

## **Poundland Limited**

Annual report and financial statements

Registered number 2495645  
for the 52 week period ended  
27 September 2020



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## Strategic report

### Principal activity and business review

The Directors present their strategic report for the 52 weeks ended 27 September 2020.

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.

This was Poundland’s 30<sup>th</sup> anniversary, with the business being established in 1990. However, it was perhaps not the Birthday year the Directors had anticipated. The year under review has seen the business continue to implement a number of strategies in order to improve its profitability for the longer term. However, in common with a number of bricks and mortar retailers we have been adversely impacted by the various Covid-19 related government restrictions introduced during the period in the territories in which we operate. In particular, the UK retail landscape has remained challenging throughout the period, with a number of high street names entering into Company Voluntary Arrangements (“CVA’s”) to reduce their cost base, or indeed falling into administration. As an essential retailer we continued to serve our communities during these restrictions, however Covid-19 significantly adversely impacted customer footfall in our stores during the year and as a consequence both our turnover and profitability declined. Our turnover for the 52 weeks ended 27 September 2020 was £1.48 billion, a fall of 4.5% from the prior year, and whilst we remained profitable at an operating level our Underlying Operating Profit fell by 44.8% to £14.7m. Underlying Operating Profit is defined as reported operating profit excluding the impact of non-underlying items for the period set out in note 5.

Despite these headwinds the Directors have proactively managed the Company’s cash and liquidity and at 27 September 2020 cash balances stood at £63.6m compared to £26.4m at the end of the prior year.

In order to continue to offer our customer amazing value everyday we have invested in our proposition and new product ranges during the period. Building on our existing multi-price offer, we trialled an expanded offer in our key FMCG categories of Grocery, Household and Health and Beauty. This was successful and in the first quarter of the financial year we launched the new offer in all of our UK stores and in the second quarter in our ROI stores. We have continued extending our multi-price offer into other FMCG ranges and also into various general merchandise categories. Following on from the success of our ‘Shop-in-shop’ Pep&Co clothing offer we trialled a reduced offer in a smaller footprint and we commenced a roll-out to further stores.

The Company is also implementing a programme of SKU rationalisation intended to simplify the operating model and also to make available additional space in which to introduce further new or extended categories that we are confident, based on market research, would be welcomed and bought by our existing customers.

Most significantly, these new categories include chilled and frozen food, a market in the UK of c. £13bn as of 2019. Following a successful trial of numerous stores, the chilled and frozen range was successfully rolled out to 80 stores during the year under review and will be rolled out in over 400 UK stores during the next two financial years. Our participation in this market will be enabled by the acquisition in October 2020 of the Fultons Food business.

Fultons provided category management and logistics capability to Poundland during the initial trial period. The acquisition will immediately add both significant sector experience and scale operating capability to the Company, allowing us to accelerate our planned expansion of the chilled and frozen proposition.

As part of a wider programme of category extension, we are also developing an expanded homewares assortment which will leverage the Pep&Co brand in the approximately £1.5bn portion of the market Poundland is targeting.

Building on the success of the initiatives set out above we have combined them into a single roll-out programme to our stores. Anchored around the extended chilled and Frozen proposition under “Project Diamond” we intend to refit c450 stores over the course of the next two years.

Our cost base remains a key focus for the Company. During the period we continued with our plans to streamline our distribution and back office functions and subsequent to the year end we have moved to a new Customer Support Centre (“CSC”) in Walsall, approximately three miles from our previous base. This has led to the closure of our former CSC and the adjoining warehouse in 2021.

We continue to review and invest in our retail estate favouring quality over quantity and during the period we opened 19 stores and closed 32 loss-making/under-performing stores. At the period-end we were trading from 825 stores in the UK and ROI. The Directors believe there is a significant opportunity to expand operating margins through continued reduction of rents in our existing stores and during the year we have again been successful in doing so when renewing leases.

## Strategic report (continued)

### Principal activity and business review (continued)

During the period we have continued to invest in our IT systems, notably in a new Oracle ERP system. However Covid-19 resulted in us pausing our investment programme for a period of time during the year and as a consequence we currently expect we will complete the ERP implementation during 2021 and 2022.

In April 2021 the Company's parent undertaking, Pepco Group ("the Group") refinanced its existing borrowings arrangements, excluding IFRS16 liabilities with a senior facilities agreement comprising (i) a 3-year €300m term loan facility; (ii) a 5-year €250m term loan facility; and (iii) a €190m multicurrency revolving credit facility maturing after 5 years (the New Senior Facilities Agreement). As a member of the Pepco Group the Company will benefit from the increased access to funding that the refinancing brings across the respective timeframes.

The Group is well progressed on an exercise to simplify its legal structure. This has resulted in certain Company investment and intercompany balances being moved around the Group and will consequently result in a number of dormant or redundant entities being struck off in 2021.

### Strategic aims

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

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

### Key performance indicators

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

	52 weeks to 27 September 2020	52 weeks to 29 September 2019
Revenue (£m)	1,477	1,543
Company adjusted EBITDA (£m) (note 4)	127.9	54.6
Underlying EBITDA margin (%)	8.7	3.5
Number of stores	825	838

### Results for the period

The results for the period are set out in the income statement on page 17.

Revenue in the 52 week period is £1.5 billion (52 weeks to 29 September 2019: £1.5 billion). Like-for-Like (LFL) sales in the period and on a 2 year basis were broadly stable. In total sales declined by 4.3% in the period and declined by 3.0% on a 2 year basis.

Our gross margin in the period was 36.5% (52 weeks to 29 September 2019: 37.4%) reflecting both the need to clear certain stock lines but also an increase in more multi-price products into our stores.

Total costs represented 36.2% of net sales (52 weeks to 29 September 2019: 35.7%) mainly arising from the absorption of the Pep&Co back office functions into the main Poundland operations.

Operating profit of £8.6m has been recorded compared to an operating profit of £26.7m in the previous period. In addition, loss for the period of £15.8m has been recorded compared to profit of £14.3m in the previous period.

Company adjusted EBITDA was £127.9m compared to £54.6m in the previous period. This included a £78.3m benefit resulting from the first-time adoption of IFRS16 in the period (note 27).

The number of stores fell by a net 13 during the period as the business continued a strategy of optimising the store portfolio as leases reach their expiry date.

## Strategic report (continued)

### Results for the period (continued)

Despite the impact of Covid-19, the Company increased its cash in the period from £26.3m to £63.6m, driven by effective working capital management as part of our response to Covid-19, which included stock cancellations or deferrals, renegotiations of payment terms with key suppliers and reductions in operating costs during the lockdown periods.

Purchase of software in the year to 27 September 2020 was £18.6m (52 weeks to 29 September 2019: £2.7m), with the most significant investments relating to new Oracle ERP system.

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

#### *Trading environment*

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

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

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

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Colleague retention*

The success of the Company's strategy depends on the continuing services of the Directors 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*

The UK formally left the EU in January 2020 and the transition period where the UK remained part of the EU's customs union and single market ended on 31st December 2020. Whilst new trading arrangements were introduced on 1 January 2021 the Board expects there to be a period of disruption principally in respect of stock movements across UK/EU borders.

In anticipation of this the Company accelerated the delivery of certain key lines into Ireland prior to the end of the transition period. Early evidence is that there are likely to be significant border problems in the short term which may lead to product shortages in our Irish businesses.

#### **Covid-19 Pandemic**

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

Poundland as an 'essential retailer', has continued to trade throughout the pandemic, albeit initially in April 2020 from c85% of the store estate with the remaining stores closed where reduced customer traffic made them unprofitable in the short-term.

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

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

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

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

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

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

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

## **Strategic report (continued)**

### **S172(1) Statement & our Stakeholders**

This section describes how the Board have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in relation to their decision making.

#### **Our stakeholders**

The Board recognises that to achieve its vision and purpose evaluating and considering the interests of its stakeholders are key to the Company's success. The Board considers that our key stakeholders are our customers, colleagues, suppliers and the communities where we operate.

The board uses a number of methods through which it is able to determine and appraise the interests of stakeholders to inform discussion by the Board and its decision-making. This includes a range of activities from regular management reports through to other forms of direct engagement by members of the Board.

#### **Having regard to the interests of the Company employees**

##### **Employee engagement**

Our colleagues rely on us to provide stable employment and opportunities to realise their potential in a working environment where they can be at their best. This year the Company prioritised workplace engagement, seeking to provide a positive workplace experience and creating an environment where our colleagues can excel in a safe environment where all colleagues have equal access to professional and personal development opportunities.

We have a range of formal and informal channels in place across our business through which our workforce shares ideas and concerns with senior management.

Colleagues are kept informed of performance and strategy through regular presentations and updates from members of local management.

Departmental 'colleague voice' meetings occur regularly during which employees who have been elected by colleagues meet with local management to discuss employee issues. Issues raised during these meetings are escalated to the People Director.

##### **Diversity, Inclusion and Wellbeing**

With regard to health, safety and wellbeing, the Company has introduced a number of health and wellbeing initiatives. This year the Company partnered with Mental Health UK to provide our colleagues with support for their wellbeing. We have also initiated discussion groups within our workplace to focus on mental health issues and diversity and inclusion.

In the coming year the Company will initiate regular employee engagement surveys which will cover the vast majority of the Company workforce. The results will be reported to and discussed by the Board.

##### **Board decision-making and stakeholder interests**

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of the workforce.

#### **Having regard to the need to foster the Company business relationships with customers, suppliers and others**

##### **Customers**

##### Engagement

Understanding the needs of our customer informs every aspect of our business strategy and customer footfall and transaction growth are key metrics against which we measure our success as a business.

The Directors regularly visit our stores to observe and receive feedback from customers directly, as well as receiving feedback from store colleagues and management with respect to customer views, trends and behaviour. We have worked to improve our customers' in-store experience by transforming the layout of our stores, improving our price offer and expanding our product offering. Within the Company, the extension of our homewares range, the broadening of our food offering to include and extended chilled range and frozen foods and the introduction of other new product categories including a trial of beers, wines and spirits and health and wellbeing products are a direct result of customer feedback.

## Strategic report (continued)

### S172(1) Statement & our Stakeholders (continued)

#### Board decision-making and stakeholder interests

The Directors provide updates to the Board on their perceptions of customer sentiment and a broader market view. Customer feedback drives our buying strategy, the development of our in-store proposition, the location and format of our stores and decisions to invest in new markets. The Board also reviews market insight collated by retail strategy consultants. Recent market insight relating to the impact of Covid-19 on UK customer behaviour and post-Covid macro-economic trends has informed the Board's continuous review of the Company strategy.

With the interests of customers in mind, during the year the Board reviewed proposals in respect of: new store openings; further multi-price development; and product category development, including completing the acquisition of Fultons Frozen Foods completed in October 2020. In addition, after successful trials the Company commenced a major refit programme (Project Diamond) anchored around the introduction of extended chilled and frozen ranges.

#### **Suppliers**

##### Engagement

The scale and sourcing advantage afforded to the Company by our low-cost direct sourcing model is a key area of competitive advantage to the Company, and our competitive advantage can only be achieved with strong relationships with our suppliers. We regularly meet with our suppliers on an individual ad-hoc basis and (in more normal pre-Covid times) at least once a year in a structured forum in which our senior management presents to our key suppliers on the Company growth plan and to give feedback on supplier performance. The Company is working with key strategic suppliers to build long term partnerships in order to secure a foundation to grow and develop with us.

Examples of our engagement with suppliers include sharing fabric, silhouette and colour forecast trends and offering technical training in new fabric developments and technical processes relating to washing, dyeing and performance of fabrics. We have initiated a supplier support program with selected strategic suppliers to share skills and expertise on factory efficiency and end to end sourcing initiatives. These initiatives will generate benefits that will be shared between our suppliers and our business.

#### Board decision-making and stakeholder interests

Throughout the year the Board was briefed on the Company strategy with regard to suppliers, notably on the establishment of partnerships with our key strategy suppliers and the development of the supplier support program. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the designed quality and service levels for our customers. See also below with regard to ethical trading and our focus on suppliers as part of maintaining a reputation for high standards of business conduct.

### **Having regard to the impact of the Company operations on the community and the environment**

#### **Engagement**

Communities and the wider public expect us to act as a responsible company and neighbour, and to minimise any adverse impact we might have on local communities and the environment. We are committed to contributing to the communities in which we serve. We do this by providing clean and safe stores, developing an ethical supply chain and by directly giving back to our local communities.

We have established a unique partnership with three Charities, Tommy's, Make-a-Wish and Whizz Kidz and are pleased to have recently renewed these relationships for a further 2 years. In addition, we have recently announced our intention to establish a charitable foundation, The Poundland Foundation to maximise our ability to contribute to our local communities.

We have key strategic objectives to reduce our impact on the environment. We are actively engaged with our key suppliers and factories to ensure that our products are sustainably sourced, to increase our use of recycled material and to reduce unnecessary product packaging. We are working with our suppliers to identify sustainable production techniques and we are optimising our supply chain and logistics to eliminate air freight, use alternative fuels and to more efficiently use road transport. In our stores, offices and warehouses we have introduced initiatives to reduce energy, water and paper usage.

#### Board decision-making and stakeholder interests

The Board supports the Company goals and initiatives with regard to reducing adverse impacts on the environment and supporting the communities that our businesses serve. In 2021 the Board intends to give further consideration to the Company approach to climate change and further measures we can take to contribute to the reduction of our impact on the environment.



## Strategic report (continued)

### S172(1) Statement & our Stakeholders (continued)

#### Ethical trading and responsible sourcing

The Audit Committee exercises oversight over the Company approach to ethical trading and responsible sourcing and reports to the Board on topics as appropriate. We are committed to embedding practices of ethical trading and responsible sourcing across our business and the Board is actively engaged in the development of a clear and actionable sustainability agenda.

We require our suppliers to adhere to our Supplier Ethical Code of Conduct and we have implemented compliance guidelines to ensure that suppliers comply with our standards of ethical business practice. We give training to our suppliers on issues of ethics and sustainability and conduct assurance checks on suppliers through supplier visits, meetings and presentations and factory visits with both existing and new suppliers.

#### 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.

#### Subsequent events

In October 2020, Poundland Limited purchased 100% of the issued share capital of Viewtone Trading Group Limited (trading as "Fultons") and its subsidiaries. This will allow Poundland to utilise Fultons significant sector experience and scale operating capability to accelerate the expansion of its chilled and frozen foods proposition. At the date of approval of the financial statements, the initial accounting for the business combination is incomplete, therefore no estimate of the financial impact of the transaction on the Company, or the goodwill and other intangible assets to be recognised on acquisition can be provided.

#### Approval

Approved by the Board and signed on its behalf:



**D Williams**  
Director

Midland Road  
Walsall  
West Midlands  
WS1 3TX

5 August 2021

## Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 27 September 2020 (2019: 52 weeks ended 29 September 2019).

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

### Existence of branches outside the UK

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

### Going concern

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

Operating as a discount retailer with a clear strategic focus that has illustrated its financial strength and robustness throughout the Covid-19 pandemic, the Company is well placed to withstand, and potentially benefit from, the volatility within the economic environment.

Based on the Company's cash flow forecasts and financial projections, alongside assessment of a robust set of plausible but aggressive downside stress test scenarios, the Directors are satisfied that the Company will be able to operate within the levels of its facilities and resources for the foreseeable future and deem it appropriate to adopt the going concern basis in preparing the financial statements.

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

### Financial risk management objectives and policies

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

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

#### Cash flow risk

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

#### Credit risk

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

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

#### Liquidity risk

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

#### Covid-19 risk

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

#### Dividends

Dividends declared for the period are set out in below in note 9.

## Directors' report (continued)

### Directors

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

T Goalen  
B Williams  
A Cooke  
P Allen (resigned 19 March 2021)  
S Cardinaal  
D Williams

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

### Director indemnities

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

### Disclosure of information to auditor

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

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

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

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

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

### Policy and practice on payment of creditors

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

### Environmental matters

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

### Employees

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

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

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

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

### Energy and Carbon Reporting

Details of the Company's energy use and emissions information is set out within the group's reporting and is available within the Pepco Group Limited annual report.

## Directors' report (continued)

### Business Relationships

Information on business relationships is included within the S172(1) report.

### Company Corporate Governance Report

For the year ended 30 September 2020, under the Companies (Miscellaneous Reporting) Regulations 2018, the Board has reviewed the Company's Corporate Governance status against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018.

The Board believes that good Corporate Governance principles are an important means of determining a process of integrity and efficiency in the Company and the wider community in which the Company operates, as well as providing a sound framework within which the business both operates and makes key decisions. While recognising that there is an ongoing need to make improvements in Corporate Governance, the Board consider that the Company is adhering to the Wates Principles in an appropriate way.

### Purpose and Leadership

The Board determines the long-term strategy and direction of the Company in agreement with the Pepco Group. The Company's strategy is to create amazing value for its customers every day, through price leadership and product innovation, and this is underpinned by a series of Leadership Principles in which Senior Management have been trained and engaged in their development.

The purpose of the business is clearly defined through three value drivers, 'customer focused', 'people led' and 'tech enabled' and these have been present in colleague communications as well as quarterly roadshows to communicate and embed them in the culture of the organisation.

### Board Composition

The Board comprises the Managing Director, Finance Director, Logistics Director, Trading Director, Retail and Transformation Director, IT Director and the Chief Operating Officer of the Company parent, Pepco Group. Board members bring a wealth of experience from various backgrounds in Executive roles in Retail, including clothing, discount retail and large supermarket chains, as well as Merchandising, Supply Chain, Logistics and Accountancy.

The chairmanship of the Company's governance Committees has been determined by relevant Directors experiences, with the Board of Directors chaired by the Managing Director, Assurance and Risk Committee by the Finance Director, Health and Product Safety Committee by the Logistics Director, and Data Governance Committee by the IT Director.

### Director Responsibilities

The Board receives regular reports on business and financial performance, trading summaries and management of key business risks along with updates on the activities and decisions of its Committees. Board Members also actively attend Governance Committees as part of the governance framework, and the purpose of those Committees is provided below.

The Board receive regular Board specific training and updates from SME's in legal, compliance and internal audit.

### Risk Management

The Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are highlighted in the annual business planning process presented to the Board and subsequently agreed with the Pepco Group. The Audit and Risk Committee ensures that risks are identified and managed appropriately and in a timely manner.

All Board members have been engaged in a formal risk management process whereby they identify and consider risks relating to their area, as well as identifying actions to mitigate risks identified. These are discussed in bi-annual Board risk workshops to update the Corporate Risk Register against a defined risk scoring criteria.

### Remuneration, Succession and Performance

The Remuneration Committee is responsible for making recommendations to the Board concerning the Company's strategy for remuneration of all employees including executive and senior management to ensure that pay is aligned with performance. A formal Personal Performance Review process has been undertaken with all colleagues, as well as bi-annual Talent Reviews with all senior management to assess composition and succession across the business.

### Stakeholder Relationships and Engagement

A number of initiatives are in place to maintain strong engagement with colleagues and other stakeholders. Sharepoint is used as a source of information for colleagues on key policies, procedures and guidance notes, as well as a separate intranet tool to engage with retail colleagues.

A strong emphasis on diversity and wellbeing has been promoted across the company, with a number of diversity groups sponsored by Directors planned for launch in FY21, as well as a colleague survey.

The Pepco Group is kept informed of the Company's activities through the attendance of their representatives at Board and certain Committee meetings and through periodic reporting of financial performance.

## Directors' report (continued)

### Company Corporate Governance Report (continued)

#### Overview of the Purpose of Governance Committees

##### **Poundland Operating Board**

The Poundland Operating Board is a monthly meeting and includes a detailed presentation on the business, activities and performance of the Company is reviewed at each Board meeting, together with comprehensive financial reports and analysis presented by the Finance Director. The Operating Board is responsible for setting strategic priorities for the business, with proactive oversight of all business operations including the development of the overall leadership and business culture. The Board oversees and assess business performance, and the resources and capabilities required to deliver its objectives and targets.

##### **Nomination and Remuneration Committee**

The Poundland Nomination and Remuneration Committee meet at least twice annually to set the rewards, remuneration and benefits strategy in the context of Group policy. The Committee also oversee senior appointments and review talent and succession coverage. The Committee is chaired by the Chief Operating Officer of Pepco Group.

##### **Assurance and Risk Committee**

The Assurance and Risk Committee, chaired by the Finance Director, meets quarterly shortly after each quarter end. The Committee provides a structured oversight of the business's governance, risk management and internal control practices. The Committee assists the Board and Senior Management by providing advice and guidance on the adequacy of programmes of work relating to risk management, internal control frameworks, oversight of internal audit activities, external audit activity and other assurance work, and to discuss financial statements and accounting responsibilities.

##### **Data Governance Committee**

The Data Governance Committee meets quarterly shortly after each quarter end. It is chaired by the Company IT Director. The Committee provides an oversight of risk management in relation to information created and processed within the Company. The Committee considers risks to confidentiality, integrity and availability of information, and the appropriate workstreams and actions in place to mitigate them.

##### **Property Service Board**

The Property Service Board meets on a monthly basis to help guide the Company's property and portfolio strategy, such as new store openings, store closures and landlord disputes.

##### **Project SteerCo**

The Project SteerCo meets on a monthly basis. It is chaired by the Managing Director and the focus of the Committee is on providing guidance, challenge and strategy on key business projects and initiatives, largely driven through the Transformation Team led by the Retail and Transformation Director.

##### **Health and Product Safety Committee**

The Health and Product Safety Committee is a sub-Committee of the Assurance and Risk meeting. It meets on a Quarterly basis and is chaired by the Logistics Director. The Health and Product Safety Committee provides oversight of Health and Safety matters in Retail and Distribution, including accidents and mandatory inspection, as well as over Quality Assurance processes for product safety.

##### **Serious Incident Committee (SIC)**

The Serious Incident Committee acts as a sub-committee of the Assurance and Risk Committee. It acts on an ad hoc basis to respond to serious incidents as part of the Company's crisis management and business continuity response process. An SIC would normally be called for urgent attendance by Company senior management in order to deliver an effective and speedy response to contain and quickly manage an incident.

##### **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

Midland Road  
Walsall  
West Midlands  
WS1 3TX  
5 August 2021

## Directors' responsibilities statement

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

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

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

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

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

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

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

### **Opinion**

We have audited the financial statements of Poundland Limited (the 'company') for the year ended 27 September 2020 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 27 September 2020 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



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

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

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

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

### **Use of the audit report**

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



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

5 August 2021

**Income statement**  
*for the 52 weeks ended 27 September 2020*

		52 weeks ended 27 September 2020		52 weeks ended 29 September 2019	
		Underlying	Non underlying items (note 5)	Total 2020	Total 2019
	Note	£000	£000	£000	£000
Revenue	2	1,476,640	-	1,476,640	1,543,234
Cost of sales		(937,540)	-	(937,540)	(965,308)
<b>Gross profit</b>		<b>539,100</b>	<b>-</b>	<b>539,100</b>	<b>577,926</b>
Distribution costs		(454,722)	-	(454,722)	(484,200)
Administrative expenses		(73,911)	(6,095)	(80,006)	(67,037)
Other operating income	8	4,261	-	4,261	-
<b>Operating profit</b>		<b>14,728</b>	<b>(6,095)</b>	<b>8,633</b>	<b>26,689</b>
Finance income	6	707	-	707	7,461
Finance expense	7	(27,181)	-	(27,181)	(15,685)
<b>(Loss)/Profit before taxation</b>	3	<b>(11,746)</b>	<b>(6,095)</b>	<b>(17,841)</b>	<b>18,465</b>
Taxation	12	2,073	-	2,073	(4,167)
<b>(Loss)/Profit for the period</b>		<b>(9,673)</b>	<b>(6,095)</b>	<b>(15,768)</b>	<b>14,298</b>

The notes on pages 21 to 45 form part of these financial statements.

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

**Statement of other comprehensive income**  
*for the 52 weeks ended 27 September 2020*

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
<b>(Loss)/Profit for the period</b>	<b>(15,768)</b>	<b>14,298</b>
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation differences - foreign operations	(2,611)	-
Effective portion of changes in fair value of cash flow hedges	(3,072)	4,150
Net change in fair value of cash flow hedges reclassified to profit or loss	(4,272)	(1,089)
Income tax on items that are or may be reclassified subsequently to profit or loss	1,310	(284)
<b>Other comprehensive (expense)/income for the period, net of income tax</b>	<b>(8,645)</b>	<b>2,777</b>
<b>Total comprehensive (expense)/income for the period</b>	<b>(24,413)</b>	<b>17,075</b>

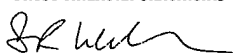
The notes on pages 21 to 45 form part of these financial statements.

**Statement of financial position**  
*At 27 September 2020*

	Note	27 September 2020 £000	29 September 2019 £000
<b>Non-current assets</b>			
Property, plant and equipment	13	419,802	117,865
Intangibles	14	110,936	94,977
Investments in subsidiaries	15	171	171
Derivative financial instruments	22	3,343	7,436
Deferred tax asset	21	36,027	29,197
		<b>570,279</b>	<b>249,646</b>
<b>Current assets</b>			
Inventories	160	157,900	155,594
Tax receivable		13	835
Trade and other receivables	17	75,233	193,302
Derivative financial instruments	22	1,358	509
Cash and cash equivalents		63,604	26,369
		<b>298,108</b>	<b>376,609</b>
<b>Total assets</b>		<b>868,387</b>	<b>626,255</b>
<b>Current liabilities</b>			
Trade and other payables	18	(254,423)	(211,833)
Lease liabilities	26	(93,321)	-
Derivative financial instruments	22	(5,137)	(2,171)
Provisions	23	(4,670)	(10,882)
		<b>(357,551)</b>	<b>(224,886)</b>
<b>Non-current liabilities</b>			
Trade and other payables	19	(26,478)	(38,953)
Loans from parent undertakings	20	(90,440)	(203,177)
Derivative financial instruments	22	(884)	(319)
Lease liabilities	26	(284,910)	-
Provisions	23	(12,012)	(29,501)
		<b>(414,724)</b>	<b>(271,950)</b>
<b>Total liabilities</b>		<b>(772,275)</b>	<b>(496,836)</b>
<b>Net assets</b>		<b>96,112</b>	<b>129,419</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	24	-	-
Capital contribution reserve		9,517	9,517
Translation reserve		(2,612)	-
Cash flow hedge reserve		(2,453)	3,581
Retained earnings		91,660	116,321
<b>Total shareholders' equity</b>		<b>96,112</b>	<b>129,419</b>

The notes on pages 21 to 45 form part of these financial statements.

These financial statements were approved by the board of directors on 5 August 2021 and were signed on its behalf by:



**D Williams**  
Director

Registered number: 2495645

**Statement of changes in equity**  
*for the 52 weeks ended 27 September 2020*

	Share capital	Share premium	Capital contribution reserve	Translation reserve	Cash flow hedge reserve	Retained earnings/(losse s)	Total shareholders' equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 October 2018	50	112,959	9,517	-	804	(10,986)	112,344
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	-	-	14,298	14,298
Other comprehensive income	-	-	-	-	2,777	-	2,777
<b>Total comprehensive income for the period</b>	<b>50</b>	<b>112,959</b>	<b>9,517</b>		<b>3,581</b>	<b>3,312</b>	<b>129,419</b>
<b>Transactions with owners, recorded directly in equity</b>							
Share capital reduction <sup>(1)</sup> (note 24)	(50)	-	-	-	-	50	-
Share premium reduction <sup>(1)</sup> (note 24)	-	(112,959)	-	-	-	112,959	-
<b>Total contributions by and distributions to owners</b>	<b>(50)</b>	<b>(112,959)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,009</b>	<b>-</b>
<b>Balance at 29 September 2019</b>	<b>-</b>	<b>-</b>	<b>9,517</b>	<b>-</b>	<b>3,581</b>	<b>116,321</b>	<b>129,419</b>
Balance at 30 September 2019	-	-	9,517	-	3,581	116,321	129,419
<b>Total comprehensive income for the period</b>							
Loss for the period	-	-	-	-	-	(15,768)	(15,768)
Other comprehensive loss	-	-	-	(2,612)	(6,034)	-	(8,646)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>9,517</b>	<b>(2,612)</b>	<b>(2,453)</b>	<b>100,553</b>	<b>105,005</b>
<b>Transactions with owners, recorded directly in equity</b>							
Distributions	-	-	-	-	-	(8,893)	(8,893)
<b>Balance at 27 September 2020</b>	<b>-</b>	<b>-</b>	<b>9,517</b>	<b>(2,612)</b>	<b>(2,453)</b>	<b>91,660</b>	<b>96,112</b>

<sup>1</sup>The company reduced its share capital and share premium reserve as part of the restructure undertaken during the prior year.

The notes on pages 21 to 45 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 8.

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

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

#### *Basis of preparation*

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

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

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

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

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

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

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

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

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

#### *1.1 Measurement convention*

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

#### *1.2 Going concern*

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

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.2 Going concern (continued)

On 23 April 2021 the Pepco Group Limited Group's ("the Group") refinanced its existing borrowings arrangements, excluding IFRS16 liabilities with a senior facilities agreement comprising (i) a 3-year €300m term loan facility; (ii) a 5-year €250m term loan facility; and (iii) a €190m multicurrency revolving credit facility maturing after 5 years (the New Senior Facilities Agreement).

The Pepco Group Limited ("PGL") Group had €706.1m of borrowings as at 27 September 2020 (29 September 2019: €685.8m), of which €224.2m (30 September 2019: €212.9m) was due to Group undertakings.

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

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

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

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

#### 1.3 Foreign currency

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

#### 1.4 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

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

##### *Trade and other payables*

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

##### *Interest-bearing borrowings*

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

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.5 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.

#### 1.6 Impairment excluding inventories and deferred tax assets

##### *Financial assets (including receivables)*

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

Trade receivables are based on the simplified approach in IFRS 9. Intercompany receivables are based on the general approach.

##### *Non-financial assets*

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

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

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

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



## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 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.

#### 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:

The right of use assets are measured at transition at an amount equal to the lease liability, adjusted for prepaid and accrued lease payments recognised in the Company balance sheet immediately before the date of initial application. The right of use assets are subsequently measured at the transition amount less any accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the expected useful life, which is taken as being equal to the lease term.

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.

#### 1.09 Intangible assets and goodwill

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

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

##### *Favourable leases*

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

##### *Other intangible assets*

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

##### *Amortisation*

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

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

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

#### 1.10 Inventories

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

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

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

#### 1.12 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.

#### 1.13 Revenue

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

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

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

#### 1.14 Other operating income

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

#### 1.15 Lease accounting

IFRS 16 became effective for periods starting on or after 1 January 2019 and replaces the standard IAS 17 "Leases" and related interpretations. IFRS 16 requires entities to apply a single lease accounting model, with lessees recognising right-of-use assets and lease liabilities on the balance sheet for all applicable leases except for certain short-term and low-value leases.

The right-of-use assets are measured at transition at an amount equal to the lease liability, adjusted for prepaid and accrued lease payments recognised in the Group balance sheet immediately before the date of initial application. The right-of-use assets are on a straight-line basis over the expected useful life, which is taken as being equal to the lease term.

Lease liabilities are measured at transition at the present value of the remaining lease payments discounted at the incremental borrowing rate of each lease as at the date of initial application. Lease liabilities are subsequently measured at amortised cost, increased for interest charges and reduced for lease payments made.

Full details on how the transition to IFRS 16 has been accounted for can be found in 1.26.

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less), leases of low-value assets (such as personal computers, small items of office furniture and telephones) and variable lease agreements. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.15 Lease accounting (continued)

##### *Lease liability – initial recognition*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The Company recognise discount rate should be the rate implicit in the lease or the incremental borrowing rate if the rate implicit in the lease is not readily determinable.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate (such as RPI), initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options where the Company is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet, split between current and non-current liabilities.

##### *Lease liability – subsequent measurement*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

##### *Lease liability – remeasurement*

The lease liability is remeasured where:

- there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or
  - the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments' change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
  - the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss.

##### *Right-of-use asset – initial recognition*

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated amortisation and impairment losses.

Where the Company has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

##### *Right-of-use asset – subsequent measurement*

Right-of-use assets are amortised over the shorter of the lease term and useful life of the underlying asset.

##### *Impairment*

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment – non-financial assets" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.15 Lease accounting (continued)

##### Impact to financial statements

The Company recognised an opening right of use asset of £365.3m and a lease liability of £395.7m. The most significant lease liabilities relate to property and in particular the retail store portfolio. The lease liability under IFRS 16 is lower than that shown in the operating lease commitment note previously presented (in accordance with IAS 17) primarily due to the discounting of the future payments.

#### 1.16 Taxation

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

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

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

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

#### 1.17 Supplier income

##### Rebate income

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

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

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

##### Promotional funding

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

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

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

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

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.18 Cash flow reserve

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

#### Translation reserve

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

#### 1.19 Non-underlying items

Non-underlying adjustments constitute exceptional and other items and are disclosed separately in the Group statement of comprehensive income. In determining whether events or transactions are treated as exceptional and other items, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Examples of charges or credits meeting the above definition and which have been presented as exceptional and other items in the current and/or prior years include:

- business restructuring programmes.

#### 1.20 Financial income and expenses

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

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

#### 1.21 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 14 for details.

#### Onerous lease provisions

In the prior year, 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.

This has changed since the prior year due to the adoption of IFRS 16, as rental costs were previously included in the onerous lease provision. On adoption the previous provision was recognised against the carrying amount of the right-of-use asset, going forward there will be no onerous lease provisions relating to the lease payments. The assets will be assessed for indicators for impairment. There is no Onerous lease provision at the balance sheet date.

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

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

In the previous period, the Company has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time. The nature and effect of these changes is discussed in detail below.

##### IFRS 9 *Financial Instruments*

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

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

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

- Annual improvements to IFRS cycle 2014-2016
  - IFRIC 22 Foreign Currency Transactions and Advance Consideration
  - Amendments to IAS 40: Transfers of Investment Property
  - Amendments to IFRS 2: Amendments to clarify the classification and measurement of share based payment transactions
- The adoption of these new standards, amendments and interpretations has not led to any changes in the Company's accounting policies or had any other material impact on the financial position or performance of the Company.

#### 1.23 New standards and interpretations applied

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 30 September 2019 and have not been adopted early:

		Effective date
IFRS 3	Business Combinations (Amendment): Definition of a Business	1 January 2020
IAS 1, IAS 8	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 16	Leases (Amendment): Covid-19-related Rent Concessions	1 June 2020
IFRS 17	Insurance Contracts	1 January 2020

#### 1.24 New standards and amendments

##### Initial adoption of IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

IFRS 16 has been applied using the modified retrospective approach with the date of initial application of 30 September 2019. Under this approach, right-of-use assets is equal to the lease liabilities recognised on initial application, with no adjustment to retained earnings at 30 September 2019 and no prior periods restatements.

##### Practical expedients applied

The Company has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- relying on previous assessments as to whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 30 September 2019; and
- excluding initial direct costs from measuring right-of-use assets at the date of initial application.

The Company has applied the exemption not to recognise the right-of-use assets and liabilities for leases with a remaining lease term of less than twelve months from the date of initial application.

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

#### 1.24 New standards and amendments (continued)

##### Impact on financial statements

The Company recognised an opening right of use asset of £365.3 and a lease liability of £395.7m. The most significant lease liabilities relate to property and in particular the retail store portfolio. The lease liability under IFRS 16 is lower than that shown in the operating lease commitment note previously presented (in accordance with IAS 17) primarily due to the discounting of the future payments.

Reconciliation of lease liabilities on the date of transition with off-balance sheet commitments at 30 September 2019:

Operating lease liability commitment reconciliation	£000
Total operating leases commitments disclosed at 29 September 2019	(490,905)
Discounting of operating lease commitments at 30 September 2019	87,209
Less: Short-term and low-value leases not recognised as a liability	24,451
Add: lease liabilities as at 29 September 2019	(10,212)
Add/(less): adjustments as a result of a different treatment of extension and termination options	(10,955)
Others <sup>1</sup>	(5,483)
<b>Lease liability recognised at 30 September 2019</b>	<b>(405,895)</b>

1. Included in "Other" are lease-related commitments (service charges, projected turnover rent, etc.) included within operating lease commitments in FY19.

The range applied for the Incremental Borrowing Rate (IBR) used to discount the lease liability was between 5.1% and 7.2%

#### 1.25 Profit and loss account

The profit and loss account represents the cumulative profits and losses of the Company, less the payment of dividends.

#### 1.26 Government grants

Grants are accounted under the accruals model as permitted by FRS 101. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

### 2 Revenue

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
United Kingdom	1,313,659	1,391,406
Republic of Ireland	159,580	148,439
Isle of Man	3,401	3,389
	<b>1,476,640</b>	<b>1,543,234</b>

Revenue stated above relates solely to the sale of goods.

## Notes to the financial statements (continued)

### 3 Profit for the period

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
<i>Operating profit for the period has been arrived at after charging/(crediting):</i>		
Payments under operating leases:		
Other	-	7,395
Land and buildings	-	117,449
Depreciation and other amounts written off tangible fixed assets:		
Owned	29,195	22,623
Assets under finance leases	-	3,020
Right of Use Assets (IFRS16)	81,316	-
Amortisation of other intangibles	2,676	2,280
Cost of inventories recognised as an expense	938,152	974,707
Write downs of inventories recognised as an expense	1,208	4,328
Gain on foreign exchange	(3,461)	(6,703)
	<hr/>	<hr/>
	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
<i>Auditor's remuneration</i>		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	450	630
	<hr/>	<hr/>

No non-audit services have been performed by the company's auditor in either the current or prior period. Depreciation charge for the period includes amortisation of capital contributions (landlord contributions to the cost of Property, Plant and Equipment) of £3.7 million (52 weeks to 29 September 2019: £4.7 million).

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

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

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

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Operating profit	8,633	26,689
Add back:		
Amortisation of intangibles	2,676	2,280
Depreciation of owned and assets under leases (excluding reclassification of capital contributions)	32,215	25,643
Depreciation of Right-of-Use assets	78,296	-
Non-underlying expenses (note 5)	6,095	-
	<hr/>	<hr/>
<b>EBITDA</b>	<b>127,915</b>	<b>54,612</b>
	<hr/>	<hr/>



## Notes to the financial statements (continued)

### 5 Non-underlying expenses

Non-underlying items are defined as one-off and unusual in nature and disclosed separately in the Statement of comprehensive income.

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Restructuring, strategic change and other costs	(6,095)	-

Restructuring, strategic change and other costs: During the year the Company undertook head office cost reduction and strategic change to rationalise the supply chain network. The £6.1m relates to costs associated with stock moves, short term productivity under utilisations, third party transitional storage and HR costs relating to redundancy and retention.

### 6 Finance income

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
On amounts owed by group undertakings	-	7,270
Bank interest receivable	133	191
Other interest receivable	574	-
	<u>707</u>	<u>7,461</u>

### 7 Finance expense

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
On amounts owed to group undertakings	4,081	15,383
Bank interest payable	20	-
Finance lease interest	-	292
Ineffective portion of changes in fair value of cash flow hedges	-	10
Interest on lease liabilities	21,878	-
Unrealised foreign currency losses on borrowings	1,202	-
	<u>27,181</u>	<u>15,685</u>

### 8 Other operating income

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Other operating income	<u>4,261</u>	<u>-</u>

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

### 9 Dividends

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Amounts recognised as distributions to owners in the financial period 100 shares as at £88,930 per share (2019: £nil per share)	8,893	-

### 10 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 27 September 2020	52 weeks ended 29 September 2019
Administration	469	374
Selling and distribution	16,963	17,164
	17,432	17,538

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Wages and salaries	239,041	227,757
Social security costs	13,748	13,334
Other pension costs (note 29)	3,478	2,988
	256,268	244,079

### 11 Remuneration of directors

#### **Remuneration**

The remuneration of the directors was as follows:

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Emoluments	2,085	2,361
Company contribution to defined contribution pension scheme	48	84
Compensation for loss of office	-	750
	2,133	3,195

5 directors (52 weeks ended 30 September 2019: nine) were members of the defined contribution pension schemes.

## Notes to the financial statements (continued)

### 11 Remuneration of directors (continued)

#### Highest paid director

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

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Emoluments	744	554
Company contribution to defined contribution pension scheme	10	(2)
Compensation for loss of office	-	434
	<u>754</u>	<u>986</u>

No directors exercised share options in the current year or prior year for both highest paid and directors in total.

### 12 Taxation

#### Analysis of charge for the period

	52 weeks ended 27 September 2020 £000	£000	52 weeks ended 29 September 2019 £000	£000
<i>Current tax</i>				
Current tax on profit for the period	2,473		6,196	
Adjustments in respect of prior periods	1,783		(556)	
	<u></u>		<u></u>	
Total current tax charge		4,256		5,640
<i>Deferred tax</i>				
Origination and reversal of timing differences	(4,104)		(2,709)	
Effect of change in tax rate	(3,169)		283	
Adjustment in respect of prior periods	944		953	
	<u></u>		<u></u>	
Total deferred tax credit		(6,329)		(1,473)
		<u></u>		<u></u>
Total (credit)/charge for the period		(2,073)		4,167

#### Factors affecting the tax charge for the period

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
(Loss)/Profit before tax	(17,841)	18,465
	<u></u>	<u></u>
Current tax at 19% (52 weeks ended 29 September 2019: 19%)	(3,390)	3,508
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2,906	1,002
Adjustments to tax charge in respect of previous period	2,727	421
Overseas rate adjustment	(1,147)	(1,047)
Change in tax rate	(3,169)	283
	<u></u>	<u></u>
Total tax (credit)/charge for the period	(2,073)	4,167

## Notes to the financial statements (continued)

### 12 Taxation (continued)

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

The corporation tax rate for the period ended 27 September 2020 was 19%. The Corporation Tax rate of 19% was enacted with effect from 1 April 2017 and the Finance Act 2016 legislated the UK Corporation Tax rate to decrease to 17% from 1 April 2020. However, on the 17th March 2020, using the Provisional Collection of Taxes Act 1968, the UK Government cancelled the proposed drop-in Corporation Tax rate to 17%.

### 13 Property, plant and equipment

	Short leasehold property £000	Fixtures and equipment £000	Total £000
<b>Cost</b>			
At beginning of period	137,378	189,121	326,499
Initial application of IFRS 16	355,521	6,639	362,160
Adjusted balance at beginning of period	492,899	195,760	688,659
Additions	(209)	17,966	17,757
Disposals	(1,003)	(1,478)	(2,481)
Initial application of IFRS 16 additions	27,389	5,142	32,531
At end of period	519,076	217,390	736,466
<b>Depreciation</b>			
At beginning of period	71,382	137,252	208,634
Charge for the period	77,910	32,601	110,511
On disposal	(1,003)	(1,478)	(2,481)
At end of period	148,289	168,375	316,664
<b>Net book value</b>			
At 27 September 2020	370,787	49,015	419,802
At 29 September 2019	65,996	51,869	117,865

## Notes to the financial statements (continued)

### 14 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	13,497	106,016
Additions	-	-	-	18,635	18,635
Disposals	-	-	-	(7)	(7)
At end of period	91,284	1,112	123	32,125	124,644
<b>Amortisation</b>					
At beginning of period	-	608	123	10,308	11,039
Amortisation for the period	-	81	-	2,595	2,676
Disposals	-	-	-	(7)	(7)
At end of period	-	689	123	12,896	13,708
<b>Net book value</b>					
At 27 September 2020	91,284	423	-	19,229	110,936
At 29 September 2019	91,284	504	-	3,189	94,977

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

#### Impairment

An impairment test is a comparison of the carrying value of the assets of a business or CGU to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. The recoverable amount has been determined based on value in use. Where the recoverable amount is less than the carrying value, an impairment results. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which the directors monitor that goodwill. In this instance the goodwill arising in the Company has been assessed as part of the Poundland Stores CGU. During the period, all goodwill was tested for impairment, with no impairment charge resulting (2019: 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 2025 and thereafter a terminal P&L for future years into perpetuity. The cash flow projections are subject to key assumptions in respect of discount rates and achievement of future revenue and EBITDA growth. The directors have reviewed and approved the assumptions inherent in the model as part of the annual business plan and budget process using historic experience and considering economic and business risks facing the Company.

In assessing the Company's value in use a pre-tax discount rate of 9.8% (2019: 9.5%) was used.

In assessing future revenue growth of 1.1% CAGR was assumed for the first 5 years, in line with business plan assumptions and 1.1% for the terminal value.

In addition to the projected sales growth modelled above, EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements from 4.5% in FY2021 to 6.1% of net sales by FY2025 and then to 6.1% in perpetuity.

## Notes to the financial statements (continued)

### 14 Intangible assets (continued)

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

	52 weeks ended 27 September 2020 £000	52 weeks ended 29 September 2019 £000
Distribution costs	22	233
Administrative expenses	2,654	2,047
	<u>2,676</u>	<u>2,280</u>

### 15 Investments

	27 September 2020 £000	29 September 2019 £000
Shares in subsidiary undertakings, at cost	171	171
Additions	-	-
Less: Impairment provision	-	-
	<u>171</u>	<u>171</u>

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

	Principal activity	Country of incorporation	Proportion of ordinary shares held %
Pepkor UK Retail Limited	Value retailer	England	100
Pepkor Europe Limited (Previously: GHM Stores Limited)	Value retailer	England	100
Poundland Elgin Limited	Property	England	100

All subsidiaries incorporated in the United Kingdom are registered at Midland Road, Walsall, United Kingdom, England, WS1 3TX.

## Notes to the financial statements (continued)

### 16 Inventories

	27 September 2020 £000	29 September 2019 £000
Goods purchased for resale	136,562	135,145
Goods in transit	21,338	20,449
	<u>157,900</u>	<u>155,594</u>

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

### 17 Trade and other receivables

	27 September 2020 £000	29 September 2019 £000
Trade receivables	120	1,768
Amounts owed by Group undertakings	48,676	151,950
Prepayments and accrued income	26,369	39,584
Other debtors	68	-
	<u>75,233</u>	<u>193,302</u>

Amounts owed by group undertakings which are interest bearing total £nil (2019: £107,200,000). The remaining balance is non-interest bearing. All amounts owed by group undertakings are repayable on demand.

The ageing of trade receivables at the balance sheet date was:

	Gross	Impairment	Gross	Impairment
	27 September 2020	27 September 2020	29 September 2019	29 September 2019
			£000	£000
Not past due	1,039	(919)	3,247	(1,478)
Past due 0-30 days	551	(551)	202	(202)
Past due 31-120 days	374	(374)	160	(160)
More than 120 days	2,828	(2,828)	2,774	(2,774)
	<u>4,792</u>	<u>(4,672)</u>	<u>6,383</u>	<u>(4,614)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	27 September 2020 £000	29 September 2019 £000
Balance at beginning of the year	(4,614)	(4,429)
Impairment loss recognised	(58)	(185)
	<u>(4,672)</u>	<u>(4,614)</u>

There has been no allowance for impairment in respect of Amounts owed by Group undertakings at 27 September 2020 or 29 September 2019.

## Notes to the financial statements (continued)

### 17 Trade and other receivables (continued)

Analysis of the accrued income debtor is as follows:

	27 September 2020 £000	29 September 2019 £000
Brought forward balance	13,960	11,951
Revenue recognised in the current period that was included in the opening contract liability	(13,960)	(11,951)
Cash received in advance of performance and not recognised as revenue during the period	15,410	13,960
	<hr/>	<hr/>
Carried forward balance	15,410	13,960
	<hr/>	<hr/>

### 18 Trade and other payables

	27 September 2020 £000	29 September 2019 £000
Trade payables	123,399	89,382
Other taxation and social security	33,524	19,792
Amounts owed to Group undertakings	9,480	14,699
Other payables	7,832	5,165
Obligations under finance leases	-	3,276
Accruals	80,188	79,519
	<hr/>	<hr/>
	254,423	211,833
	<hr/>	<hr/>

As part of the banking arrangements, Poundland Limited has a guarantee £12.5m loan with the Lloyds bank (as security agent). This is a fixed and floating charge on all the property or undertaking of the company.

### 19 Non-current liabilities

	27 September 2020 £000	29 September 2019 £000
Accruals and deferred income	26,478	32,017
Obligations under finance leases	-	6,936
	<hr/>	<hr/>
	26,478	38,953
	<hr/>	<hr/>

### 20 Non-current liabilities – Loans from parent undertakings

Included within non-current liabilities are amounts loans from parent undertakings of £89,311,000 which are interest bearing at a rate of 6% and repayable after 5 years (2019: £203,177,000).



## Notes to the financial statements (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	29,197
Recognised in the income statement	6,329
Recognised in other comprehensive income	1,417
Intercompany transfer	(1,045)
Prior year branch adjustment	129
<b>Deferred tax asset at end of period</b>	<b>36,027</b>

	27 September 2020 £000	29 September 2019 £000
Property, plant and equipment – Accelerated capital allowances	18,806	15,378
Other financial assets	1,123	2,671
Trade and other payables	1,141	31
Other financial liabilities	1,144	(1,148)
Other timing differences	325	197
Tax losses	13,488	12,068
<b>Deferred tax asset</b>	<b>36,027</b>	<b>29,197</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.

	30 September 2019 £000	Recognised in the income statement £000	Recognised in equity £000	Intercompa ny transfer £000	Prior year branch adjustment £000	27 September 2020 £000
Property, plant and equipment – Accelerated capital allowances	15,378	3,428				18,806
Other financial assets	2,671	(1,920)	1,417	(1,045)		1,123
Trade and other payables	31	1,110				1,141
Other financial liabilities	(1,148)	2,292				1,144
Other timing differences	197				128	325
Tax losses	12,068	1,419			1	13,488
	<b>29,197</b>	<b>6,329</b>	<b>1,417</b>	<b>(1,045)</b>	<b>129</b>	<b>36,027</b>

## Notes to the financial statements (continued)

### 22 Derivative financial instruments

	27 September 2020 £000	29 September 2019 £000
Financial assets at fair value through other comprehensive income:		
Foreign exchange forward contracts	4,701	7,945
Total derivative financial assets	4,701	7,945
Financial liabilities at fair value through other comprehensive income:		
Foreign exchange forward contracts	6,021	2,490
Total derivative financial liabilities	6,021	2,490
		£000
Derivative financial assets/(liabilities) at beginning of period		5,455
Recognised in the income statement		(735)
Recognised in other comprehensive income		(6,040)
Derivative financial assets/(liabilities) at end of period		(1,320)

### 23 Provisions

	27 September 2020 £000	29 September 2019 £000
At beginning of period	40,383	56,181
Provisions made during the period	725	676
Provisions utilised during the period	(4,222)	(16,474)
Onerous lease provision derecognised on application of IFRS 16	(20,204)	-
	16,682	40,383
Non-current	12,012	29,501
Current	4,670	10,882
	16,682	40,383

Provision is made for the exit costs of properties no longer occupied by the Company.

All provisions relate to property provisions. The timings of the majority of provisions is anticipated greater than 1 year as property leases are terminated at point of vacation.

Reclassifications related to adjustments made on transition to IFRS 16; please see note 1.24 for further information.

## Notes to the financial statements (continued)

### 24 Share capital

	27 September 2020 £000	29 September 2019 £000
<b>Authorised, allotted, called up and fully paid:</b>		
100 (2019: 100) ordinary shares of £1 each	-	-

Each ordinary share carries the right to vote at general meetings. Share do not have the right to fixed income.

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).

### 25 Share based payments

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

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

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

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

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

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

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

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

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

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

#### *Steinhoff awards*

The Steinhoff share awards were adopted by the Directors on 15 December 2016. Members of the executive management of the Group were eligible to participate in the scheme. The first issue of awards was made on 1 March 2016. All awards were granted for nil consideration. Further awards were made on 1 March 2017. No awards have been made in the 52 week period to 29 September 2019 nor the 52 week period to 27 September 2020.

## Notes to the financial statements (continued)

### 25 Share based payments (continued)

#### Steinhoff awards (continued)

For the 52 weeks ended 27 September 2020

	Steinhoff Awards		PSP		CSOP	
	Weighted average exercise price (€)	Number of options	Weighted average exercise price (€)	Number of options	Weighted average exercise price (€)	Number of options
	€	000	€	000	€	000
Outstanding at 29 September 2019	3.96	634	-	-	-	-
Cancelled during the period	-	-	-	-	-	-
Outstanding at 27 September 2020	3.96	634	-	-	-	-
Equivalent replacement Steinhoff shares	-	-	-	-	-	-

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

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

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

#### Save As You Earn (SAYE)

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

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

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

#### Aggregate share based payment expense

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

	27 September 2020	29 September 2019
	£000	£000
Equity settled share based payment (income)/expense	-	-

## Notes to the financial statements (continued)

### 26 Obligations under leases: Right-of-use-assets

Analysis of assets held under leases:

	27 September 2020 £000
<b>Right-of-use assets</b>	
<b>Cost</b>	
Buildings	382,910
Vehicles	11,781
	<hr/> 394,691 <hr/>
<b>Depreciation</b>	
Buildings	73,632
Vehicles	4,664
	<hr/> 78,296 <hr/>
<b>Net book value</b>	
Buildings	309,278
Vehicles	7,117
	<hr/> 316,395 <hr/>
<b>Lease liabilities:</b>	
Current	93,321
Non-current	284,910

Additions to right-of-use assets during the 2020 financial year were £32.5m.

Amounts recognised in the income statement:

	27 September 2020 £000
<b>Amortisation charge of right-of-use assets</b>	
Buildings	73,632
Vehicles	4,664
	<hr/> 78,296 <hr/>
Interest expenses (included in finance cost)	21,654
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	20,252
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	201

Total cash outflow for leases in the 2020 financial year were £223.3m.

The Company leases various retail stores and vehicles under non-cancellable operating leases. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 30 September 2019, the Company has recognised right-of-use assets for these leases, except for short term and low-value leases.

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable payment terms percentages range from 1.5% to 7.5% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

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

### 27 Capital commitments

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

	27 September 2020 £000	29 September 2019 £000
Acquisition of property, plant and equipment and intangible assets	22,705	2,217

### 28 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 £3,478,000 (52 weeks ended 29 September 2019: £2,988,000). Contributions amounting to £727,000 (29 September 2019: £1,134,000) were payable to the scheme at the period end and are included in accruals.

### 29 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.

### 30 Ultimate parent company

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

#### Relationship between entity and parents

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

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

### 31 Subsequent events

In October 2020, Poundland Limited purchased 100% of the issued share capital of Viewtone Trading Group Limited (trading as "Fultons") and its subsidiaries for a consideration of £4.7m. This will allow Poundland to utilise Fultons significant sector experience and scale operating capability to accelerate the expansion of its chilled and frozen foods proposition. At the date of approval of the financial statements, the initial accounting for the business combination is incomplete, therefore no estimate of the financial impact of the transaction on the Company, or the goodwill and other intangible assets to be recognised on acquisition can be provided.