to equity.

The announcement by Steinhoff had a naturally unsettling short term effect on our suppliers. However, it is to their credit and a testament to the strength of the relationship we have with our suppliers that the business continued to execute its plan of delivering great value to our customers throughout this period of uncertainty.

Significantly, the report of the forensic accountant, engaged to review the historic financial results of the Steinhoff Group, confirmed there was no evidence of any historical misstatement for PEL or any of its trading subsidiaries, including the Company.

One of the key initiatives driving performance during the period has been the continued roll-out of the Pep&Co discount clothing offer. During the period we introduced the ‘Shop in Shop’ model to a further 170 stores. At the period-end we were trading the ‘Shop in Shop’ model in 282 stores.

We continue to invest in new ranges for our customers and during the period under review we launched several new/improved ranges. Also during the period, we introduced targeted multi-price ranges which have helped drive our range expansion and sales growth.

Our cost base remains a key focus for the Company. We reviewed the allocation of labour to our stores and following a successful trial we implemented a new labour deployment model which has enabled us to better control our labour in line with sales activity. In addition, we have successfully rolled out the use of Self-Check-Out tills (“SCO’s”) in many of our stores. This has enabled us to keep our labour costs under control and to serve our customers at a faster rate. The introduction of more multi-price products and SCO’s has led to an increase in stock loss and control of shrinkage remains a key focus of management.

We continue to churn our retail estate and during the period we closed 18 loss-making/underperforming stores and opened 14 stores. At the period-end we were trading from 822 stores in the UK and ROI. During the final quarter of the financial period one of the Company’s key competitors, Poundworld entered administration. This has provided an opportunity for the business to open new stores in territories where it did not have space or where we have been under-represented. Subsequent to the period-end we have opened a further 20 stores and re-sited a further 8 stores mainly in former Poundworld outlets.

## Strategic report (continued)

During the period we have undertaken a review of our IT systems to assess our capability to meet the demands of our business in the coming years. Following this review, we have determined that the business requires significant investment in its IT infrastructure, notably in a new ERP system. We have identified the systems which require replacement and subsequent to the period-end we have commenced the detailed design of these new systems.

### Strategic aims

The Company's strategy is to create amazing value for its customers every day, through product innovation. In the current period this has been supported by the continued roll-out of our 'Shop in Shop' clothing offer and further expansions of products offering value at selected non £1 price points.

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

The Company has identified that its Dealz business in both Spain and Poland represent a significant growth opportunity for the business and we have invested significantly in these territories in both management, back-office capability and new stores. At the period-end we were trading out of 10 stores in Spain and 9 stores in Poland. We have continued with this investment programme subsequent to the period end.

### Key performance indicators

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

	52 weeks to 30 September 2018	79 weeks to 1 October 2017
Revenue (£m)	1,523	2,246
Company adjusted EBITDA (£m)	45.5	41.3
Number of stores	822	826

### Results for the period

The results for the period are set out in the income statement on page 13. To aid understanding of the results, one off items that are not expected to recur, have been presented as non-underlying. Non underlying items are those items that, in the directors' judgement, should be disclosed separately in order to determine and fairly present the adjusted profitability and EBITDA of the business, in the absence of acquisition activity, integration activity and one-off or unusual items.

Period on period comparison of the results is distorted by the differing lengths of the periods (52 weeks vs 79 weeks); the disproportionate impact of Christmas trading on the longer reporting period; the impact of the 99p store conversion program in the prior period, and 'Shop in Shop' rollout in the current period. Period on period comparison to the total results is further distorted by the high level of one off items in the prior period.

Revenue in the 52 week period is £1.5 billion (79 weeks to October 2017: £2.2 billion). This represents a Like-for-Like (LFL) sales growth in the period of 2.7% and a 2 year LFL sales growth of 5.2%. This growth has been driven by the new and maturing Pep&Co 'Shop in Shops' including the clothing and accessories line, the introduction of new ranges and towards the end of the period under review the demise of a significant competitor, Poundworld, where formerly competed stores benefited from a transfer of trade. Offsetting these positive impacts, we continued to see a challenging retail environment, which was exacerbated as our main fresh food supplier entered administration during our second quarter. This resulted in severe short-term disruption in our supply to stores for this product as we changed to a new provider.

Our gross margin in the period was 36.2% (79 weeks to October 2017: adjusted – 36.7%) reflecting both the need to clear certain stock lines but also an increase in more multi-price products into our stores.

## Strategic report (continued)

### Results for the period (continued)

Total costs represented 34.7% of net sales (*79 weeks to 1 October 2017: adjusted - 36.6%*). The significant reduction in total costs from the prior period reflects the significant one-off non underlying costs incurred relating to the completion of the 99p rebranding program and also the restructuring activity after Steinhoff's acquisition but also improved cost management resulting in a reduction in the ongoing cost base of the business as a proportion of the net sales.

Operating profit of £22.5m has been recorded compared to an adjusted operating profit of £2.3m in the previous period. In addition, profit for the period of £14.4m has been recorded compared to an adjusted profit of £2.2m in the previous period.

### Principal risks and uncertainties

#### *Competition*

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

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

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

#### *Stock / inventory management – shrink and impact on working capital*

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

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

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

#### *Trading environment*

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

#### *Regulatory and political – national living wage, VAT, sugar tax*

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

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Colleague retention*

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

#### *Brexit*

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

### Future developments

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

#### Approval

Approved by the Board and signed on its behalf:



D Williams  
Director

Wellmans Road  
Willenhall  
West Midlands  
WV13 2QT

22 August 2019

## Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 30 September 2018 (2017: 79 weeks ended 1 October 2017).

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

### Future developments

Details of future developments can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

### Existence of branches outside the UK

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

### Going concern

The directors have a reasonable expectation that the Company 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.

### Financial risk management objectives and policies

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

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

#### Cash flow risk

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

#### Credit risk

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

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

#### Liquidity risk

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

### Dividends

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

### Directors

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

M Burton	(resigned 28 February 2019)
A Garbutt	(resigned 16 November 2018)
T Goalen	
B Williams	
R Ellis	(resigned 11 October 2018)
A Cooke	
P Allen	(appointed 2 October 2017)
S Cardinaal	(appointed 3 October 2017)
M Gray	(resigned 18 December 2017)
M Dawson	(resigned 30 November 2017)
J Jhuti	(resigned 6 October 2017)
D Williams	(appointed 10 September 2018)

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

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

### **Director indemnities**

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

### **Disclosure of information to auditor**

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

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

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

### **Future developments and events subsequent to the reporting date**

In July 2019 the company's intermediate holding company, Pepkor Europe Limited successfully re-financed the January 2018 external debt, which was due to expire in January 2020. The new facility is a two-and-a-half-year term debt to replace the existing facility, alongside a revolving credit facility to provide additional working capital headroom for the Pepkor Europe Limited Group (the "Group"). As part of this re-financing the Group will also take the opportunity to further reduce exposure to the Steinhoff Group through repayment of some shorter-term intercompany debt.

The Group completed the closure of its Dealz France operation during Spring 2019, allowing the Group to focus resources on the growth opportunity for Dealz in Spain and Poland.

Further future developments have been disclosed in the strategic report.

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

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

### **Environmental matters**

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

### **Employees**

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

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

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

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

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

### **Strategic report**

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

Approved by the Board and signed on its behalf by:



**D Williams**  
*Director*

Wellmans Road  
Willenhall  
West Midlands  
WV13 2QT

22 August 2019

## Directors' responsibilities statement

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

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

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

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

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

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

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

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

### **Opinion**

In our opinion the financial statements of Poundland Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 September 2018 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### **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 Financial Reporting Council's (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.

### **Conclusions relating to going concern**

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

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

We have nothing to report in respect of these matters.

### **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.

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

### **Other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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

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

### **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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in [the strategic report and] the directors' report for the financial period 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.

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

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

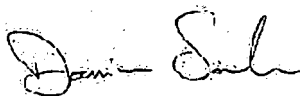
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

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

### **Use of our report**

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

A handwritten signature in black ink, appearing to read 'Damian Sanders', is positioned above the printed name.

Damian Sanders FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Manchester, United Kingdom

22 August 2019

**Income statement**  
*for the 52 weeks ended 30 September 2018*

	<i>Notes</i>	<b>52 weeks ended 30 September 2018</b>	<b>79 weeks ended 1 October 2017</b>		
			Adjusted	Non- underlying (note4)	Total
		£000	£000	£000	£000
<b>Revenue</b>	2	<b>1,522,633</b>	2,245,804	-	2,245,804
Cost of sales		(971,866)	(1,421,068)	(31,037)	(1,452,105)
<b>Gross profit</b>		<b>550,767</b>	824,736	(31,037)	793,699
Distribution costs		(471,984)	(740,117)	(88,296)	(828,413)
Administrative expenses		(56,283)	(82,629)	(10,038)	(92,667)
Other operating income		-	300	580	880
<b>Operating profit/(loss)</b>		<b>22,500</b>	2,290	(128,791)	(126,501)
Finance income	6	4,670	948	-	948
Finance expense	7	(11,880)	(2,163)	(122)	(2,285)
<b>Profit/(loss) before taxation</b>	3	<b>15,290</b>	1,075	(128,913)	(127,838)
Taxation	11	(939)	1,139	19,003	20,142
<b>Profit/(loss) for the period</b>		<b>14,351</b>	2,214	(109,910)	(107,696)

The notes on pages 17 to 38 form part of these financial statements.

All activities were continuing including acquisitions in the current and prior period. The accounting policy for non-underlying items is explained in note 1.19.

**Statement of other comprehensive income**  
*for the 52 weeks ended 30 September 2018*

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
<b>Profit/(loss) for the period</b>	<b>14,351</b>	<b>(107,696)</b>
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Effective portion of changes in fair value of cash flow hedges	1,682	(10,928)
Net change in fair value of cash flow hedges reclassified to profit or loss	10,500	(4,899)
Income tax on items that are or may be reclassified subsequently to profit or loss	(2,147)	2,637
<b>Other comprehensive income/(expense) for the period, net of income tax</b>	<b>10,035</b>	<b>(13,190)</b>
<b>Total comprehensive income/(expense) for the period</b>	<b>24,386</b>	<b>(120,886)</b>

The notes on pages 17 to 38 form part of these financial statements.

**Statement of financial position**  
*At 30 September 2018*

	<i>Note</i>	<b>30 September 2018 £000</b>	<b>1 October 2017 £000</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	128,707	122,256
Intangibles	13	94,537	93,392
Investments in subsidiaries	14	171	171
Trade and other receivables		-	350
Derivative financial instruments		3,131	493
Deferred tax asset	21	26,963	18,369
		<b>253,509</b>	<b>235,031</b>
<b>Current assets</b>			
Inventories	15	168,828	159,279
Tax receivable		434	10,678
Trade and other receivables	16	221,108	157,965
Derivative financial instruments		-	842
Cash and cash equivalents		25,170	26,835
		<b>415,540</b>	<b>355,599</b>
<b>Total assets</b>		<b>669,049</b>	<b>590,630</b>
<b>Current liabilities</b>			
Trade and other payables	17	(230,598)	(271,107)
Derivative financial instruments		(688)	(10,384)
Amounts due to group undertakings	18	(219,961)	(206,927)
Provisions	22	(11,273)	(14,257)
		<b>(462,520)</b>	<b>(502,675)</b>
<b>Non-current liabilities</b>			
Trade and other payables	19	(49,237)	(59,073)
Derivative financial instruments		(40)	(1,177)
Provisions	22	(44,908)	(50,303)
		<b>(94,185)</b>	<b>(110,553)</b>
<b>Total liabilities</b>		<b>(556,705)</b>	<b>(613,228)</b>
<b>Net assets (liabilities)</b>		<b>112,344</b>	<b>(22,598)</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	23	50	50
Share premium	23	112,959	-
Capital contribution reserve		9,517	9,517
Cash flow hedge reserve		804	(9,231)
Retained losses		(10,986)	(22,934)
<b>Total equity</b>		<b>112,344</b>	<b>(22,598)</b>

The notes on pages 17 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 22 August 2019 and were signed on its behalf by:



**D Williams**  
*Director*

Registered number: 2495645

**Statement of changes in equity**  
*for the 52 weeks ended 30 September 2018*

	Share capital	Share premium	Capital contribution reserve	Cash flow hedge reserve	Retained earnings/(losses)	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 28 March 2016	50	-	9,517	3,959	82,169	95,695
<b>Total comprehensive expense for the period</b>						
Loss for the period	-	-	-	-	(107,696)	(107,696)
Other comprehensive expense	-	-	-	(13,190)	-	(13,190)
<b>Total comprehensive expense for the period</b>	-	-	-	(13,190)	(107,696)	(120,886)
<b>Transactions with owners, recorded directly in equity</b>						
Equity-settled share based payment transactions (note 24)	-	-	-	-	2,593	2,593
<b>Total contributions by and distributions to owners</b>	-	-	-	-	2,593	2,593
Balance at 1 October 2017	50	-	9,517	(9,231)	(22,934)	(22,598)
Balance at 2 October 2017	50	-	9,517	(9,231)	(22,934)	(22,598)
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	14,351	14,351
Other comprehensive income	-	-	-	10,035	-	10,035
<b>Total comprehensive income for the period</b>	-	-	-	10,035	14,351	24,386
<b>Transactions with owners, recorded directly in equity</b>						
Equity-settled share based payment transactions (note 24)	-	-	-	-	(2,403)	(2,403)
Share premium on share issues	-	112,959	-	-	-	112,959
<b>Total contributions by and distributions to owners</b>	-	112,959	-	-	(2,403)	110,556
<b>Balance at 30 September 2018</b>	<b>50</b>	<b>112,959</b>	<b>9,517</b>	<b>804</b>	<b>(10,986)</b>	<b>112,344</b>

Both Cash flow hedge reserve and Capital contribution reserve are described in notes 1 (1.6) and 23 respectively.

The notes on pages 17 to 38 form part of these financial statements.

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

### 1 Significant accounting policies

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

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

#### *Basis of preparation*

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

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

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

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

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Transactions with key management personnel;
- Disclosures in respect of transactions with group companies; and
- The effects of new but not yet effective IFRSs.

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

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

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

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

#### **1.1 Measurement convention**

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

## Notes (continued)

### 1 Significant accounting policies (continued)

#### 1.2 Going concern

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

After its acquisition by the Steinhoff Group, the Company operated a facility with Steinhoff Europe AG. Following the ultimate parent company's announcement of accounting irregularities in December 2017, the Company, together with its indirect parent, Pepkor Europe Limited ("PEL"), sought to unwind these intercompany facilities to enable it to operate independently of the wider Steinhoff group. PEL obtained in January 2018 independent third party funding consisting of a two year facility of £180 million. The Company now draws on this facility, together with the wider Pepkor Europe Limited Group's (the "Group") positive operating cash flows, to meet its cyclical working capital requirements and capital investment needs. There is cash headroom available to manage potential future liquidity risk.

The PEL Group had €722.4m of borrowings as at 30th of September 2018, of which €329.2m was due to Group undertakings. In July 2019 the Group successfully re-financed the January 2018 external debt, which was due to expire in January 2020. The new facility is a two-and-a-half-year term debt for €475m to replace the existing facility, alongside a revolving credit facility to provide additional working capital headroom for the Group. As part of this re-financing the Group has also taken the opportunity to further reduce exposure to the Steinhoff Group through repayment of all of the short-term intercompany debt. The earliest repayment date for the remaining intragroup debt owed to the Steinhoff Group is September 2027.

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

In January 2018, intercompany loans payable to Steinhoff Europe AG were novated to PEL. These consisted of loans repayable on 3 months' notice of £190 million and €18.4 million and cash pool accounts of £17.0 million. In February 2018, the £190 million loan was split into loan A for £110.7 million and loan B for £79.3 million and the loans of £79.3 million, €18.4 million and £17.0 million were novated to Poundland Holdings Limited. Poundland Limited issued one ordinary £1 share at a premium of £113 million in settlement of this transaction.

The Company prepares detailed cash forecasts on a regular basis to anticipate and manage future funding requirements from intercompany facilities, extending for a period of at least 12 months from the date of approval of these financial statements. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. Whilst the company is in a net current liabilities position the directors have sought and received a letter of support from PEL.

Consequently, the directors believe that the Company is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

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

#### 1.3 Foreign currency

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

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

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.

## Notes (continued)

### 1 Significant accounting policies (continued)

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

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

#### 1.5 Non-derivative financial instruments

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

##### *Trade and other receivables*

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

##### *Trade and other payables*

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

##### *Investments in debt and equity securities*

Investments in subsidiaries are carried at cost less impairment.

##### *Interest-bearing borrowings*

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

#### 1.6 Derivative financial instruments and hedging

##### *Derivative financial instruments*

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

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

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

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

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

#### 1.7 Investments

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

## Notes (continued)

### 1 Significant accounting policies (continued)

#### 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 Intangible assets and goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

##### *Favourable leases*

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

##### *Other intangible assets*

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

##### *Amortisation*

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

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

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

#### 1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis.

#### 1.11 Employee benefits

##### *Defined contribution plans*

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

##### *Share-based payment transactions*

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

## Notes (continued)

### 1 Significant accounting policies (continued)

#### 1.12 Provisions

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### 1.13 Revenue

Revenue comprises the fair value of goods sold to external customers, net of value added tax and promotional sales discounts. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the customer and the amount of revenue can be measured reliably.

The business operates as one operating segment.

#### 1.14 Other operating income

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

#### 1.15 Operating lease payments

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

#### 1.16 Finance lease payments

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

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

#### 1.17 Taxation

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

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

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

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

## Notes (continued)

### 1 Significant accounting policies (continued)

#### 1.18 Supplier income

##### *Rebate income*

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

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

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

##### *Promotional funding*

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

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

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

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

#### 1.19 Non underlying items

Non underlying items are those items that, in the directors' judgement, should be disclosed separately in order to determine and fairly present the adjusted profitability of the business, in the absence of acquisition activity, integration activity and one-off or unusual items. Items that the directors consider material, either individually or in aggregate, and non-recurring in nature are presented as non-underlying in the income statement within their relevant income statement category. Items are judged to be material in the context of an individual project and its impact on the Company's overall results. Items that may give rise to classification as non-underlying include, but are not limited to, significant restructuring and rationalisation programmes, asset impairments, one-off provision releases and acquisition related costs. See Note 4 for details.

#### 1.20 Cash flow reserve

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

#### 1.21 Financial income and expenses

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

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

## Notes (continued)

### 1 Significant accounting policies (continued)

#### 1.22 Critical accounting estimates and judgements

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

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

#### Key sources of estimation uncertainty

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

#### Impairment of intangible assets

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

When value in use calculations are undertaken, the directors must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key source of estimation uncertainty is the growth rates applied. See Note 13 for details.

#### Onerous lease provisions

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

The most significant estimate in calculating the provisions are the estimates of future cash flows a leasehold property may generate. The Directors' consider the assumptions made represent their best estimate of future cash flows generated by onerous lease stores and have considered reasonably possible changes in this estimate when making their assessment. A 5% reduction in trading performance of these stores will result in an increase in provision of £2.86m and an increase in trading performance of 5% will result in a decrease in provision of £2.41m.

Onerous lease provisions are included within the provisions detailed in Note 22.

#### 1.23 Standards and interpretations applied and not yet applied by the Company

#### IFRS 16 Leases

IFRS 16 Leases will be applicable for the periods starting after 1 January 2019 and will therefore apply to the Company's set of accounts commencing 1 October 2019.

The Company will operate a modified retrospective approach where upon adoption, the initial asset will be equal to the discounted rate lease liability as of 30 September 2019. By taking this approach any prior figures will not be restated and IFRS 16 will be accounted for prospectively only.

Although the impact of IFRS 16 on the statement of comprehensive income is potentially large, IFRS 16 is essentially presentation and does not impact on the underlying cash generation of the business nor how we commercially operate and manage the business and the store portfolio.

## Notes (continued)

### 2 Revenue

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
United Kingdom	1,373,106	2,053,719
Republic of Ireland	146,045	187,176
Isle of Man	3,482	4,909
	<u>1,522,633</u>	<u>2,245,804</u>

Revenue stated above relates solely to the sale of goods.

### 3 Profit for the period

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
<i>Profit for the period has been arrived at after charging/(crediting):</i>		
Payments under operating leases:		
Other	7,855	13,632
Land and buildings	110,973	183,150
Depreciation and other amounts written off tangible fixed assets:		
Owned	21,049	42,199
Impairment of tangible fixed assets	-	11,333
Amortisation of other intangibles	1,958	2,714
Cost of inventories recognised as an expense	1,020,043	1,471,287
Write downs of inventories recognised as an expense	7,631	26,546
(Gain)/loss on foreign exchange	(780)	6,494
	<u>                    </u>	<u>                    </u>

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
<i>Auditor's remuneration</i>		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	513	145
	<u>                    </u>	<u>                    </u>

No non-audit services have been performed by the company's auditor in either the current or prior period.

## Notes (continued)

### 4 Non-underlying

In the prior period, the more significant elements of the non-underlying expense were incurred following the change of control as a result of significant focus on restructuring the business. There were £nil non-underlying expenses in the current period.

The associated tax implications are set out below.

	79 weeks ended 1 October 2017 £000
<b>Cost of sales</b>	
Stock rationalisation program	31,037
<b>Distribution costs</b>	
Integration and conversion of 99p Stores into the Poundland estate	2,370
Store restructuring program	17,360
Distribution restructuring program	3,355
Dilapidations provision	15,313
Onerous contract provisions and related asset impairments	47,079
Other acquisition related adjustments	2,819
	<hr/> 88,296 <hr/>
<b>Administrative expenses net of other operating income</b>	
Integration and conversion of 99p Stores into the Poundland estate	4,724
Staff restructuring program	4,364
Other acquisition related adjustments	(210)
Other operating income	580
	<hr/> 9,458 <hr/>
<b>Net finance expenses</b>	
Relating to intercompany loans with 99p Stores Limited	122
<b>Taxation</b>	
Impact of adjusted items	(19,003)
	<hr/>
<b>Total adjusted items</b>	<hr/> 109,910 <hr/>

### 5 Reconciliation of adjusted profit measure ("EBITDA")

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

In the previous period, the more significant elements of the non underlying expense were incurred following the change of control as a result of significant focus on restructuring the business.

## Notes (continued)

### 5 Reconciliation of adjusted profit measure ("EBITDA") (continued)

#### Cost of sales

Cost of sales had been impacted by the stock rationalisation program (£31 million). This identified slow moving stock and removed it from the business, ensuring that retail space was used in the most efficient manner and stores could benefit from the new clothing and multiprice ranges.

#### Distribution costs

Distribution costs included £17 million relating to the store restructuring program. Following the 99p Stores acquisition (note 13), there were a number of co-located stores in the retail estate, contributing a negative EBITDA. The program involved the closure of these sites. The costs incurred included the cost of site disposal, occupancy costs after the cessation of trade and impairment of related assets.

A further £3 million was incurred reorganising the distribution network: A new distribution centre was opened in Wigan, and the Northampton distribution centre ceased operations.

Distribution costs also included £65 million of accounting adjustments required either to align the Company's accounting policies with Steinhoff Group accounting policies. The most notable of these are the inclusion of a provision for onerous contracts and the related asset impairment and the inclusion of a dilapidations provision. These accounting adjustments had been presented as non underlying due their size and one off nature.

Distribution costs included an element of expenses incurred relating to the integration and conversion of 99p Stores into the Poundland estate (£2 million). This represents the completion of the rebranding program. In total, 236 units were transferred to the Poundland fascia, representing a significant increase to the retail estate. Costs included the closure of the former 99p Stores distribution facilities.

#### Administrative expenses

Administrative expenses were also impacted by the integration and conversion of 99p Stores into the Company estate (£5 million).

Following the Steinhoff Group acquisition, head office operations were restructured, incurring a cost of £4 million.

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

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Operating profit/(loss)	22,500	(126,501)
Exclude:		
Amortisation of goodwill	1,958	2,714
Depreciation (excluding reclassification of capital contributions)	21,049	42,199
Impairment of fixed assets	-	11,333
<b>EBITDA</b>	<b>45,507</b>	<b>(70,255)</b>
Exclude:		
Adjusted items	-	128,791
Add back		
Adjusted depreciation	-	(5,876)
Adjusted impairment	-	(11,333)
<b>Adjusted EBITDA</b>	<b>45,507</b>	<b>41,327</b>

## Notes (continued)

### 6 Finance income

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
On amounts owed by group undertakings	4,173	69
Bank interest receivable	50	34
Ineffective portion of changes in fair value of cash flow hedges	447	845
	<u>4,670</u>	<u>948</u>

### 7 Finance expense

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
On amounts owed to group undertakings	11,591	2,233
Bank interest payable	2	52
Finance lease interest	287	-
	<u>11,880</u>	<u>2,285</u>

### 8 Dividends

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Amounts recognised as distributions to owners in the financial period	-	-

## Notes (continued)

### 9 Staff numbers and costs

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

	Number of employees	
	52 weeks ended 30 September 2018	79 weeks ended 1 October 2017
Administration	433	477
Selling and distribution	17,431	18,211
	<hr/>	<hr/>
	17,864	18,688
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	223,232	347,537
Social security costs	13,357	19,200
Other pension costs (note 27)	2,218	2,866
Share based payments expense (note 24)	(2,403)	2,593
	<hr/>	<hr/>
	236,404	372,196
	<hr/>	<hr/>

### 10 Remuneration of directors

#### Remuneration

The remuneration of the directors was as follows:

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Emoluments	3,753	5,539
Company contribution to defined contribution pension scheme	202	246
Compensation for loss of office	333	682
Long term incentive schemes	-	1,723
	<hr/>	<hr/>
	4,288	8,190
	<hr/>	<hr/>

Nine directors (79 weeks ended 1 October 2017: eleven) were members of the defined contribution pension schemes.

#### Highest paid director

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

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Emoluments	776	678
Company contribution to defined contribution pension scheme	40	17
Long term incentive schemes	-	380
	<hr/>	<hr/>
	816	1,075
	<hr/>	<hr/>

## Notes (continued)

### 11 Taxation

#### Analysis of charge/(credit) for the period

	52 weeks ended 30 September 2018		79 weeks ended 1 October 2017	
	£000	£000	£000	£000
<i>Current tax</i>				
Current tax on profit/(loss) for the period	5,719		(7,081)	
Adjustments in respect of prior periods	5,961		2,372	
Total current tax charge/(credit)		11,680		(4,709)
<i>Deferred tax</i>				
Origination and reversal of timing differences	(2,362)		(15,556)	
Effect of change in tax rate	-		484	
Adjustment in respect of prior periods	(8,379)		(361)	
Total deferred tax credit		(10,741)		(15,433)
Total charge/(credit) for the period		939		(20,142)

#### Factors affecting the tax charge/(credit) for the period

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

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Profit/(loss) before tax	15,290	(127,838)
Current tax at 19% (79 weeks ended 1 October 2017: 19.67%)	2,905	(25,146)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	803	4,987
Depreciation less than capital allowances for period and other timing differences	-	(511)
Adjustments to tax charge in respect of previous period	(2,418)	2,011
Overseas rate adjustment	(978)	(1,529)
Effect of share based payments	438	(438)
Change in tax rate	189	484
Total tax charge/(credit) for the period	939	(20,142)

#### Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 30 September 2018 has been calculated based on these rates.

**Notes (continued)**

**12 Property, plant and equipment**

	Short leasehold property £000	Fixtures and equipment £000	Total £000
<b>Cost</b>			
At beginning of period	132,095	161,936	294,031
Additions	8,548	23,151	31,699
Disposals	(1,900)	(2,678)	(4,578)
At end of period	138,743	182,409	321,152
<b>Depreciation</b>			
At beginning of period	67,813	103,962	171,775
Charge for the period	465	24,783	25,248
On disposal	(1,900)	(2,678)	(4,578)
At end of period	66,378	126,067	192,445
<b>Net book value</b>			
At 30 September 2018	72,365	56,342	128,707
At 1 October 2017	64,282	57,974	122,256

The Company's obligations under finance leases (see note 20), all of which relate to fixtures and equipment and have a carrying amount of £12.4 million (2017: £13.0 million), are secured by the lessor's title to the assets. Depreciation charged on assets under finance leases in the 52 week period is £2.5 million (79 weeks to October 2017: £4.2 million). Depreciation charge for the period includes reclassification of capital contributions of £4.2m.

## Notes (continued)

### 13 Intangible assets

	Goodwill	Favourable leases	Trademarks	Software	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At beginning of period	91,284	1,112	123	7,709	100,228
Additions	-	-	-	3,103	3,103
Disposals	-	-	-	(35)	(35)
At end of period	91,284	1,112	123	10,777	103,296
<b>Amortisation</b>					
At beginning of period	-	281	105	6,450	6,836
Amortisation for the period	-	186	12	1,760	1,958
Disposals	-	-	-	(35)	(35)
At end of period	-	467	117	8,175	8,759
<b>Net book value</b>					
At 30 September 2018	91,284	645	6	2,602	94,537
At 1 October 2017	91,284	831	18	1,259	93,392

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

#### Impairment

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. The recoverable amount has been determined based on value in use. Where the recoverable amount is less than the carrying value, an impairment results. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which the directors monitor that goodwill. In this instance the goodwill arising in the Company has been assessed as part of the Poundland Stores CGU. During the period, all goodwill was tested for impairment, with no impairment charge resulting (2017: No impairment).

In assessing the value in use, the five year business plan was used to provide cash flow projections to the period ended September 2023 and thereafter a terminal P&L for future years into perpetuity. The cash flow projections are subject to key assumptions in respect of discount rates and achievement of future revenue and EBITDA growth. The directors have reviewed and approved the assumptions inherent in the model as part of the annual business plan and budget process using historic experience and considering economic and business risks facing the Company.

In assessing the Company's value in use a pre-tax discount rate of 10.4% (2017: 9.3%) has been applied for the first five years and 9.4% (2017: 9.3%) for the terminal value. In assessing future revenue growth of 0.6% CAGR was assumed for the first 5 years, in line with business plan assumptions and 2% for the terminal value.

In addition to the projected sales growth modelled above, EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements from 3.0% in FY2019 to 5.3% of net sales by FY2023 and then to 5.6% in perpetuity.

## Notes (continued)

### 13 Intangible assets (continued)

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

	52 weeks ended 30 September 2018 £000	79 weeks ended 1 October 2017 £000
Distribution costs	361	1,418
Administrative expenses	1,597	1,296
	<u>1,958</u>	<u>2,714</u>

### 14 Investments in subsidiaries

	30 September 2018 £000	1 October 2017 £000
Shares in subsidiary undertakings, at cost	171	168
Additions	-	171
Less: Impairment provision	-	(168)
	<u>171</u>	<u>171</u>

During the prior period, the Company acquired a 100% shareholding in Pepkor UK Retail Limited and GHM Stores Limited. It also acquired a 50% shareholding in Dealz Poland Sp. z o.o.

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

	Principal activity	Country of incorporation	Proportion of ordinary shares held %
M & O Business Systems Limited*	Dormant	England	100
Bargain Limited*	Dormant	England	100
Homes & More Limited*	Dormant	England	100
Poundland Far East Limited*	Product sourcing	Hong Kong	100
Poundland Stores Limited*	Dormant	England	100
Poundland International Limited *	Investment company	England	100
Sheptonview Limited*	Dormant	England	100
Dealz Retailing Ireland Limited*	Dormant	Republic of Ireland	100
Dealz Espana SL**	Value retailer	Spain	100
Dealz Poland Sp zo.o.*	Value retailer	Poland	50
Vaocluse Diffusion SA**	Value retailer	France	100
Pepkor UK Retail Limited*	Value retailer	England	100
GHM Stores Limited*	Value retailer	England	100

\* directly held

\*\* indirectly held

## Notes (continued)

### 14 Investments in subsidiaries (continued)

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

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

Dealz Espana SL's registered address is: B86867515, Calle Bravo, Murillo 192, Madrid, Spain.

Dealz Retailing Ireland Limited's registered address is: Unit 3, Westend Retail Park, Blanchardstown, Dublin 15, Republic of Ireland.

Dealz Poland Sp. Z o.o.'s registered address is: Strzeszynska 73a Street, Poznan, Poland.

Vauluse Diffusion SA registered address is: 1 bis avenue Guy de Maupassant, 13170 Les Pennes Mirabeau, France.

### 15 Inventories

	30 September 2018 £000	1 October 2017 £000
Goods purchased for resale	141,144	134,535
Goods in transit	27,684	24,744
	<u>168,828</u>	<u>159,279</u>

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

### 16 Trade and other receivables

	30 September 2018 £000	1 October 2017 £000
Trade receivables	7,317	5,729
Amounts owed by Group undertakings	175,017	120,214
Prepayments and accrued income	38,554	32,022
Other debtors	220	-
	<u>221,108</u>	<u>157,965</u>

Amounts owed by group undertakings which are interest bearing total £94,800,000 (2017: £64,100,000). The remaining balance is non-interest bearing and is repayable on demand.

## Notes (continued)

### 17 Trade and other payables

	30 September 2018 £000	1 October 2017 £000
Trade payables	102,778	131,645
Other taxation and social security	17,898	11,776
Amounts owed to Group undertakings	24,798	43,268
Other payables	-	2,184
Obligations under finance leases	3,021	2,482
Accruals and deferred income	82,103	79,752
	<u>230,598</u>	<u>271,107</u>

### 18 Current liabilities – Amounts owed to group undertakings

Included within current liabilities are amounts owed to group undertakings of £219,961,000 which are interest bearing at the Bank of England base rate plus 2.35% and repayable on three months' notice (2017: £206,927,000).

### 19 Non-current liabilities

	30 September 2018 £000	1 October 2017 £000
Accruals and deferred income	39,824	48,582
Obligations under finance leases	9,413	10,491
	<u>49,237</u>	<u>59,073</u>

### 20 Obligations under finance leases

Analysis of assets held under finance leases:

	30 September 2018 £000	1 October 2017 £000
Cost	12,395	12,395
Accumulated depreciation	-	-
	<u>12,395</u>	<u>12,395</u>

Finance lease liabilities are payable as follows:

	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	3,289	277	3,012
Between one and five years	9,740	357	9,383
Over five years	-	-	-
	<u>13,029</u>	<u>634</u>	<u>12,395</u>

## Notes (continued)

### 21 Deferred tax

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

	£000
Deferred tax asset at beginning of period	18,369
Recognised in the income statement	10,741
Recognised in other comprehensive income	(2,147)
<b>Deferred tax asset at end of period</b>	<b>26,963</b>

	30 September 2018 £000	1 October 2017 £000
Property, plant and equipment	13,146	9,837
Other financial assets	2,210	(224)
Trade and other payables	251	354
Other financial liabilities	124	8,402
Other timing differences	162	-
Tax losses	11,070	-
<b>Deferred tax asset</b>	<b>26,963</b>	<b>18,369</b>

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

### 22 Provisions

	30 September 2018 £000	1 October 2017 £000
At beginning of period	64,560	4,399
Provisions made during the period	3,184	76,960
Arising from acquisition	-	4,373
Provisions utilised during the period	(11,490)	(20,545)
Provisions reversed during the period	(73)	(627)
	<b>56,181</b>	<b>64,560</b>
Non-current	44,908	50,303
Current	11,273	14,257
	<b>56,181</b>	<b>64,560</b>

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

## Notes (continued)

### 23 Share capital

	30 September 2018 £000	1 October 2017 £000
<i>Authorised, allotted, called up and fully paid:</i>		
50,001 ordinary shares of £1 each	50	50

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

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

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

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

### 24 Share based payments

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

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

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

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

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

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

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

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

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

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

## Notes (continued)

### 24 Share based payments (continued)

#### 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 79 week period to 1 October 2017.

For the 52 weeks ended 30 September 2018

	Steinhoff Awards		PSP		RSP		CSOP	
	Weighted average exercise price (£)	Number of options (000)	Weighted average exercise price (£)	Number of options (000)	Weighted average exercise price (£)	Number of options (000)	Weighted average exercise price (£)	Number of options (000)
Outstanding at 1 October 2017	3.96	634	-	989	-	-	3.73	363
Cancelled during the period	-	-	-	(989)	-	-	(3.73)	(363)
Outstanding at 30 September 2018	3.96	634	-	-	-	-	-	-

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

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

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

#### Save As You Earn (SAYE)

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

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

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

#### Aggregate share based payment expense

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

	30 September 2018 £000	1 October 2017 £000
Equity settled share based payment (income)/expense	(2,403)	2,593

## Notes (continued)

### 25 Operating lease commitments

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

	Land and buildings		Other	
	30 September	1 October	30 September	1 October
	2018	2017	2018	2017
	£000	£000	£000	£000
Operating leases which expire:				
Less than one year	111,078	116,767	4,512	4,810
Between one and five years	307,709	354,171	2,783	4,789
More than five years	158,499	180,533	-	-
	<u>577,286</u>	<u>651,471</u>	<u>7,295</u>	<u>9,599</u>

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

### 26 Capital commitments

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

	30 September	1 October
	2018	2017
	£000	£000
Acquisition of property, plant and equipment	<u>2,582</u>	<u>802</u>

### 27 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £2,218,000 (72 weeks ended 1 October 2017: £2,866,000). Contributions amounting to £524,000 (1 October 2017: £283,000) were payable to the scheme at the period end and are included in accruals.

### 28 Transactions with related parties

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

### 29 Ultimate parent company

The Company is a direct subsidiary undertaking of Poundland Holdings Limited and an indirect subsidiary of Pepkor Europe Limited which are both registered in England and Wales. Poundland Holdings Limited's registered address is Wellmans Road, Willenhall, WV13 2QT.

#### Relationship between entity and parents

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

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

### 30 Subsequent events

The PEL Group had €722.4m of borrowings as at 30th of September 2018, of which €329.2m was due to Group undertakings. In July 2019 the Group successfully re-financed the January 2018 external debt, which was due to expire in January 2020. The new facility is a two-and-a-half-year term debt for €475m to replace the existing facility, alongside a revolving credit facility to provide additional working capital headroom for the Group. As part of this re-financing the Group has also taken the opportunity to further reduce exposure to the Steinhoff Group through repayment of all of the short-term intercompany debt. The earliest repayment date for the remaining intragroup debt owed to the Steinhoff Group is September 2027.