



**PEPCO GROUP LIMITED  
ANNUAL REPORT AND  
CONSOLIDATED FINANCIAL  
STATEMENTS**

September 2020

Registered number: 09127609



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19/02/2021

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COMPANIES HOUSE

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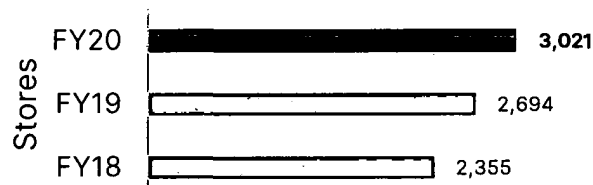
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## FINANCIAL HIGHLIGHTS

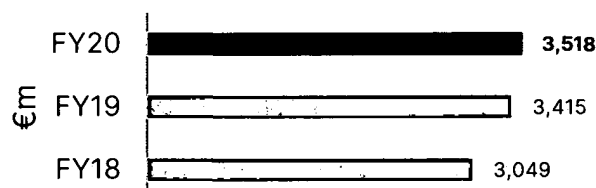
Stores<sup>1</sup>**3,021****+327 new stores<sup>2</sup> YOY**

YOY growth

+327

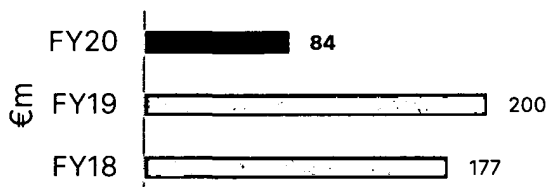
+339

## Sales

**€3,518m****+3.0% YOY**

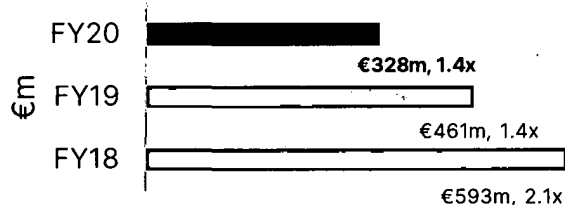
+3%

+12%

Underlying PBT<sup>3</sup>**€84m****-58% YOY**

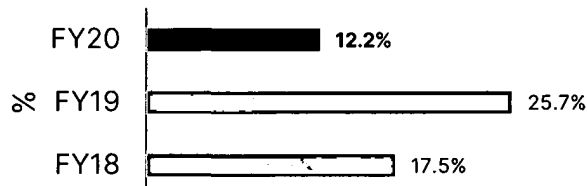
-58%

+13%

Net debt<sup>4</sup>**€328m****-€133m YOY****1.4x Underlying EBITDA<sup>5</sup>**

-133

-132

ROIC<sup>6</sup>**12.2%****-13.5pp YOY**

-14pp

+8pp

1 Stores is defined as net number of stores in the estate as at the period end. Includes 21 stores in the Poundland estate which were temporarily closed at the period end as a result of the impact of Covid-19 on footfall at these stores.

2 APM, defined as year-on-year growth in net new stores (new store openings less store closures).

3 Alternative Performance Measure (APM); for further explanation of our approach to APMs see page 15. The Directors consider underlying profit before tax to be reflective of the underlying nature of business

performance of the Group and a measure which provides additional useful information to the reader. A reconciliation of underlying profit before tax to statutory measures is presented on page 115.

4 APM, defined as the Group's long-term borrowings, excluding IFRS 16 lease liabilities, net of cash and bank balances as at 30 September 2020.

5 APM; see page 16 for definition.

6 APM, defined as NOPAT/IC, where IC = PP&E + intangibles (excl. goodwill) + NWC (current assets - current liabilities) and NOPAT = net underlying operating profit after tax.

# STRATEGIC REPORT

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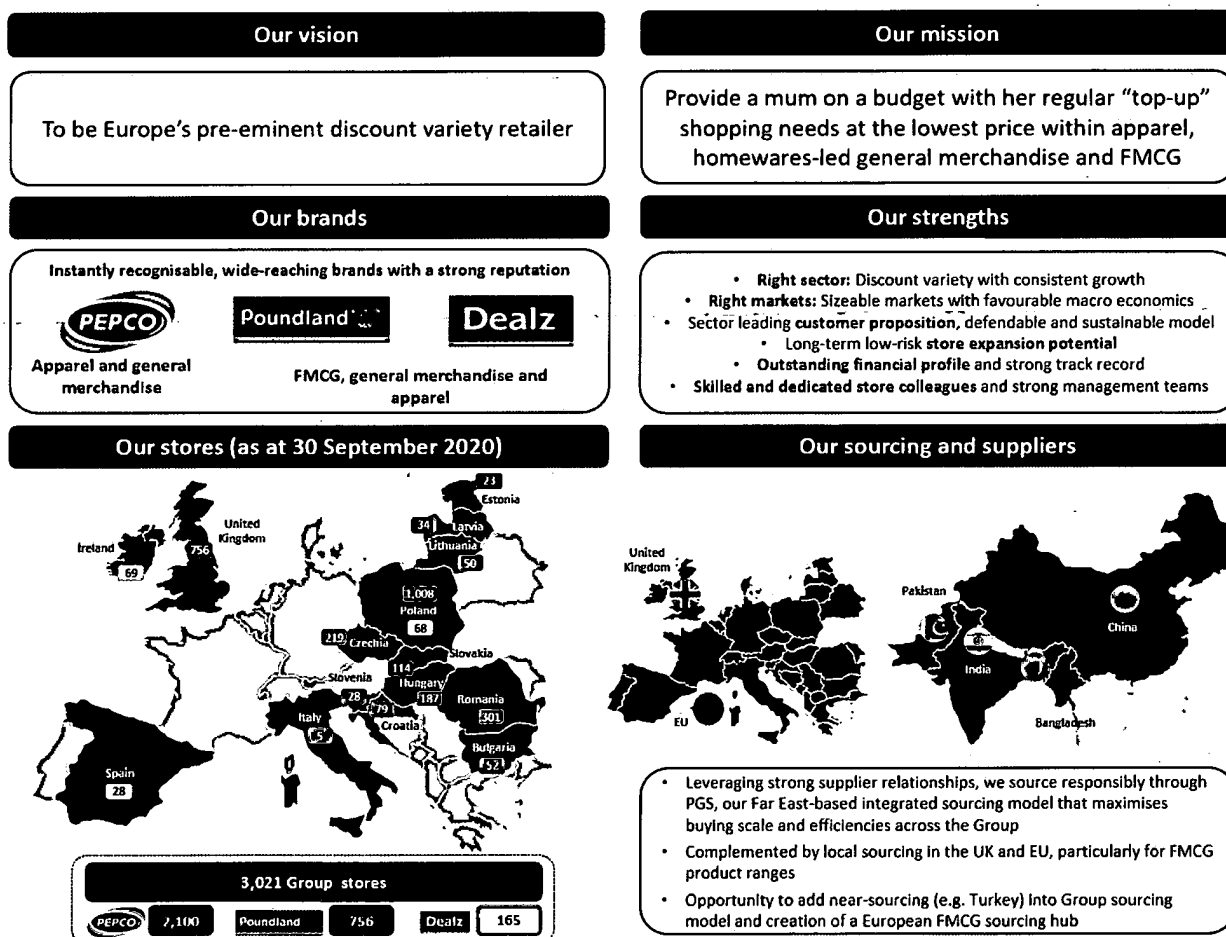
## COMPANY OVERVIEW

**We are a large-scale variety discount retailer operating across Europe.**

**Our three retail brands all provide a common customer, a mum on a budget, with all of her regular shopping replenishment needs through local, convenient and friendly stores.**

We operate across the three major retail categories of fast-moving consumer goods (FMCG), general merchandise (GM) and apparel with a clear and common focus on serving mums on a budget with all of their family and household needs.

We sell to our customers for less by buying for less and operating for less, sharing resources across our Group and seeking benefits of scale wherever possible.



## OUR BUSINESS MODEL

### Price leadership enabled by increasing economies of scale and group level buying and operating cost synergies

#### What we do

We own and operate a multi-format, Europe-wide variety discount retail business, through 3,021 physical stores located across 15 countries (as at 30 September 2020). Our stores are local and therefore convenient and offer a combination of apparel, homewares-led general merchandise, including toys and seasonal products, and FMCG. The majority of these products are sourced via the Group's integrated sourcing business, Pepco Global Sourcing (PGS), which serves to maximise buying scale and operating efficiencies across the Group's operations.

In each brand we provide our core shopper, a "mum on a budget", with all of her regular shopping replenishment needs, delivered from two strong businesses, each representing a distinct operating segment.

#### PEPCO (apparel-led multi-price)

**PEPCO**, CEE's leading variety discount retailer, operates a multi-price customer offer, led by apparel for the whole family (with a particular strength in childrenswear), home décor, toys and seasonal products.

PEPCO operates 2,100 stores across 11 countries in Central and Eastern Europe (CEE) and an initial 5 stores in Italy, which were opened in late September 2020.

#### Poundland Group (FMCG-led price-anchored)

**Poundland Group**, comprising **Poundland** in the UK and its international brand **Dealz**, mirrors the characteristics of the successful US "dollar store" concept, being FMCG led with a price architecture historically anchored at a single price point.

Poundland has operated in the UK since 1990 and trades from 756 stores, while Poundland's international brand **Dealz**, which was introduced in 2011 as part of its international expansion, now operates 165 stores in the Republic of Ireland, Spain and Poland.

In larger footprint Poundland stores each of the Group's three core categories are offered, with smaller Poundland stores and Dealz stores offering FMCG and general merchandise.

The majority of products within the Poundland Group segment remain at a core anchor price, such as £1 in the UK. However, in recent years, similar to the proposition development seen in

US-based "dollar stores" and in response to customer demand to provide greater choice of both individual products and brands in order to satisfy a larger proportion of their replenishment needs, we have expanded the number of price points both above and below the anchor price point.

This move from a single price architecture to a "simple" price architecture is key to the future growth of our price-anchored retail brands.

#### Our customer

While our proposition, based on wide choice across and within our key categories at market-leading prices and value for money, is attractive to a wide consumer demographic, our core customer is a "mum on a budget".

Our customer research programmes within each brand seek to maintain a deep knowledge of our customer's shopping behaviour at any given time and a broader understanding of the key factors prevailing on our customer's mind and influencing her shopping.

As an example, our customer research has identified that a representative PEPCO customer is a 36-year-old woman who lives in a medium-sized town, works and has one to two children. Although budget conscious, she evaluates her overall household financial position as "average" or "good".

Our "top-up" or replenishment proposition also drives high customer frequency with over 60% of PEPCO customers visiting stores 3.8 times per month.

#### Our sector

##### Structurally attractive discount sector

All the Group's brands participate in the discount sector.

OC&C analysis of our largest operating markets within Europe suggests that these markets are both substantial and fast growing.

As an example, in 2018 the apparel and homewares markets targeted by PEPCO represented a total addressable market of €55bn in CEE alone. Reflecting the customer demand for value and relatively low GDP per capita, OC&C analysis indicates market growth is anticipated, averaging 5.4% over the five years from 2018 to 2023.

The discount sector is also attractive in markets with higher absolute levels of GDP, such as the Western European markets prioritised for both PEPCO and Dealz expansion. As an illustration, discount sector penetration of the apparel category at 17% is double that of Central Europe (OC&C analysis).

## Our markets

### Sizeable addressable markets with attractive macro fundamentals

The Group's addressable market is considered to be the entirety of Europe with a total population of over 700 million.

This total market combines fast-growing economies within CEE and more established Western European markets with large, stable economies.

Through the complementary PEPCO and Dealz brands, the Group currently competes in sizeable CEE markets with a total population of over 100 million. Consumption-led economic growth will drive retail sales, which, recognising the relatively low online penetration in these markets, will predominantly crystallise in physical stores.

However, absolute GDP remains low by EU standards such that price continues to be a key purchase consideration for customers with an average of €15,000 GDP per capita in the core CEE markets.

Additionally, the Polish government has historically introduced a number of fiscal stimulants, including an extension of the monthly income supplement for families with children. These policies directly benefit the Group's target customers, including families with children and other value-conscious shoppers.

As noted in the "Our sector" section, the discount sector remains attractive in more established Western European markets with large, stable economies. These markets provide access to large populations with distinct income polarisation beneficial to the discount channel.

### Our routes to market

Small footprint, high-quality physical stores, with friendly, knowledgeable store colleagues in varied locations such as retail parks, shopping centres and high streets remain our focused route to market.

Our high density of stores, including over 1,000 stores in Poland and 700 stores in the UK, is enabled by the strong payback achieved on our new store investments and provides our customer with a convenient and local shopping location for their preferred high visit frequency, low spend behaviour.

As outlined below, we see substantial further opportunity for disciplined expansion of the PEPCO and Dealz store portfolios. This discipline will include the demand for short investment payback, short leases and low-cost fit-out achieved from economies of scale attached to our homogenous in-store environment.

## Our winning proposition

### Sector-leading customer proposition and defendable and sustainable business model

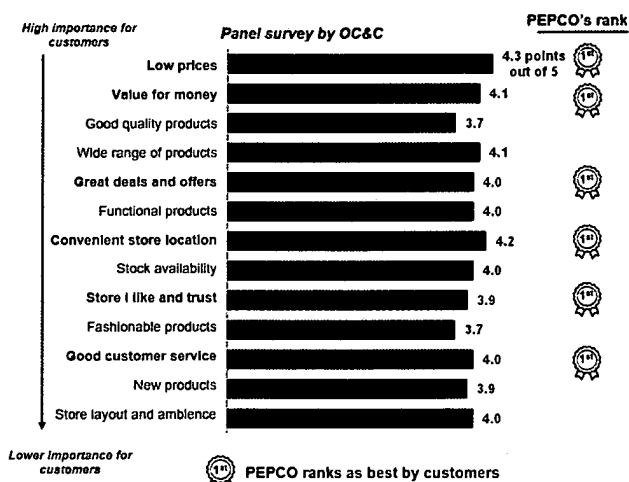
Our differentiated proposition offers the lowest price and best value, with a targeted product offering tailored to our core customer base. Our demonstrable category leadership in children's clothing, homewares, impulse grocery, health and beauty and seasonal goods matches directly to the products that are of greatest importance to our customers.

The PEPCO brand maintains a clear focus on a childrenswear-led apparel and soft homewares offering while Poundland and Dealz offer FMCG, with recognised brands underpinning the customers' value perception, hard homewares and seasonal/celebration categories.

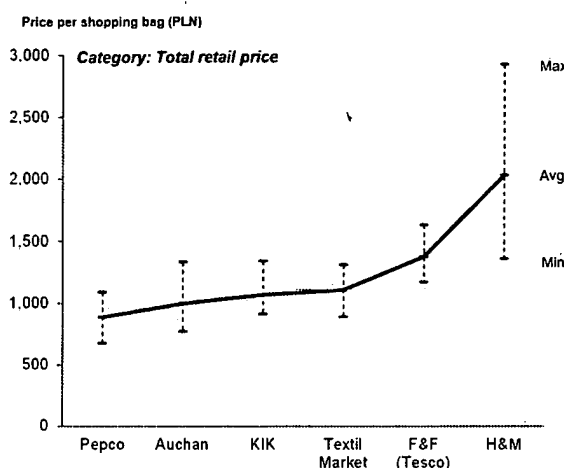
Achieving leadership on the key customer criteria of price and value ("sell for less") is achieved by a group-wide cultural obsession with ensuring that product cost prices are minimised while not compromising on quality ("buy for less") and operating our stores, supply chain and central support structures at lowest cost ("operate for less").

### Sell for less – PEPCO example

Independent qualitative research by OC&C confirmed that PEPCO performed strongly on all of the criteria that are key to a discount consumer selecting a retailer, ranking first on three of the five most important selection criteria – low prices, value for money and great deals – and ranking first on a further three of the remaining criteria. Importantly, PEPCO was also the most trusted retailer.



Further quantitative analysis of PEPCO's price position relative to its competition across its core categories of apparel and soft homewares confirms the Group's price leadership at the critical entry price point but also at the highest and average price positions.



Note: OC&C analysis, based on a list of comparable product categories common to all retailers.

### Buy for less

Our ability to enable high-quality product to be sourced at the lowest cost price centres upon our world-class direct sourcing operation, PGS, and Poundland's relationships with pan-European suppliers of branded FMCG products.

This capability allows the Group to maintain price leadership as a key element of its winning proposition, while delivering a stronger gross margin relative to its competitors which place higher reliance on an indirect sourcing model, buying through intermediaries such as agents, wholesalers and distributors.

### Lowest cost direct sourcing model

PGS operates at significant scale, sourcing \$1bn in free on-board goods in the year ended 30 September 2020. This allows it to operate at a cost-to-serve ratio lower than global sourcing operations such as Li and Fung.

PGS is increasingly seeking to concentrate volumes with a focused, core group of factories to leverage volume with those suppliers.

PGS has the capability to mitigate the challenges associated with operating an extended supply chain, such as lead time, logistics, freight and quality management, that act as a barrier for competitors seeking to establish an equivalent capability in the short to medium term. PGS is fully compliant with the Ethical Trading Initiative Base Code.

### Category excellence leveraged around the Group

The Group has established a leading capability in the core product categories it offers.

Increasingly, this category expertise is leveraged across the Group to enhance the customer proposition by introducing the highest performing products within the Group to all of its customers while increasing buying scale on a given product. For example, the PEPCO range of childrenswear and babywear is procured increasingly via PGS and sold in PEPCO under the PEPCO brand and sold in Poundland and Dealz under the Pep&Co sub-brand.

### Operate for less

Together with a prevailing culture of cost consciousness across the Group, each business unit continuously targets improving cost efficiency. The most significant initiatives within this holistic programme are as follows:

#### Store rent – Poundland

As evidenced by achieved rent reductions, averaging 36% over the past two years, Poundland has a clear and material opportunity to reduce its future cost base by reducing its existing store rents at the next scheduled lease event to achieve prevailing market levels.

The majority of Poundland's leases (55%) will experience a lease event in the five years ending 30 September 2024.

Other cost reduction opportunities in Poundland include returning the level of shrinkage to historical rates and reducing head office and logistics costs, including from consolidation of the current distribution centres in use.

#### Standardised retail model – PEPCO

PEPCO benefits from operating a standardised store model with limited tailoring to individual country or catchment dynamics. Constants include store size, ranging, layout and merchandising equipment.

This approach facilitates the opening of a large number of new stores each year and minimises operating costs, particularly within operations and supply chain, by removing the complexity driven by format variants.

#### Limited markdown exposure

Each of the Group's brands offers on-trend apparel and homewares products, rather than targeting a high or fast-fashion offering. In addition, the Group's category strength in childrenswear creates a further bias towards more needs-driven products. The Group's assortment is refreshed each season, providing newness to the customer, but the factors above reduce the potential margin risk from anticipating fashion trends.



## **Our long-term growth opportunity**

**Low-risk expansion with strong consistent economic returns enabled by standardised stores, flexible format model and extensive market knowledge**

Independent market assessment confirms that opportunity exists for substantial, long-term and low-risk growth in our PEPCO and Dealz store portfolios. A further c. 8,000 new store opportunities have been identified, of which over 4,500 are in markets in which these brands are already present. At current rates of expansion these opportunities represent approximately 20 years of future growth in each of PEPCO and Dealz.

Furthermore, management has well-established catchment and other econometric analysis identifying specific expansion opportunities by targeted catchment and a proven capability to efficiently convert expansion opportunities into stable store economics once trading.

Evidencing this, across all countries of its operation, 99.9% of PEPCO stores that were operational for more than twelve months ("mature stores") were profitable in the year ended 30 September 2019 (as the last full year before the impact of Covid-19) with an average store contribution, defined as average store profit before central costs not directly attributable to a store, depreciation, amortisation, interest and tax, of €235,000.

This strong and consistent level of store profitability leads to highly attractive financial returns on store investments, with average paybacks (post-tax and inclusive of all investment outflows such as capital expenditure, working capital investments and pre-opening costs such as rent) of 20 months on its stores in Poland. Unusually for an international retailer, the level of investment return delivered in the brand's domestic market has been matched or bettered in export territories such as Czechia, Romania and Croatia, where the PEPCO brand is less established.

Reflecting the significant FMCG component within the offer, the potential number of catchments for the Dealz format should be larger than that for PEPCO. We currently evaluate capacity in the core markets of Poland and Spain at c. 1,400 stores.

Once operating at scale, our internal analysis suggests that returns on investment for new Dealz stores should be comparable to that targeted for PEPCO stores at a level equivalent to a 30-month post-tax payback.

## **Our strong financial model**

**Sustained delivery of sector-leading, profitable growth and strong cash generation**

The Group generated strong revenue and underlying EBITDA growth over the two financial years ended 30 September 2019 and in the five trading months prior to Covid-19-related disruption.

In that period revenue and underlying EBITDA grew at a compound annual growth rate (CAGR) of 12% and 22% respectively.

Robust growth in revenue and underlying EBITDA is primarily attributable to net new store openings in excess of 700 over this period.

## **Cash generation**

The Group benefits from strong net increases in cash and cash equivalents, primarily due to its scale, strong operating margins and highly effective deployment of capital investment in its stores.

Working capital improvements implemented as a response to Covid-19 will further improve cash generation and returns on invested capital over time. The quality of cash generation within the Group readily allows us to fund our intended organic growth, while maintaining both a progressive dividend policy and conservative levels of gearing.

As an illustration, cash generated by operations in the pre-Covid-19 year to 30 September 2019 totalled €236m. A further €135m of capital expenditure was made in the year, including investments in the ongoing store expansion programme, with a resulting €64m increase in net cash in the year.

## **Our leadership**

The Group's strong growth has been delivered under its experienced senior management team, led by Andy Bond as Group CEO, which includes seasoned retail industry professionals in all key roles across the Group's trading businesses.

The Group operates a devolved operating model with functional capability and accountability residing in the individual business units rather than centrally.

## OUR STRATEGY

### To become Europe's pre-eminent discount variety retailer

#### Strategy overview

We have an established and well-defined **mission** to provide our core customer, being a "mum on a budget", with her regular "top-up" shopping needs within apparel, homewares-led general merchandise and fast-moving consumer goods (FMCG).

Our **customer offer** provides a choice, price and convenience advantage versus our competition. Our multi-category assortment is differentiated versus our key competitors within the discount sector, which tend to focus on a single category. Furthermore, our category strength in childrenswear and homewares, designed and produced in house, is targeted at the products of most importance to our core customer.

Recognising that price is the principal reason that our customers select a retailer, we offer market-leading prices sold through a local, convenient and friendly store.

While we operate three distinct retail brands both the target customer and the categories sold within each trading format are consistent, creating significant synergy potential.

Our **vision** is to build Europe's pre-eminent discount variety retailer.

While benefiting from our position in the store-based discount retail sector that is growing across the world, we will achieve our vision by further strengthening our market-leading proposition and capitalising on the long-term opportunity to treble the size of the Group's current store portfolio, which implies over 20 years of roll-out potential.

We believe that this long-term expansion opportunity, concentrating on continued store roll-out in existing markets together with disciplined, organic expansion into new markets that feature similarly supportive economic and demographic characteristics, will provide substantial low-risk, long-term growth.

In addition to the clear growth opportunity outlined above, we believe that there is also potential to increase revenue and earnings through the development of the core customer proposition to provide more of the products that our customer wishes to buy from us and for scale and capability-led operating efficiencies across the Group.

Specifically, we believe there is a significant opportunity to expand operating margins in each retail brand through targeted end-to-end efficiency initiatives and in our Poundland business through reduction of rents in its existing stores.

As a large, growing business we are also aware of the impact that we increasingly have on the environment and the global communities in which we operate through our extended supply chain. While already active in minimising our environmental impact and maximising the benefit we have on our communities, there is always more that we can do. Our sustainability strategy, achievements and future focus in this area are covered on page 43 of this report.

As a single unified family of growth-oriented retail brands, our **strategy** shares Group-wide resources to build further competitive differentiation and strengthens the defensibility and sustainability of our customer offer.

Furthermore, the imperative to offer the lowest prices and greatest value in each market, while maintaining attractive economic returns for shareholders, is achieved through a **business model** and prevailing culture that enables our brands to "sell for less" by leveraging buying scale and direct sourcing capability to "buy for less" and a simple, consistent trading model to "operate for less".

The sharing of resources across retail brands creates synergy in the following areas of operation:

- **Buying scale leverage and integrated sourcing**

We believe that our direct sourcing capability, delivered through PGS, is world class and offers clear strategic differentiation versus our competition.

This strength of capability delivers benefits beyond product cost to include global logistics, working capital management, product quality and supply chain transparency and compliance.

The Group has two effective strategies to achieve lowest cost sourcing. Firstly, it utilises PGS hubs across Asia to source its own-brand apparel and general merchandise ranges and, secondly, it leverages Poundland's relationships with pan-European suppliers to source its branded FMCG products.

Expanding the PGS footprint across Asia and other near-shore markets provides sourcing flexibility and cost benefits while geographically spreading risk.

This collaborative approach also extends to key goods not for resale (e.g. store fixtures and equipment) where buying scale opportunities exist.

- **Infrastructure and capability sharing**

Enabled by the commonality of customer and categories across our retail brands, the sharing of products, regional infrastructure and capability across the Group is increasing.

This in turn is improving the customer offer by leveraging the best products across the Group and increasing operating scale through our existing infrastructure.

The implementation of Oracle as our core Enterprise Resource Planning (ERP) system in all brands is a good example of this. The Oracle ERP will be designed based on a set of consistent Group-wide principles, allowing synergy of information and operation, but will be implemented locally to allow for any differing operating practices to be incorporated where valuable.

We are also leveraging our established property capability to the Group's advantage with the PEPCO team in CEE being used to identify Dealz locations and the Dealz team in Spain involved in PEPCO's planned entry into that market in spring 2021.

- **Know-how**

Our leadership teams within each retail brand typically have 25 years' retail experience and have worked in at least two different geographies.

At a Group level, our leadership team has more than 80 years' combined experience in discount grocery, general merchandise and apparel, and strong track records of growing businesses and delivering successful strategies.

This, supported by a strong team-oriented culture, allows the ready exchange of knowledge and experience between brands. As an example, Poundland's established capability in labour scheduling and experience of implementing self-scan checkouts is now being applied to accelerate and de-risk similar developments within PEPCO.

## Strategic growth opportunities

Benefiting from a portfolio of complementary retail brands at differing levels of maturity, we intend to increase our operating scale, revenue and earnings via a number of strategic drivers as outlined below:

1. significant store portfolio expansion for the PEPCO and Dealz brands;
2. like-for-like sales growth from continued proposition development and new channel opportunities; and
3. operating cost improvements across the Group.

As a key enabler of the strategic drivers described above, we will continue to invest in the development of high-quality, scalable **infrastructure**. This will include information technology, centred on Oracle as our core ERP, a larger number of and more automated warehouses and more efficient distribution.

This investment, together with the focus on personal and professional development of colleagues across the Group (as discussed on page 44 of this report), will also allow us to maintain the quality of the Group and its individual businesses, whether measured in financial or customer experience terms, while we grow.

As this is the Group's first Annual Report and follows completion of a full strategic review, in order to present a clear explanation of our strategic growth opportunities to the reader, we have included a greater level of detail within this section than we intend to disclose on an ongoing annual basis (for example country-by-country store roll-out opportunities and store investment metrics).

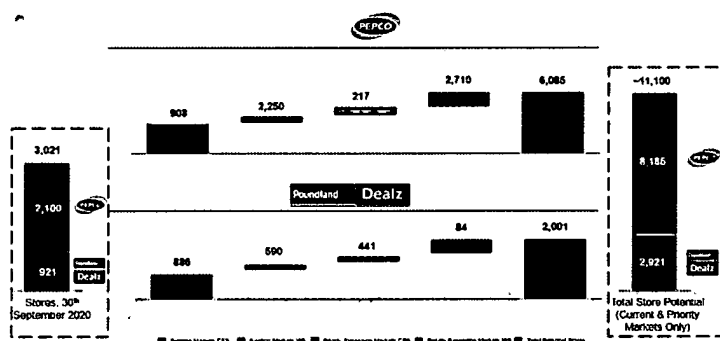
## 1. Low-risk, sustainable store roll-out opportunities

### Overview

As illustrated below, we have identified opportunities for over 8,000 additional PEPCO and Dealz stores, representing approximately 20 years of growth at our current rate of store expansion.

We will build each of our brands from strong, market-leading positions in our core or home markets such that over 4,500 of these stores are targeted in our existing markets across Europe. A further 3,500 stores are targeted in our priority expansion markets, which present a similar level of opportunity to our existing portfolio based on our analysis of macro-economic metrics and customer dynamics.

While presented sequentially in the figure below, the opportunities for each of PEPCO and Dealz will be progressed in parallel.



Note:

Roll-out opportunities validated by OC&C except PEPCO (Spain and Italy), which is based on a management estimate.

### PEPCO opportunity

Enabled by the homogenous nature of the stores and proposition as well as localised responsibility, PEPCO has the proven capability to open approximately 300 stores each year.

PEPCO also benefits from both first mover and scale advantage and limited competition from organised retailers in the majority of its markets and catchments.

In terms of scale advantage, OC&C analysis indicates that PEPCO has more stores in Poland than the next three largest store portfolios operating in the discount channel combined and in its core CEE markets, PEPCO has twice the number of stores as the next largest competitor.

The limitation on competition is most prevalent in smaller catchments. Smaller cities and towns with fewer than 20,000 inhabitants, which are generally served by local independent retailers, represent approximately 35% of PEPCO stores. Such catchments are economically accessible to PEPCO due to a combination of the relatively small average size of its stores, at approximately 400sq m, the uniformity of store format, which

reduces operational cost and complexity, and the Group's scale buying advantage.

Accordingly, with the majority the Group's organised competition operating from larger footprint stores which are not viable in small catchments, potential for future competitor entry is therefore limited due to PEPCO's already-established presence.

### Expansion in current markets

#### CEE

We believe there is a near-term opportunity to increase penetration of the CEE discount retail sector in markets where the PEPCO brand is currently present.

Supported by an analysis from OC&C, we are confident there is a potential for c. 900 new PEPCO stores in the twelve CEE countries where the Group currently operates (eleven CEE countries in which we operated in the period under review as well as Serbia where we opened our first stores in the first part of the financial year ending 30 September 2021).

The new store roll-out analysis performed by OC&C is based upon the Group's investment return metrics, including a requirement for return on invested capital of 30% for new stores (equivalent to a 30-month payback period).

This analysis shows that Poland demonstrates the highest potential with c. 250 new stores, followed by Serbia (entered in autumn 2020) with new store potential of c. 150 and Romania and Bulgaria with new store potential of c. 100 each.

Additional analysis has been performed to evaluate the potential for the PEPCO brand to operate more stores across its existing twelve countries in CEE. Were the Group's requirement for investment returns to be reduced to 36 months, whilst remaining highly attractive, it would increase the number of economically viable additional catchments by 40%.

#### Western Europe

Penetration of our core categories within discount channels in Western European markets is higher than in our existing CEE markets, strongly evidencing that the attraction of discount channels is not directly linked to a customer's disposable income.

The initial trading performance of PEPCO stores in Italy has further reinforced our confidence that there is further significant opportunity for growth through disciplined, organic expansion into new markets across Western Europe.

The financial year ending 30 September 2021 will therefore see a further 20 stores opened in Italy as well as an initial 10 stores in Spain.

## STRATEGIC REPORT

Both of these countries have substantial but fragmented populations, with a large number of small towns, and with polarised distribution of GDP per capita, creating a significant number of "budget conscious" target customers. Organised competition is also limited with, for example, the Spanish market dominated by independent operators which retain c. 33% market share.

Based on detailed market assessments we estimate that the Italian and Spanish markets could accommodate at least 2,250 further PEPCO stores.

### **Dealz opportunity**

Mirroring Poundland's success and scale as Europe's largest "dollar store" format, the opportunity for the Group to introduce a dollar store concept to the highly fragmented continental European market is clear.

The significant grocery/FMCG component of the Dealz proposition increases the size of addressable market. As an example, Biedronka, a discount food and general merchandise operator, has 3,000 stores in Poland.

While still nascent and sub-scale in continental Europe, operating from 96 stores in mainland Europe at the year end, the Dealz brand is trading well and is already delivering good returns on invested capital and healthy store contribution.

The anticipated post-tax discounted payback on an average store to be opened in the year ended 30 September 2020, based on pre-Covid-19 forecasts, was estimated to be 38 months. This payback is anticipated to reduce to approximately 30 months for stores opened in the year ending 30 September 2022, reflecting the benefits of scale leverage and increased brand awareness.

We are confident that an opportunity exists for c. 1,500 additional Dealz stores in the existing markets of Poland, Spain and the Republic of Ireland.

### **Store conversions (upsizes)**

Further growth potential exists for the PEPCO brand in the eleven CEE countries in which it already had a presence in the period under review, by increasing the trading footprint of older stores that were opened when the optimal store size was materially smaller than at present.

PEPCO has a strong track record of executing store upsizes, having completed over 30 such upsizes in each of the last three financial years. In those years, the average upsize increased the store footprint by 50% and delivered a payback on its invested capital within 13 months on average. Management has identified a further 300 stores which are suitable for upsizing opportunities, which equates to approximately 150 new stores.

### **Disciplined expansion into new priority expansion markets**

The existing market opportunities outlined above can be readily accessed in parallel and provide low-risk opportunities to add c. 4,500 stores to the Group's existing portfolio of 3,021 stores. These opportunities provide approximately twelve years' growth at the Group's current rate of expansion.

In addition, we believe that over the medium term both the PEPCO and Dealz propositions will strengthen, improving their respective new store economics.

Other markets will also develop similar characteristics to the Group's existing CEE markets, making them attractive for market entry for both PEPCO and Dealz. Example characteristics would include GDP per capita, discount sector participation led by food and the availability of retail sites.

### **PEPCO – priority expansion in CEE markets**

Opportunities have been identified for expansion in priority CEE markets that demonstrate similar market characteristics to the CEE countries in which PEPCO already operates. These include Montenegro, Bosnia, Moldova, Albania and North Macedonia, which OC&C has evaluated to provide opportunity for a further c. 200 new stores in the medium term.

Based upon this analysis, Moldova, Bosnia and Albania represent the most attractive and scalable markets with identified opportunity for up to 170 new stores collectively.

### **PEPCO – priority expansion in Western European (WE) markets**

The combined benefit within PEPCO of an enhanced customer proposition and improved store economics will also make other Western European markets, beyond those presently targeted, attractive. We remain confident that the fundamental strength of PEPCO in providing Western European quality products within a Western European store environment but at Central European prices is attractive to customers in both these regions.

We estimate that those new markets could provide an opportunity for a further 2,700 store openings, extending the window of potential store openings to approximately 20 years at the planned rate of expansion.

### **Dealz – priority expansion in CEE and WE markets**

The strength of performance of the Dealz brand in existing CEE markets increases our confidence in the additional opportunity for expansion into other core CEE countries and adjacent WE markets. In order to maximise the capacity within our existing distribution infrastructure, any such regional roll-out is likely to radiate out from the brand's established presence in Poland.

We estimate that new priority expansion markets in CEE and WE could provide an opportunity for a further c. 500 store openings, extending the window of potential store openings in Dealz to approximately 20 years at the current rate of expansion.

## 2. Like-for-like sales growth from continued proposition development and new channels

All our retail brands have programmes in place to enhance the customer proposition and explore additional channels to serve new or existing customers. This proposition development will create further competitive differentiation, while driving greater sales density in our current stores.

### Category development

#### PEPCO

Over recent years our focus on product development has improved the overall attractiveness of our general merchandise ranges to match the market-leading characteristics set by our apparel proposition.

This creates a clear opportunity to rebalance trading space in store towards general merchandise. Importantly, reflecting improvements to both our space allocation capability and in-store equipment to increase merchandising density, we can largely achieve this change without reducing the overall space allocated to apparel. Over the forthcoming two years we expect over 1,700 stores to be reformatted.

PEPCO's core ranges will also continue to be enhanced. For example, a range of baby-focused FMCG products is being trialled during the coming financial year.

#### Poundland

Many of the Poundland stores in the UK are over-spaced versus the ideal footprint for the FMCG and general merchandise assortment at the core of the proposition. In the recent past this excess space has been utilised to create over 300 "shop-in-shops" to display the Pep&Co clothing range. Through this allocation of space and by leveraging existing footfall, the Pep&Co brand has grown to become the UK's 18th largest clothing brand by volume, according to Kantar Fashion as at the end of the period under review.

Poundland is also implementing a programme of SKU rationalisation intended to simplify the operating model and also 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 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 ten 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 Group, 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.

### Multi-price expansion – Poundland/Dealz

Poundland and Dealz also have an ongoing programme to expand the number of price points they offer to their customers to reinforce these brands' principal purpose of providing their core customers with all of their regular shopping needs.

Following a programme of category analysis and research involving over 3,000 customers, we are progressing a strategy to introduce a broader, though still simple, range of price points both above and below the anchor price point of, for example, £1 in the UK.

This research confirmed our customers' interest in buying more of their regular replenishment needs from us, were those products to be available and offering Poundland's "amazing value". Our internal estimates suggest that expanding our ranges in this way would access additional consumer expenditure in our existing core categories totalling €4bn.

This price expansion, which mirrors the strategy successfully pursued by the US "dollar store" formats, was completed in three initial categories – health and beauty, homewares, and grocery – during the year ended September 2020, with strong customer acceptance of the changes. Based on this success, the price architecture in all other categories will be expanded during the coming financial year.

### New channel opportunities

We remain cognisant of the increasing role that the internet plays in our customers' lives and our retail brands are each active on various social media platforms in order to develop a deeper relationship.

Reflecting our customer demographic, high store density creating convenience and basket economics, we do not consider the online channel to be a major threat to us at this time.

## STRATEGIC REPORT

However, we are aware of a prevailing consumer trend towards this channel, both in terms of brand relationship and shopping, with the latter trend accelerated in the short term by Covid-19.

We are confident that our customer proposition, with low prices and focused assortment, and brand are strong and will work online. Through our store portfolio we also have more points of potential distribution than our competitors, for example for Click & Collect services.

We are undertaking low scale trials in order to better understand the challenges of an online offer. However, as and when our customers want to engage with our brands in this way, we believe we are well placed to take advantage.

### 3. Operating cost improvements across the Group

We have a number of ongoing programmes designed to improve the underlying capability and efficiency across the Group. These programmes will enable the growth opportunities outlined above while delivering operating cost improvements.

A key enabler to this is the ongoing implementation of Oracle as a uniform ERP system across our operations. As well as introducing a world-leading application as the foundation of our system's architecture, we are confident that this will further reduce costs via the automation of many existing back office processes.

#### PEPCO

Supported by external advisors, such as BCG, during this year we have completed a detailed assessment of our end-to-end capability from initial buy through to manufacture and distribution and ultimately selling the product to an end retail customer.

With our historical focus being on securing both operating scale and first mover advantage in our markets, this review highlighted a series of tactical and strategic opportunities that will be progressed over the medium term.

#### Poundland

Having materially improved the profitability of the Poundland business since its acquisition by the Pepco Group in April 2017, we believe there are several tangible cost reduction initiatives that will drive further margin expansion in the near term.

These include:

- (i) optimising retail property rental costs;
- (ii) reducing shrinkage costs; and
- (iii) streamlining the supply chain.

The store lease cost in Poundland totalled £101m in the financial year ended 30 September 2020 and represents Poundland's largest single operating cost.

At the point of any lease expiry we will consider whether the existing location still maximises customer capture in its catchment. If it does, we will extend the lease on the most favourable terms possible. If the centre of gravity has shifted in the catchment or the store is the wrong size to present our revised proposition, we will re-site the store within its catchment. In all situations we will seek to maximise flexibility within the new lease with a short lease commitment and tenant-only break clause within the initial lease period.

Based on the experience from recently renegotiated lease rentals, where in the two years ended 30 September 2020 we successfully renegotiated 180 leases with an average reduction in excess of 36%, we are confident that there remains a significant opportunity to negotiate more favourable lease terms.

The majority of Poundland's leases (55%) will experience a lease event in the five years ending 30 September 2024, reflecting the average remaining lease tenure of 3.1 years and representing a cost reduction opportunity of c. €20m.

Having been stable as a proportion of sales for many years, shrinkage increased by 90bps as a percentage of sales in the year ended 30 September 2018 due to a number of factors under management's control. These factors include both the initial implementation of the multi-price offer, making product more attractive for theft without adequate additional protection, and the introduction of self-scanning tills, where previous levels of shrinkage were not considered when selecting the stores in which to implement this technology.

Having identified these drivers, Poundland has a targeted programme in place, including removing self-checkouts where appropriate and (re)introducing guarding and CCTV where justified, aimed at reducing shrinkage to 1.7% of revenue in the next three years.

As part of a wider programme of logistics reconfiguration, Poundland successfully integrated the Pep&Co supply chain into the existing Poundland distribution network in July 2019. We are also implementing a programme of development to rationalise the current Poundland distribution infrastructure of one national distribution centre (NDC), three regional distribution centres (RDCs) and four outbases to one hybrid warehouse (both NDC and RDC), two RDCs and three outbases by the end of the financial year ending 30 September 2021.

This rationalisation programme, which commences with the closure of the current NDC following the peak trading period in 2020, is expected to reduce total logistics costs by approximately €2.5m per annum by the end of the programme.

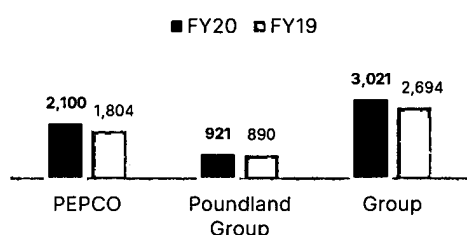
## KPIs

The key performance indicators (KPIs) that we use to monitor the development, performance and position of the Group and how we performed against them are set out below.

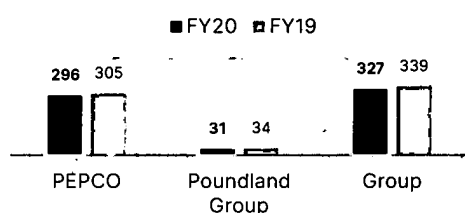
The KPIs include Alternative Performance Measures (APMs). The Directors use APMs as they believe these measures provide additional useful information on our performance. APMs are not defined under IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

## Stores

### Number of stores<sup>7</sup>



### Store growth<sup>8</sup>



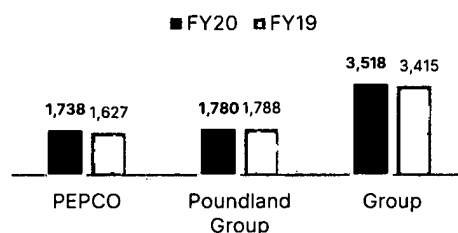
New store openings remain the main driver of Group growth, with 327 net new stores opened in the period under review (12% year-on-year growth). Despite the trading challenges, we maintained our store expansion strategy during the Covid-19 affected period, reflecting the resilience and strength of the business. We exit the period under review with 3,021 stores across 15 countries.

In our PEPCO segment, we expanded our PEPCO store estate by 296 stores in the year under review (16% growth year on year), including entering the Western European market with five stores in Italy at the year end. We exited the year with 2,100 PEPCO stores across 12 countries.

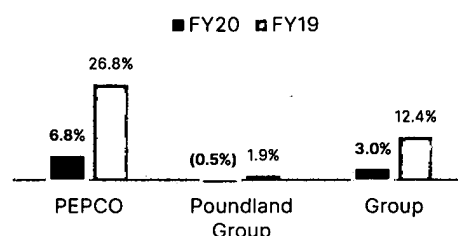
In our Poundland Group segment, our expansion of the Dealz brand continued, with 31 openings in Poland and 12 in Spain, exiting the year with 96 Dealz stores in mainland Europe as well as a further 69 in ROI. Recognising the maturity of the UK market and in line with our strategy to optimise the Poundland store estate in the UK, our UK portfolio remained broadly flat.

## Sales

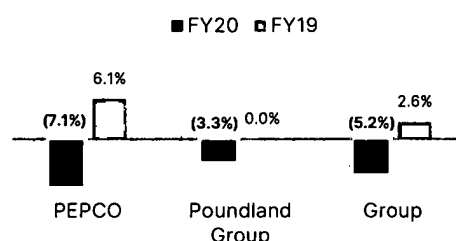
### Total sales (€m)



### Total sales growth (%)



### LFL sales growth (%)<sup>9</sup>



The Group generated in excess of €3.5bn of sales in the period, growing year on year by 3.0%, driven predominantly by PEPCO store growth.

LFL sales decreased year on year by 5.2%, reflecting the impact of strict Covid-19-related lockdowns on footfall across all the territories we operate in.

<sup>7</sup> APM, defined as net number of stores in the estate as at the period end. Includes 21 stores in the Poundland estate which were temporarily closed at the period end as a result of the impact of Covid-19 on footfall at these stores.

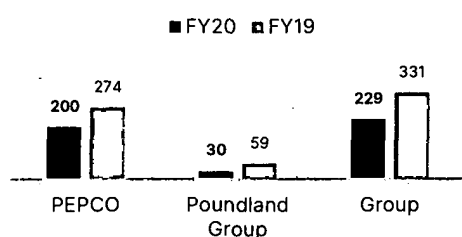
<sup>8</sup> APM, defined as year-on-year growth in net new stores (new store openings less store closures).

<sup>9</sup> APM, defined as year-on-year revenue growth for stores open beyond their trading anniversary, with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store. Unless otherwise stated, LFL sales growth includes stores which were temporarily closed in the Poundland estate at the peak of Covid-19 restrictions.

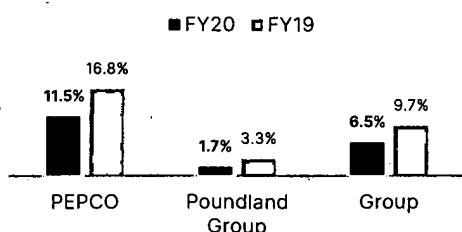


## Profit

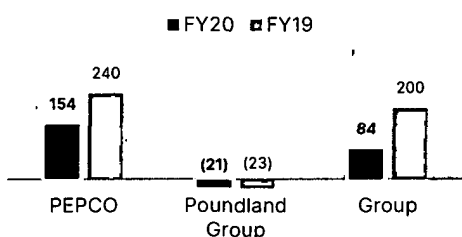
### Underlying EBITDA (€m)<sup>10</sup>



### Underlying EBITDA margin (%)<sup>10</sup>



### Underlying profit before tax (€m)<sup>11</sup>



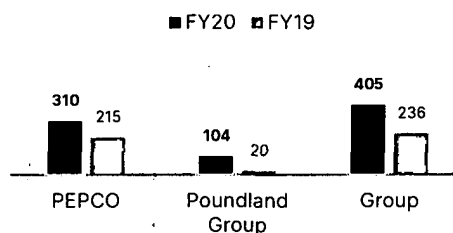
The Group generated underlying EBITDA of €229m and underlying profit before tax of €8m in the period, driven by PEPCO store expansion-led profit growth. The Group remained profitable despite the impact of Covid-19 in the second half of the year, although underlying EBITDA declined by €102m (-31%) year on year. We delivered strong underlying EBITDA growth (+18% year on year) in the five months to the end of February, pre the impact of Covid-19.

The Group delivered an underlying EBITDA margin of 6.5%, a reduction of 3.2pp year on year.

<sup>10</sup> APM. The Directors consider underlying EBITDA to be reflective of the underlying nature of business performance of the Group and a measure which provides additional useful information to the reader. A reconciliation of underlying EBITDA and underlying EBITDA margin to statutory measures is presented on page 114. Underlying EBITDA is defined as profit on ordinary activities net of depreciation, amortisation, finance costs and taxation and presented pre-IFRS 16. Group profit and cash measures comprise the PEPCO and Poundland Group segments presented above as well as Group Services (a loss-making service centre).

## Cash

### Cash generated by operations (€m)<sup>12</sup>



Despite the impact of Covid-19, the Group generated €405m operating cash flow in the period, driven by new store-led sales growth and 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.

## Net promoter score (NPS)

The Group achieved a Group-wide NPS of 38% for the period under review. NPS is a new and valuable measure for the various retail brands within the Group and is based on customer surveys undertaken across countries which cover c. 90% of the Group's geographical store portfolio.

In the future, we intend to increase our monitoring of this metric and refine our approach to the level and nature of coverage across our portfolio.

<sup>11</sup> APM. The Directors consider underlying profit before tax to be reflective of the underlying nature of business performance of the Group and a measure which provides additional useful information to the reader. A reconciliation of underlying profit before tax to statutory measures is presented on page 115.

<sup>12</sup> Cash generated by operations is defined as cash flow from operations before capital expenditure, taxes, financing, investment activities and the impact of IFRS 16. A reconciliation of cash generated by operations to statutory measures is presented on page 115.

## BUSINESS REVIEW: CEO'S REPORT

### A year of significant strategic progress in unprecedented times

#### Introduction

It is widely acknowledged that the year to 30 September 2020 was an unprecedented one, including over six months of impact from the global Covid-19 pandemic.

However, I believe the year clearly illustrated the significant benefit of having an established, well-defined strategy that can be confidently pursued in a consistent, disciplined manner combined with operational agility, enabled by an experienced management team, direct relationships with product suppliers and an organisation-wide "can-do" culture.

Our confidence in our opportunity to become Europe's pre-eminent discount variety retailer has, if anything, been strengthened over the past year.

Our retail brands are in good health delivering 5% like-for-like growth pre-Covid-19 and trading resiliently thereafter. We continue to open new stores, both maximising store penetration in our existing territories and expanding our footprint with the important step of opening our first Western European PEPCO stores in Italy during the year, with openings in Spain targeted for spring 2021.

The year saw a number of significant milestones being achieved on the property front with the Group opening its 3,000th store in September, PEPCO opening its 2,000th store in Croatia in June and Dealz opening its 100th continental European store in Poland just after the year end.

While operating two strong independent businesses, we also continue to operate more cohesively as a single unified entity while not inhibiting the local ownership that drives performance. Compared to twelve months ago, we now buy more goods and services jointly across our retail brands. We also share winning products, infrastructure and, most importantly, know-how to strengthen the customer proposition and supporting business models in each of our businesses.

Overall, I am extremely proud of what the Group has achieved during the year, both strategically in opening more new stores than in the prior year and commencing the roll-out of an exciting chilled and frozen proposition in Poundland, and operationally in protecting the safety and wellbeing of our customers and colleagues, while limiting any material impact on earnings of Covid-19 to a single quarter and ending the

financial year with higher cash and lower net debt than September 2019.

#### Covid-19 impact

##### Background

While initially managed during February as a potential supply issue, Covid-19 impacted consumer demand for all retail brands within the Group with governmental restrictions being introduced across CEE from mid-March, Spain from 15 March, the UK from 23 March and Ireland from 27 March.

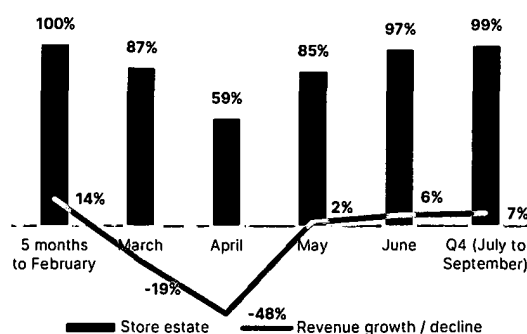
As it did not qualify as a retailer of essential products, PEPCO was our most impacted brand. In the closing week of the quarter to the end of March, PEPCO traded from 856 (44%) of its 1,930-store footprint with the entire portfolio closed in seven countries including Czechia, Slovakia and Romania. Trading in Poland was limited to stores outside of shopping malls while stores in Hungary were only permitted to trade between 9 am and 3 pm each day.

These restrictions, combined with the need for social distancing across all markets and the reluctance of some customers to venture out of their homes, meant PEPCO traded for a four-week period immediately post lockdown at c. 15% of its expected sales levels.

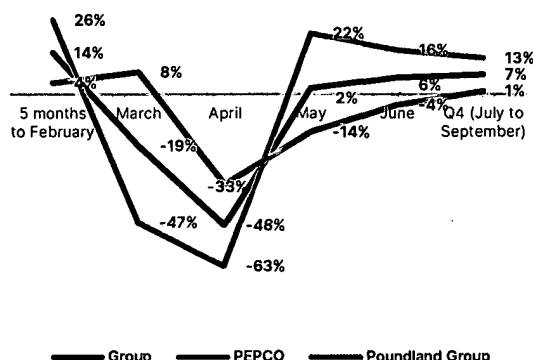
Poundland qualifies as a retailer of essential products and consequently experienced an initial benefit from customer stockpiling of cleaning, healthcare and food products. However, the Covid-19 lockdown led to the voluntary temporary closure of 130 stores. The remaining c. 700 stores traded through significantly reduced visitor numbers, particularly in shopping centres and high street locations, at c. 60% of expected sales levels for a period of four weeks.

The following charts summarise the year-on-year sales revenue pre-Covid-19, during the lockdown period and post lockdown, along with the percentage of the store estate that was able to trade during these periods.

Group revenue and store estate trading as a percentage of previous year



Revenue percentage growth year on year by segment



### Response

Cognisant of the performance trends, we developed a three-stage Covid-19 strategy that, in timing terms, we believed broadly mirrored the final three calendar quarters of 2020.

The primary operational focus within each of these stages was as follows:

1. "Lockdown"  
Focus on optimizing cash and ensuring the safety of customers and colleagues.
2. "Recovery"  
Focus on optimising trading as stores reopen, with specific emphasis on reducing excess levels of seasonal inventory.
3. "New normal"  
Refining our business model to introduce required flexibility to reflect potential for further trading volatility.

Our initial actions were targeted to ensure that we maintained sufficient liquidity to operate through this wave of the virus. However, reflecting the strength of the Group's cash position and our confidence in the long-term growth opportunity for the Group, we maintained our store expansion programme to leave us well positioned to thrive after this period of reduced consumer demand.

Significant and structured stakeholder communication throughout this period sought to ensure their ongoing support was maintained and our suppliers were treated with respect and fairness when negotiating new arrangements.

### Lockdown quarter

Recognising the significant and potentially prolonged impact on Group revenue, in addition to drawing committed bank facilities totalling €53m (subsequently repaid in full in July 2020), immediate action was taken to reduce forward inventory commitments with cancellations and deferrals of c. €300m achieved. The monthly operating cost requirement of the business was also reduced by c. 40% through appropriate reductions in discretionary expenditure and access to available government support including business rates relief and the Job Retention Scheme in the UK and equivalent support available in Poland and Romania.

The significant trading constraints outlined above remained in place throughout April, before easing in May as stores reopened across CEE with the Group trading from 2,880 of its 2,913 stores on 21 June. From its low point in April, absolute revenue levels increased week on week through this period to levels above our initial post-Covid-19 expectations, though below normal levels.

Accordingly, Group level like-for-like sales totalled -20.9% across the quarter ended 30 June 2020.

Throughout the lockdown, we went beyond relevant government guidelines and invested to ensure the health and safety of our colleagues and customers. We also continued to support our communities: Poundland rolled out Buy One Give One schemes, matching in-store purchases with donations for hospitals, care homes, nurses and other key workers; and PEPCO delivered thousands of essential packages to care homes and children's hospitals.

### Recovery quarter

Despite trading from the majority of stores during this period our customers remained cautious about visiting busy locations, including retail stores, such that Group level like for like was -2.2%.

Reflecting our customers' focus at this time, home-related categories performed well in all retail brands with Poundland, as an example, recording a best-ever week for its DIY category during this quarter.

As stores reopened we executed a plan to reduce seasonal inventory through a series of store level and more targeted promotions. While diluting near-term gross margins, this activity was extremely successful in clearing excess stock such that the absolute level and quality of inventory are each improved versus recent norms.

## STRATEGIC REPORT

### "New normal"

The Group traded resiliently in the first quarter of the calendar year despite the impact of significant Covid-19-related "lockdown" restrictions on consumer behaviour impacting many of our key operating territories. Outside periods of Covid-19 restrictions, which primarily fell into November and late December, the Group traded positively, returning to levels of like-for-like growth consistent with those delivered in recent years (prior to the impact of Covid-19).

Across the entire quarter, reflecting the continued strategic expansion of our store portfolio, total revenue is estimated to have increased by c. 2.5% with like for like declining marginally by 2.1%. Our investment in new stores saw the opening of over 100 net new stores in the quarter. This included further store openings in Italy where the PEPCO brand continues to perform strongly and the opening of our first PEPCO stores in Central Europe outside of the European Union through ten stores in Serbia, which have materially outperformed our internal expectation.

## Financial overview

### Pre-Covid-19

Our financial performance in the five months to the end of February 2020 continued its recent profile of strong revenue and profit growth.

As outlined in the table below, our unaudited performance in that period recorded 14.4% revenue growth, benefiting from both continued store growth and 5.0% Group level like for like, with LFL growth achieved in each of our segments. Continued scale and efficiency-led cost leverage contributed to year-on-year EBITDA growth of 18%.

### FY20 performance pre-Covid-19

FY20 - 5 months to end of February 2020	PEPCO	Poundland Group	Group*
Revenue (€m)	850	845	1,705
Total Revenue Growth (%)	26.4%	4.3%	14.4%
Like-for-like Revenue Growth (%)	8.1%	2.2%	5.0%
Underlying EBITDA (€m)	139	34	173
Underlying EBITDA Growth (%)	16.3%	16.7%	17.8%
Underlying PBT (€m)	121	15	136
Underlying PBT Growth (%)	13.5%	549.2%	21.8%
Number of Stores	1,912	915	2,827
Store Growth (%)	21.0%	4.6%	15.2%

\* Group includes "Corporate" costs excluded from PEPCO and Poundland Group segments

Notes: 13 14 15 16 17

### Full financial Year

The impact of Covid-19-related restrictions on the Group in the second half of the year and particularly the third quarter was significant, resulting in the only year-on-year reduction in profit before tax in the last ten years.

As outlined in the table below, while the continuation, without interruption, of our store opening programme still led to a year-on-year increase in Group revenue, significantly reduced trading densities, operating costs associated with closed stores and gross margin inventory necessary to clear excess seasonal inventory impacted profitability. Full year underlying EBITDA of €229m was €102m below that achieved in the previous year.

### FY20 full year performance

FY20	PEPCO	Poundland Group	Group*
Revenue (€m)	1,738	1,780	3,518
Total Revenue Growth (%)	6.8%	(0.5%)	3.0%
Like-for-like Revenue Growth (%)	(7.1%)	(3.3%)	(5.2%)
Underlying EBITDA* (€m)	200	30	229
Underlying EBITDA Growth (%)	(26.9%)	(49.6%)	(30.9%)
Number of Stores	2,100	921	3,021
Store Growth (%)	16.4%	3.5%	12.1%

\* Group includes "Corporate" costs excluded from PEPCO and Poundland Group segments

Notes: 18 19 20 21 22

However, as a result of the excellent management of working capital across the Group our liquidity position remained strong with cash and net debt at 30 September 2020 of €400m and €328m respectively. Significant additional funding has also been negotiated with both existing and new lenders.

13 All financial results are unaudited and stated on a pre-IFRS 16 basis.  
14 All foreign currency revenues and costs are translated at the average rate for the month in which they are made.  
15 Year-on-year revenue, LFL revenue, EBITDA and PBT growth are stated on a constant currency basis.  
16 LFL revenue growth is defined as year-on-year revenue growth for stores open beyond their trading anniversary with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store.  
17 Underlying EBITDA and PBT are APM measures; see page 16 for further details.

18 All financial results are stated on a pre-IFRS 16 basis.  
19 All foreign currency revenues and costs are translated at the average rate for the month in which they are made.  
20 Year-on-year revenue, LFL revenue, EBITDA and PBT growth are stated on a constant currency basis.  
21 LFL revenue growth is defined as year-on-year revenue growth for stores open beyond their trading anniversary with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store.  
22 Underlying EBITDA and PBT are APM measures; see page 16 for further details.

## Strategy update

Our continued progress in delivering and developing our strategy over the past year combined with the resilience our retail brands displayed during the peak of the Covid-19 impact serves to increase our confidence in the sustainable, long-term opportunity to grow both sales and profits.

The key strategic drivers of this growth are:

1. significant store portfolio expansion for the PEPCO and Dealz brands;
2. like-for-like sales growth from continued proposition development and new channel opportunities; and
3. operating cost improvements across the Group.

Each of the above objectives is underpinned by the continued investment and development of quality infrastructure and a focus on ensuring we operate responsibly and sustainably across our businesses.

### Portfolio expansion

Disciplined but confident expansion continued within both PEPCO and Dealz, as our expansion retail brands, with a total of 327 net new stores opening in the year under review.

296 of these stores were in the PEPCO format which opened stores in all of its existing territories while also expanding its operating footprint into Western European markets via five stores located in Northern Italy.

These initial Italian stores have traded ahead of our internal expectation since their opening. Evidencing the strength of our proposition relative to incumbent competition, both customer numbers and average transaction values are delivering measurable premiums to our business plan. Recognising this performance, we envisage operating from over 20 stores in Italy at the end of the year ending 30 September 2021 and in spring 2021 will open our first stores in Spain, where again the PEPCO proposition has been researched strongly.

Dealz expansion will continue in both Poland (31 stores added in the year) and Spain (12) with our near-term focus biased towards Poland where the brand's recovery from Covid-19 has been particularly strong.

Consistent with our experience when expanding PEPCO, we know that the benefits of economic scale achieved from trading a larger number of stores will in turn make other new catchments viable to market entry in the medium term.

Poundland operates a significant 756 store portfolio in the UK, serving the vast majority of the population through a local store.

Accordingly, material footprint expansion is not anticipated within Poundland with less than ten new catchments entered this year. However,

ongoing opportunity exists to relocate existing stores to improved locations, often via a slightly larger store which allows the wider Poundland proposition including Pep&Co clothing and homewares to be offered. During the year Poundland completed seven such relocations.

### Like-for-like sales development

Both PEPCO and Poundland are now progressing a significant proposition refresh programme that will be introduced progressively, on a store-by-store basis, to benefit most stores over the next two to three years.

In PEPCO this is centred on the opportunity to better balance space between apparel and general merchandise, without any reduction in range. On each store refit we will also look to divide the store on a right hand/left hand basis rather than the current front/back basis. Particularly in new markets, where the brand will be less well known, this will make a greater breadth of the proposition visible from the entrance of the store, encouraging visit.

It is anticipated that over 1,000 stores will be refreshed during the current financial year including 550 completed before Christmas, with a further 620 during 2022.

A similar programme within Poundland will be rolled out to over 400 UK stores during the next two years centred on the introduction of a chilled and frozen range of products to complement our existing grocery offer. Following extensive research with our customers and having extended our price hierarchy, chilled and frozen products were by far the most commonly referenced category that our customers wished to buy from us.

The same programme will also re-lay each store to the further benefit of customers and colleagues. Store layouts will be adjusted to reflect our latest view on optimal adjacencies and operational efficiency will be enhanced by, for example, reviewing the balance between manned and self-scan checkouts based on our accumulated learning.

## STRATEGIC REPORT

Each brand is also constantly seeking to refresh its respective proposition by trialling potential new categories based on customer research. As examples in the forthcoming year, Poundland will trial a beer, wines and spirits offer and a healthy living range including “free-from” products and PEPCO will test a range of baby-centric FMCG products such as nappies and wipes.

We will also continue to explore the manner in which our customers, both existing and in new territories, wish to interact with our brands online including through e-commerce. As discussed in the Strategy section, we fundamentally see this as a further opportunity rather than a threat and anticipate trialling a focused e-commerce proposition during 2021.

### **Operating cost improvements**

In addition to ongoing economies of scale and the increasing level of cross-brand collaboration referenced in the Strategy section, each operating company is also progressing its own bespoke plan to deliver cost efficiency.

Most significant within this are the opportunities for Poundland to reduce its store rents to reflect current prevailing market levels, opportunities to return shrinkage to historical levels, supply chain efficiencies from the rationalisation of the number of warehouses and head office efficiencies from the introduction of more modern technology, specifically Oracle.

The first stage of Poundland’s logistics and head office efficiency programmes was each announced in the year and will be completed during 2022, with annualised savings of nearly €5m.

This will see the closure of one of the brand’s four distribution centres, which is co-located with the current head office, with the volumes reallocated across the balance of the network.

This move will also allow us to relocate to a new lower-cost head office approximately three miles from the existing location.

A clear roadmap to improve end-to-end efficiency in PEPCO has been developed during the year based on studies completed by external consultants.

While implementing this plan will serve to improve operating margins over time, our clear imperative for PEPCO is to maintain its scale of new store roll-outs in order to secure market leadership in current markets or first mover advantage in new markets. We will therefore balance this opportunity against any impact on the pace of store expansion.

### **Infrastructure development**

It is a necessity within a business with our level of growth potential to almost continually invest in its infrastructure, whether systemic, physical or human, to ensure that growth is maintained in both absolute and more qualitative terms.

This was certainly true in the past year, which saw the opening of a further PEPCO warehouse in Hungary and the development of Oracle Financials as the first stage of our ERP programme.

Our new distribution centre (DC) south of Budapest is similar in design but twice the scale of our existing DC in Poland and is located at the centre of gravity to support our southern stores. After an initial ramp-up, this new facility is now fully operational, supporting stores in seven countries including the key territories of Hungary, Romania and Italy.

The successful opening of the new facility also allowed us to close some of the inefficient, temporary DCs in operation through the entirety of the financial year.

Reflecting best practice, we are adopting an agile approach to the development of Oracle by which expert users and system developers sit alongside each other to tailor and configure each application module. Naturally, this approach was significantly constrained during Covid-19 such that the envisaged first Oracle implementation of finance modules in Poundland and Dealz, originally scheduled for May 2020, is now anticipated in early 2021.

## STRATEGIC REPORT

### **Summary and outlook**

It is pleasing to report continued strong operational, strategic and financial progress made by all parts of the Group both before and following the impact of Covid-19.

We continued our store expansion programme, delivered compelling like-for-like sales growth and converted sales to profit, while at the same time investing in infrastructure and maintaining our price leadership position within the European discount variety retail sector.

Personally, and on behalf of the Board, I would like to thank all of our colleagues across the Group who have worked tirelessly and shown enormous commitment to ensure that we continued to serve our customers in this particularly challenging period.

Looking forward, it is likely that consumer demand for discount retailing will increase in a period of prolonged economic uncertainty and we are extremely well placed to take advantage of this trend. We remain confident that we have the vision, the strategy and the business model to continue to deliver attractive long-term sales and profit growth.

**Andy Bond**

**Group Chief Executive Officer**

## BUSINESS REVIEW CFO'S REPORT

**Trading resilience and strong working capital management throughout the Covid-19 pandemic ensure that the Group remains financially strong and well positioned to continue to deliver our strategic objectives**

### Introduction

The financial year under review was clearly a story of two halves with performance to the end of February tracking ahead of expectations, showing strong revenue and profit growth as we realised the benefit of continued delivery against our strategy, largely through expansion of the PEPCO brand in CEE.

From mid-March the business was profoundly impacted by the Covid-19 pandemic and consequent Europe-wide lockdowns which, in the short term, impacted the Group's profitability through store closures and severe government-imposed trading restrictions.

Management response was swift and decisive as we sought to optimise cash and liquidity. It is pleasing that as a result of these actions our cash position has ended the year higher than the previous year and despite the challenges brought by Covid-19 the continued strategic investment in new stores and enhanced infrastructure provides a solid platform on which to deliver future growth.

### Accounting period

The FY20 accounting period includes trading for the twelve months up to 30 September 2020 and the comparative period represents the equivalent twelve-month period up to 30 September 2019.

FY20 is the first time in which the financial statements have been prepared following the introduction of the new lease accounting standard, IFRS 16. We have chosen to adopt the new standard from 1 October 2019 on a

modified retrospective basis. For further details on the adoption and impact of IFRS 16, please refer to the summary later in this section of the report and note 1.21 and note 12 to the financial statements, where results can be seen on a pre- and post-IFRS 16 basis.

Where appropriate, we have presented figures on a pre-IFRS 16 underlying basis where we believe these figures are relevant to helping understand the ongoing performance of the business and offer more meaningful comparisons to the prior year.

### Financial reporting

#### Strong Group performance in the five months to February 2020

Performance pre-Covid-19 was pleasing with continued operational, strategic and financial progress made by all brands within the Group. We continued to invest in new store openings (+15.2% growth year on year), delivered compelling like-for-like growth at +5.0% and converted sales to profit with profit before tax up 21.8%.

#### Summary of performance to end February 2020

FY20 - 5 months to end of February 2020	PEPCO	Poundland Group	Group*
Revenue (£m)	860	845	1,705
Total Revenue Growth (%)	26.4%	4.3%	14.4%
Like-for-like Revenue Growth (%)	8.1%	2.2%	5.0%
Underlying EBITDA (£m)	139	34	173
Underlying EBITDA Growth (%)	16.3%	16.7%	17.8%
Underlying PBT (£m)	121	15	116
Underlying PBT Growth (%)	13.5%	549.2%	21.8%
Number of Stores	1,912	915	2,827
Store Growth (%)	21.0%	4.6%	15.2%

\* Group includes 'Corporate' costs excluded from PEPCO and Poundland Group segments

#### Summary of full year Group performance

Pepco Group	FY20	FY19	YOY Growth
Revenue (£m)	3,518	3,415	3.0%
Gross Profit (£m)	1,433	1,443	(0.7%)
Gross Profit Margin (%)	40.7%	42.3%	(1.5pp)
Underlying EBITDA (£m)	229	331	(30.9%)
Underlying EBITDA Margin (%)	6.5%	9.7%	(3.2pp)
Depreciation and Amortisation (£m)	(91)	(75)	(21.0%)
Interest (£m)	(54)	(56)	3%
Underlying PBT (£m)	84	200	(58.1%)
Non-Underlying Items (£m)	(32)	59	n/a
IFRS16 Adjustments (£m)	(34)	0	n/a
Reported PBT (£m)	18	260	(93.2%)

Notes: 23 24 25 26 27

23 All financial results are stated on a pre-IFRS 16 basis and the results to the end of February 2020 are unaudited.

24 All foreign currency revenues and costs are translated at the average rate for the month in which they are made.

25 Year-on-year revenue, LFL revenue, EBITDA and PBT growth are stated on a constant currency basis.

26 LFL revenue growth is defined as year-on-year revenue growth for stores open beyond their trading anniversary with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store.

27 EBITDA and PBT are stated on an underlying basis, excluding exceptional costs associated with the potential separation of Pepco Group from the Steinhoff Group.



## STRATEGIC REPORT

### Group performance by segment and reported and constant currency basis

Revenue	Reported			Constant Currency		
	FY20	FY19	% YoY	FY20	FY19	% YoY
PEPCO	1,738	1,627	6.8%	1,738	1,595	9.0%
Poundland Group	1,780	1,788	(0.5%)	1,780	1,802	(1.2%)
<b>Total Group</b>	<b>3,518</b>	<b>3,415</b>	<b>3.0%</b>	<b>3,518</b>	<b>3,398</b>	<b>3.6%</b>

Underlying EBITDA	Reported			Constant Currency		
	FY20	FY19	% YoY	FY20	FY19	% YoY
PEPCO	200	274	(26.9%)	200	268	(25.4%)
Poundland Group	30	59	(49.6%)	30	59	(50.0%)
Other	(1)	(1)	(47.0%)	(1)	(2)	(53.1%)
<b>Total Group</b>	<b>229</b>	<b>331</b>	<b>(30.9%)</b>	<b>229</b>	<b>326</b>	<b>(29.8%)</b>

Underlying EBITDA Margin	Reported			Constant Currency		
	FY20	FY19	Var	FY20	FY19	% YoY
PEPCO	11.5%	16.8%	5.3pp	11.5%	16.8%	5.3pp
Poundland Group	1.7%	3.3%	1.6pp	1.7%	3.3%	1.6pp
<b>Total Group</b>	<b>6.5%</b>	<b>9.7%</b>	<b>3.2pp</b>	<b>6.5%</b>	<b>9.6%</b>	<b>3.1pp</b>

Our total Group revenue in FY20 was €3,518m (FY19: €3,415m) and represents an increase of 3.0% (+3.6% constant currency).

As discussed within the CEO's report, revenue reduced significantly for a period of time early in lockdown when over half the PEPCO stores were closed in CEE and approximately 15% of Poundland stores, which became temporarily unviable, were voluntarily closed. Revenue performance has continually improved as lockdowns were eased, with virtually all stores trading by the end of June and revenue returning to growth from June onwards.

Group gross margin of 40.7% represents a 1.5 percentage point reduction year on year. This margin dilution reflects higher input costs from a strengthening US Dollar not passed on to customers in order to maintain our price leadership position and higher than normal markdown impact, particularly in PEPCO, in order to address excess seasonal stock levels that arose as a result of Covid-19.

Underlying operating costs before depreciation and amortisation excluding the IFRS 16 impact grew by 8.4% to €1,204m representing 34.2% of revenue (FY19: 32.6%). The absolute increase primarily reflects the continued strategic investment in store openings across the PEPCO and Dealz businesses, offset by continuing cost efficiencies within Poundland. The reduction in cost productivity as a percentage of sales primarily reflects the absence of operational leverage usually derived from positive like-for-like growth that was absent in the second half of the year.

The increased number of stores also resulted in a depreciation and amortisation expense increase (pre-IFRS 16) of 21% to €91m.

Underlying EBITDA of €229m (FY19: €331m) represents a Covid-19-driven 31% decrease year on year, whilst underlying profit before tax of €84m (FY19: €200m) represents a 58% year-on-year reduction.

### Non-underlying items

The items classified as non-underlying, which are material, one-off and unusual in nature, are

detailed below and in note 5 on page 93 and totalled €32m in FY20.

The key items included:

- legal, accounting, advisory and contractor fees associated with the potential exit process from the Steinhoff group, aborted in spring 2020 as a result of Covid-19 uncertainty;
- Charges relating to a one-off VCP scheme, not part of the ongoing remuneration policy;
- Unplanned emergency refinancing fees relating to the Group securing additional liquidity during the Covid-19 lockdown period. However, it should be noted that additional operating costs incurred to enable our stores to continue to trade safely during Covid-19 (largely increases in staffing levels, e.g. to control customer numbers at store entrances, and hygiene-related store consumables) are included within underlying earnings to match against the achieved revenue; and
- reorganisation costs within Poundland associated with the closure of the national distribution centre as part of a strategic decision to rationalise the supply chain network together with one-off costs associated with the head office reorganisation.

### IFRS 16

The Group has adopted the modified retrospective approach, reflecting the new IFRS 16 standard from 1 October 2019.

At a profit before tax level, the net impact of IFRS 16 income statement adjustments is a €34m decrease in profits. The underlying rental expense of €213m is now reclassified as operating lease debt repayments under IFRS 16 which drives a right-of-use asset depreciation and amortisation increase of €200m and an increase in interest charges of €47m, collectively netting to €34m.

Notably, approximately net €16m of this impact was due to current year rent concessions negotiated as compensation for store closures during Covid-19 lockdowns. The majority of these concessions required an extension to the existing lease. Accordingly, the current year concessions are deducted from lease liabilities under IFRS 16 accounting versus being directly recognised as income under IAS 17 accounting. A further €8m reflects the impact of foreign exchange currency differences arising on revaluation of lease liabilities. The remaining €10m impact on profit before tax is materially in line with management's expectation from adopting the new standard.

Adoption of IFRS 16 accounting also results in the recognition of €911m of lease liabilities on the balance sheet as at 30 September 2020, taking net debt to €1.2bn and increasing

## STRATEGIC REPORT

leverage from 1.4x on a pre-IFRS 16 basis to 2.8x.

### IFRS 16 impact

	FY20 Excluding IFRS16	IFRS16 Impact	FY20 Including IFRS16
Underlying EBITDA	229	213	442
Underlying EBIT	138	13	151
Underlying PBT	84	(34)	49
Non-Underlying Items	(32)	0	(32)
Reported PBT*	52	(34)	18

Group (€m)	FY20 Excluding IFRS16	IFRS16 Impact	FY20 Including IFRS16
Net Debt	328	911	1,239
Underlying EBITDA	229	213	442
Net Debt / Underlying EBITDA	1.4x	n/a	2.8x

\* The reported IFRS16 impact of €34m on PBT represents net impact of right of use asset depreciation €200m and €47m total finance cost impact of IFRS16 and lease payments addback €213m.

Whilst IFRS 16 has, from a statutory perspective, had a significant impact on the income statement and balance sheet, it has no impact on the quantum and quality of cash generation of the Group. The impact of IFRS 16 on the cash flow is limited to presentational changes only, which can be seen on page 77 of the financial statements.

### Segmental reporting

For reporting and operating purposes, the Group reports performance across two operating segments, "PEPCO" (apparel-led multi-price) and "Poundland Group" (FMCG-led price-anchored). The PEPCO segment represents 49% of total revenue and 87% of underlying EBITDA with the Poundland Group segment contributing 51% and 13% respectively.

#### PEPCO

Despite like-for-like sales being adversely impacted by the Covid-19 pandemic (FY20: 7.1% like-for-like decline), new PEPCO store openings have ensured revenues of the PEPCO segment have grown year on year at 6.8%. The 296 net new store openings in FY20 represented a 16.4% increase versus last year, as we continued to invest to grow the store portfolio despite the impact of Covid-19.

Gross margin of 44.1% (FY19: 46.4%) was lower year on year as a consequence of increased post-lockdown markdown as part of our strategy to clear and rebalance excess seasonal stock through promotional activity.

Operating costs, excluding depreciation, amortisation and non-underlying costs, grew in line with the increased store base by 17.6% and increased by 300bps on a percent to sales basis as lower like-for-like sales impacted operational leverage.

Underlying EBITDA, before IFRS 16 accounting adjustments, for the PEPCO segment was €200m in FY20 (FY19: €274m). Underlying EBITDA margin was 11.5% versus 16.8% in FY19.

### Poundland Group

Poundland Group revenue of €1.8bn represents a reduction of 0.5% versus last year largely due to the Covid-19-driven like-for-like sales impact on the Poundland brand where customer footfall reduced significantly and was only partially offset by increases in average transaction values.

Overall store numbers increased by 31 year on year driven by our investment in new store expansion in Dealz Spain and Dealz Poland with net 12 and 31 new store openings respectively, increasing the Dealz portfolio in mainland Europe to 96.

The Poundland UK and Dealz ROI store estate remained relatively level year on year in terms of store numbers with net 12 store closures in the year, closing at 825 stores in total.

Gross margin of 36.5% in FY20 for the Poundland Group represented a reduction of 80bps due to costs associated with reducing levels of excess stock as a consequence of Covid-19, similarly to PEPCO.

Operating costs were 2.0% higher versus the previous year with Poundland continuing to drive operating cost efficiencies in line with the Group's strategy while also benefiting from Covid-19-driven governmental schemes such as business rates relief. These cost reductions were offset by increases in the cost bases of the Dealz businesses as we continued to expand through new store openings.

Reflecting the compound impact of the factors outlined above, underlying EBITDA, before IFRS 16 accounting adjustments, for Poundland Group was €30m in FY20 (FY19: €59m). Underlying EBITDA margin was 1.7% versus 3.3% in FY19.

### Brexit considerations

The UK formally left the EU in January 2020, with the transition period ending on 31 December 2020. Prior to this date the UK remained part of the EU's customs union and single market.

The principal long term risks that faced the Pepco Group from the transition were centred on movement of stock predominantly within the Poundland and Dealz brands with the risk of higher administrative and tariff charges with short term risks posed by a disorderly exit impacting logistics flows and hubs.

The trade deal that was agreed at the end of the transition period removes both the immediate risks posed and the most significant longer-term Brexit risks. The rigorous preparations we undertook as a Group have positioned us well to address any disruption that may emerge as the new relationship between the EU and the UK stabilises and we believe this mitigates any material risks which include:

## STRATEGIC REPORT

- Logistics: Consideration of an ROI-based DC hub and potential for bonded (customs controlled) warehouses;
- Sourcing: Shifting to direct EU sourcing or grey market sourcing on key brands;
- Increased weeks cover of key product lines prior to 1 January 2021.

### Financing

The net finance cost (pre-IFRS 16, FX and on an underlying basis) relating to financing activities in FY20 was €54m (FY19: €56m), broadly level on the previous year.

The refinancing completed in August 2019 repaid €320m of existing external debt and €101m of shorter-term Steinhoff debt, replacing it with a new external €475m loan facility. While the absolute interest cost between FY20 and FY19 is not materially different, the refinancing exercise both replaced existing short-term expiry loans and interest consolidating loans with cash interest loans carrying a lower interest coupon, thus insulating the Group against significant compounding future interest charges.

In addition to the above, FY20 also includes additional IFRS 16 associated finance costs of €47m, relating to unwind of lease discounting and FX revaluation of the IFRS 16 lease liabilities, taking the overall interest charge to €106m for FY20.

As a direct consequence of the liquidity pressures arising from Covid-19:

- In March 2020, the Group drew €53m from a committed RCF facility to provide additional cash headroom, which was then repaid in July due to the Group retaining a strong cash position.
- To provide added financial protection, the Group secured additional facilities of €83m in summer 2020 through a €50m shareholder loan from an intermediate holding company, along with an extension to the existing RCF facilities of €33m. Whilst these facilities remain available, there has been no need to utilise them and they therefore remain undrawn.
- The Group achieved consent from creditors to:
  - Waive the EBITDA covenant in place, as part of the term loan facility agreement until June 2021, given the short-term adverse impact the lockdown period had on profitability. At 30 September 2020 the Group's EBITDA was above the covenant requirement;
  - Waive payment of two quarters' worth of term loan cash interest settlements (€14m) and instead capitalise this interest to provide additional liquidity.

### Profit before tax

Statutory profit before tax of €18m compares to €260m in FY19 (€262m excluding the disposal of the "Flash" business), with FY20 PBT reflecting adjustments relating to IFRS 16 which reduce profitability by €34m.

Before the impact of IFRS 16 accounting adjustments and on an underlying basis (to enable the reader to better understand the ongoing performance of our Group), profit before tax of €84m in FY20 is 58% lower than FY19, largely due to the adverse impact that Covid-19 had on the business.

### Taxation

The Group is fully committed to paying the correct levels of tax in all the territories in which we operate, through corporation tax, payroll taxes, customs duties, VAT, property taxes and any other relevant taxes.

The tax charge in the year was €17m versus €43m in FY19, reflecting an effective tax rate of 97.7%. Going forward we expect the tax rate to mirror that of the key countries in which we operate, being the UK, Poland and Czechia (all 19%) amongst others.

### Investment activity

Property, plant and equipment and intangible assets (before the impact of IFRS 16 accounting adjustments) increased by €52m in FY20.

The key drivers included our ongoing strategic investment in new store openings, expansions and relocations (€67m) as we continue to expand the business. Furthermore, we also invested in new infrastructure to underpin our anticipated growth including IT and systems (€16m) and warehousing (€31m).

On 14 February 2020 the Group disposed of Sapphire 117 Limited, the mobile top-up and sim card business which trades under the banner of "Flash", recognising a gain on disposal of €2.0m. Flash made a pre-disposal loss of €0.3m in the year, which has been disclosed as a discontinued operation in these financial statements.

### Net debt and cash flow

Despite the impact on profitability of Covid-19 during the year, through strong cash management the Group's cash generated by operations (before tax and interest) remained positive and higher than the prior year in FY20 at €405m pre-IFRS 16 (FY19: €236m).

### Net debt and cash flow

Pepco Group (€m)	FY20	FY19	YOY Growth
Cash Generated by Operations (Reported)	628	236	392
IFRS 16 lease payments	(223)	n/a	n/a
Cash Generated by Operations (pre-IFRS16)	405	236	392
Capex	(167)	(135)	(32)
Tax paid	(49)	(54)	5
Funding and investment activities	(18)	17	(36)
Net Cash Flow	171	64	330
Effect of exchange rate fluctuations	(18)	(2)	(16)
Cash and cash equivalents at the beginning of the period	247	184	63
Cash and Cash Equivalents at the end of the period	400	247	377
Net Debt	328	461	
Net Debt: Underlying EBITDA (pre IFRS16) multiple	1.4x	1.4x	

This performance reflects the clear steps taken to manage working capital and optimise cash during the Covid-19 period.

These actions, outlined below, allowed strategic capital investment in opening new stores and introducing new infrastructure to continue throughout the Covid-19 period:

- reducing forward inventory commitments through cancellations and deferrals (c. €0.3bn benefit);
- collaboratively negotiating new terms with key suppliers (c. €0.1bn benefit); and
- reducing, during the respective lockdown periods in Europe and the UK, the monthly operating cost requirements of the Group by c. 40%.

Consequently, our cash position ended the year higher than last year at €400m (FY19: €247m) further evidencing the strongly cash-generative nature of the business model, despite the unprecedented trading conditions.

The Group's net debt pre-IFRS 16 of €328m in FY20 has reduced by €133m versus last year driven by an improved cash position, achieved as a result of the strong working capital management mitigations explained above. This is partially offset by capitalised interest on intergroup (Steinhoff) borrowing and the €14m cash interest on our external debt being converted to PIK following lender consent, as a method to optimise liquidity post Covid-19.

FY20 net debt (pre-IFRS 16) to underlying EBITDA multiple is 1.4x (FY19: 1.4x).

### Dividends

Reflecting a number of factors including the opportunity to deploy capital to enhance the growth of the Group, a preference for greater liquidity at this time and the dividend restrictions prescribed within the Group's facility agreement, no dividends have been paid or are proposed.

### Robust financial management

We believe that robust systems and business and monitoring processes allied to a culture of strong cost control are key to operating our business effectively and efficiently in both the short and long term. Further improvements to business processes and financial controls have been made during the year, aided by development of our core systems, which will be further enhanced by the progressive introduction of Oracle as our core finance system in the current financial year.

**Nick Wharton**  
Group CFO

## RISK MANAGEMENT

### Approach to risk management

#### Risk management and internal control framework

The Group and its operating units, like all businesses, are exposed to risks and uncertainties that could impact their business model, strategy, financial performance or brand reputation.

The Board has overall responsibility for risk management, the supporting system of internal controls and for reviewing their effectiveness.

The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of risk management processes.

The risk management process mirrors the Group operating model, with each business and functional area being responsible for the ongoing identification, assessment and management of their existing and emerging risks. The output of these assessments together with the consideration of risks existing at the Group level are aggregated to compile an overall Group-level view of risk.

The risks and uncertainties that the businesses face evolve over time and Executive Directors and senior management are delegated the task of implementing and maintaining controls to ensure that risks are managed appropriately.

The continued expansion of the Group's operations across new geographies and the development of additional categories to serve our customers' needs can increase our risk footprint, while decreasing the impact of any single risk to the business as a whole. As an example, the successful opening of the additional PEPCO distribution centre in Hungary during the year increases our locus of risk to a further site but limits the impact of any failure to a smaller number of territories.

The Group's risk management framework is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

#### Risk identification and assessment

The risk management process involves a thorough identification of principal and emerging risks and assessment of their impacts. This process includes:

- risks being consistently identified, measured and reported against set criteria which considers both the likelihood of occurrence and potential impact to the Group and individual operating unit;

- each business and functional area maintains detailed risk registers and mitigation plans which are approved by their respective leadership teams and discussed with Executive Directors;
- direct reporting of risk and mitigating activities by each of the business and functional leadership teams to business level Risk Committees;
- a formal half-yearly review of all risk registers by local Board of Directors;
- a corporate risk register being maintained, reflecting the significant Group level key risks identified from the operational risk registers. This "bottom-up" identification of risks is overlaid by those risks highlighted from the "top-down" review and challenge process;
- a full review of the principal risks and uncertainties at least annually by the Board; and
- swift action to reassess risk across the business in response to significant events.

#### Review, challenge and control

The output from the above process is subject to periodic review and challenge at various levels within the business:

- Issues, incidents and key risk indicators are reported to the business level Risk Committees on a regular basis, to identify any control weaknesses for remediation.
- There is an escalation process where issues, incidents and risks which are materially significant are highlighted to Group management.
- There is an annual review of operational risk registers by relevant senior managers and operational directors. This is to ensure risks are comprehensively covered and assessed consistently across the business.
- Internal audit plans are agreed with the Risk Committees at least annually and are focused on the risks and controls identified through this risk management process.
- Internal audit reports on the effectiveness of internal control procedures are presented to the Risk Committees at least quarterly.

#### Risk appetite

In determining its appetite for specific risks, the Board ensures that the risks are consistent with its strategic objectives and values. The Group's appetite for risk operates with reference to the expectations of the Board for both commercial opportunity and internal control.

## STRATEGIC REPORT

Category of risk	Tolerance
Strategic	Low/medium
Financial	Low/medium
Operational	Medium/low
Compliance	Extremely low

### Board review

During the year the Board carried out a detailed evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they have been operating effectively for the financial year to September 2020 and up to and including the date of this report. The business will continue to review opportunities to mature, strengthen and improve the effectiveness of these systems.

No significant failings of internal control were identified during these reviews.

## Principal risks and uncertainties

The Directors confirm that they have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks and those that would threaten its business model; future performance, solvency or liquidity.

### Changes to risk profile

The Board is committed to ensuring that the key risks are managed on an ongoing basis and operate within appetite. Whilst these risks all have the potential to affect future performance, work is undertaken to mitigate and manage these risks such that they should not threaten the overall viability of the business over the three-year assessment period (see the viability assessment on page 41).

The impact across a number of dimensions, including financial and reputational, and likelihood are considered for each risk, both before (gross risk) and after (net risk) the mitigating actions being progressed by the Group.

The principal risks outlined below represent, in the judgement of the Board, the most significant gross risks to the Group.

### Topical and emerging risks

#### Covid-19

Since the initial reports of the outbreak in China, we have effectively invoked business continuity protocols and have developed a framework to support our response to the impact of a global pandemic.

The following key actions have been undertaken to manage the impact of the pandemic on our business:

- We reacted immediately to respective government guidance by closing non-essential outlets.
- We introduced distancing and hygiene measures in stores and depots to keep customers and colleagues safe.
- The Board and operating committees have met at an increased frequency throughout the crisis, monitoring and responding to events.
- Each business and function has developed and maintains full response plans to both highlight and track actions for its immediate requirements and to identify what is required to restore operations.
- We have engaged with all relevant external stakeholders, including governments, funders, retail organisations and specialist advisors.
- Operational activities have been amended, and continue to be updated, to comply with guidance provided by the governments to prioritise the safety of colleagues and customers.
- We have successfully implemented home working for office-based colleagues.
- We promptly engaged with suppliers to both maintain continuity of supply and, where needed, to cancel or defer orders. In addition, we implemented extended payment terms for suppliers.
- Management took decisive action to reduce our cost base, capital expenditure and cash commitments:
  - Discretionary expenditure was stopped.
  - Capital expenditure was approved on a case-by-case basis.
  - Colleagues were furloughed in line with scheme regulations.
  - We implemented enhanced cash flow forecasting.
  - We implemented enhanced financial controls over approval of all spend.
  - We immediately reacted to government initiatives such as the business rates holiday and tax and VAT payment deferrals.
- We engaged with banks and lenders to proactively address the implications on our facilities and covenant compliance, obtaining formal approval with the lending syndicate of banks and creditors to remove EBITDA covenant tests for June 2020, September 2020, December 2020 and March 2021.

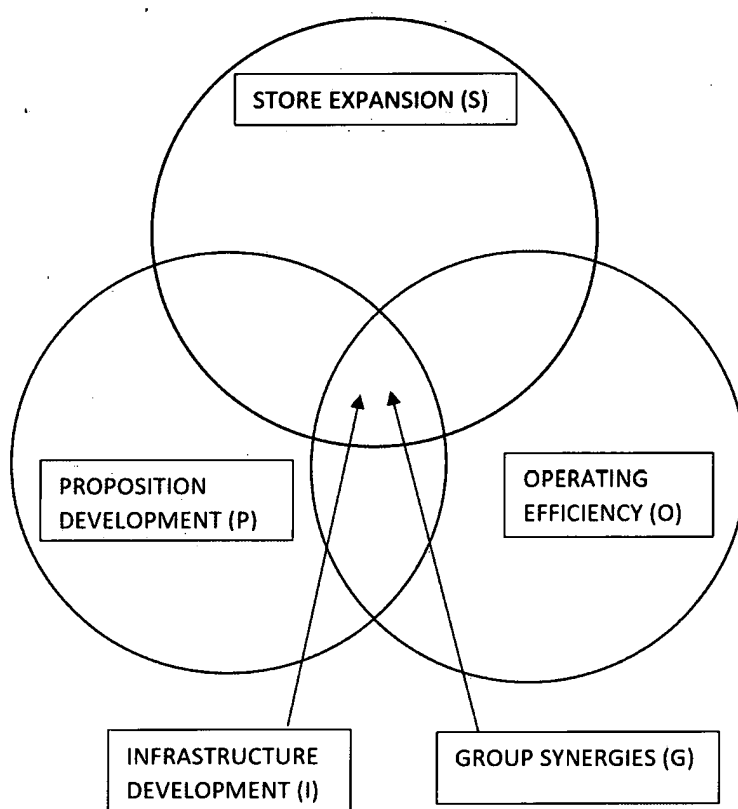
## STRATEGIC REPORT

- We engaged with landlords to manage rent obligations and property costs.

### Principal risks

The Group's growth strategy is represented below. The Group has three core sources of revenue and earnings growth: the expansion of its physical store portfolio; like-for-like growth driven by constant refinement; and improvement of the customer offer and earnings improvement through operating cost efficiencies.

These growth opportunities are enabled by the Group's constant investment to improve the capability, scalability and resilience of its infrastructure and the synergy from activities increasingly being performed consistently or jointly across each of our retail brands.



## STRATEGIC REPORT

The principal risks and uncertainties that are faced by the Group, and the impact on the growth strategy of the Group, are summarised below:

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
<b>International expansion</b>	1	<p><b>Failure to implement the Group's growth strategy</b></p> <p>The Group's growth strategy involves the continued expansion of its PEPCO and Dealz store networks across the whole of Europe. This will necessarily include both increasing the reach and density of its brands in the countries in which these business units currently operate, as well as identifying suitable new markets for entry.</p>	<ul style="list-style-type: none"> <li>Group's strategy is refreshed periodically to ensure it delivers maximum focus and returns</li> <li>Growth strategy targets economically strong markets with positive fundamentals</li> <li>Market-leading brand positioning in existing territories</li> <li>Externally validated price advantage versus competition</li> <li>First mover advantage, particularly in Central European markets, provides scale advantage</li> <li>Executive management has strong consumer and business experience</li> </ul>	S
<b>Brand reputation and regulation</b>	2	<p><b>Risk of a significant decline in customer visitation due to the reputation of any or all the Group's retail brands being severely damaged, including, for example, through significant breaches of regulatory compliance or "own-brand" products being impacted by quality complaints, liability claims and recalls</b></p> <p>Whether or not within the Group's control, events, including adverse publicity regarding business practices or working conditions in the Group or in its extended supply chain, or across the wider discount retail sector, may reflect poorly on the Group's reputation or that of its PEPCO, Poundland and Dealz store brands.</p> <p>As a point of competitive differentiation, the Group offers own-brand products across all categories, including those directly linked to the retail brands, as well as other own brands</p>	<ul style="list-style-type: none"> <li>Established Ethical Trading procedures to monitor suppliers for compliance with terms and conditions specified by PGS</li> <li>Strong established quality control procedures</li> <li>Intellectual property protection in place and the Group operates in structured EU markets and can rely on a combination of trademark and copyright laws and contractual arrangements to establish and protect the Group's intellectual property rights</li> <li>Ongoing consumer research programme monitors brand health</li> </ul>	S, P



RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		<p>available in store, such as Twin Peaks.</p> <p>The Group's key trademarks are therefore important to the Group's business.</p>		
<b>Competition</b>	3	<p><b>Failure to successfully anticipate and respond to competitive changes in a timely and cost-effective manner</b></p> <p>The European discount retail sector is competitive. The Group competes at national and local levels with a wide variety of general and specialist retailers of varying sizes and product offerings across all the geographic markets in which it operates, including with respect to price, product selection and quality, store location and design, inventory, customer service, advertising and marketing.</p> <p>The Group's competitors include both small scale, independent stores and organised chains of multi-price discount and non-discount general merchandise retailers, fixed-price discount general merchandise retailers, grocery-led convenience stores and online retailers or specialty retailers in particular categories, such as homewares.</p>	<ul style="list-style-type: none"> <li>• Competition is highly fragmented in many markets, limiting impact</li> <li>• Market-leading brand positioning in existing territories</li> <li>• Externally validated price advantage versus competition</li> <li>• First mover advantage provides scale advantage and limits competitive entry to small catchments</li> </ul>	S, P, I
<b>IT systems, cyber security, data protection and business continuity</b>	4	<p><b>Disruption or malfunction in, or failure to make improvements to, the Group's distribution infrastructure or IT systems, including failure to comply with applicable data protection requirements (e.g. GDPR)</b></p> <p>The Group depends on its distribution infrastructure and operational business systems for the efficient functioning of its business. A major breakdown of plant or equipment, failure or disruption in information technology systems, industrial disputes or other</p>	<ul style="list-style-type: none"> <li>• Multi-point distribution network introduces implicit resilience</li> <li>• No reliance on single major supplier, port or logistics provider</li> <li>• Resilient existing IT infrastructure with standard backup procedures. Programme ongoing to replace legacy IT infrastructure with global ERP (Oracle)</li> <li>• Change freeze implemented during the Group's key trading periods</li> </ul>	I, G

## STRATEGIC REPORT

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		<p>interruption or malfunction at the Group's distribution centres or at the Group's head offices may significantly impact the Group's ability to manage its operations, distribute products to its stores and maintain an adequate product supply chain.</p> <p>The Group is subject to expansive regulations regarding the collection, retention, use and processing of personal information. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines and reputational and financial costs.</p>	<ul style="list-style-type: none"> <li>Limited transactional e-commerce reduces exposure to consumer data</li> <li>Ongoing data compliance/data integrity programme</li> </ul>	
Supply chain	5	<p><b>Failure to identify, develop or maintain relationships with a significant number of reputable consumer-branded suppliers, or changes in price or interruptions to the availability or flow of stock, may impact the Group's business, results and financial condition</b></p> <p>The Group sells branded FMCG products through its Poundland and Dealz brands that are sourced from a wide variety of domestic and international suppliers, including Unilever, Proctor &amp; Gamble and Mondelez. The loss of, or a substantial decrease in, the availability of products from the Group's key branded suppliers could lead to lost sales and reduced saliency of the customer offer.</p> <p>The Group sources the majority of its own-brand product directly from China, India and Bangladesh and many of the Group's domestic suppliers also import their products or components of their products.</p>	<ul style="list-style-type: none"> <li>Poundland represents a significant customer in a differentiated channel</li> <li>Long-standing relationships with both branded FMCG suppliers and own-brand factories</li> <li>No reliance on single major supplier, port or logistics provider</li> <li>Limited use of agencies/intermediaries provides a direct relationship with core suppliers</li> <li>Seasonal nature of inventory "buy" mitigates short-term impact</li> </ul>	P, O, I

## STRATEGIC REPORT

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		Product supply could be impacted by a number of factors including: political and economic instability in the countries in which foreign suppliers or manufacturers are located; the financial instability of suppliers; labour problems they may experience (such as strikes); the availability and cost of raw materials to suppliers; transport availability; and natural disasters.		
<b>Store leases</b>	6	<p><b>Risks associated with the Group's leasehold property portfolio</b></p> <p>The Group's strategy is reliant on the dynamics of the leasehold property market in the countries in which the Group operates. For the Group's expansion brands, PEPCO and Dealz, the Group's growth strategy is reliant upon continued availability of new stores at appropriate economic rates, particularly in CEE. In the UK, the recent contraction of retail rents is expected to continue.</p>	<ul style="list-style-type: none"> <li>• Strong financial covenant and growth ambitions lead to the Group being an attractive tenant</li> <li>• Strong forward visibility of secured new site locations</li> <li>• Competitor weakness releases further retail locations to the market</li> </ul>	S, O
<b>Consumer demand</b>	7	<p><b>Inability to predict changes to customer preferences, or risk of weak sales during the Group's peak trading period</b></p> <p>The Group's business is subject to trading peaks and seasonality risk associated with trading seasonally or event-related products.</p> <p>The Group derives revenue from the sale of products that are subject to changing consumer preferences and the Group's success therefore depends, in part, on its ability to predict and respond to changing trends, and to translate those trends into appropriate levels of in-store inventory. This is relevant to the Group's apparel, soft homewares</p>	<ul style="list-style-type: none"> <li>• Revenue and profit concentration is strongest in the first quarter but does not represent majority of annual performance</li> <li>• No single trading event (Halloween, Easter, etc.) is important to performance on an annual basis</li> <li>• The exposure of the Group to fashion-led product is limited</li> <li>• Strong category management and supplier capability ensures consumer trends are highlighted and referenced in stock selection</li> <li>• Improving inventory planning capability enables better management of initial quantities, allocations and markdown</li> </ul>	P

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		and seasonal product categories.		
<b>Inventory management</b>	8	<p><b>Inability to manage inventory effectively</b></p> <p>As a multi-category discount retailer, efficient inventory management is a key component of the Group's success and profitability. To be successful, the Group must assess a product's life cycle and maintain sufficient inventory levels to meet customers' demands without allowing those levels to increase to such an extent that the Group may be forced to rely on additional promotional markdowns to dispose of excess or slow-moving inventory.</p>	<ul style="list-style-type: none"> <li>• The exposure of the Group to fashion-led product is limited, with seasonal markdown investment therefore being low</li> <li>• Improving inventory planning capability enables better management of initial quantities, allocations and markdown</li> </ul>	P, O, I
<b>Key management reliance</b>	9	<p><b>Dependence on senior management and potential inability to attract or retain such management</b></p> <p>The Group is dependent on key senior management personnel at both the Group and business unit level who have extensive experience and knowledge of the discount retail industry in the markets in which the Group operates.</p>	<ul style="list-style-type: none"> <li>• Significant relevant experience in both Executive and senior management</li> <li>• Remuneration policy provides strong reward linked to strong performance</li> <li>• Talent management processes continue to develop across the Group</li> </ul>	S, P, O, G, I
<b>Macro-economic environment</b>	10	<p><b>The Group is exposed to short-term economic factors which reduce disposable income or increase the cost of doing business, including adverse fluctuations in currency exchange rates, interest rates and rates of duty of imports and exports, or inflation (including as a result of legal, political and economic uncertainty surrounding Brexit) in countries where the Group operates</b></p> <p>The Group's business is impacted by the prevailing economic climate in the countries in which it operates and globally, including foreign exchange</p>	<ul style="list-style-type: none"> <li>• Growth strategy targets economically strong markets with positive fundamentals</li> <li>• The Groups operations are spread over 15 territories in both Western and Central Europe, reducing exposure to any single market and providing cyclical protection</li> <li>• The diversified nature of the Group's operations introduces a natural currency hedge</li> <li>• Established FX hedging policies and practices provide near-term protection against currency fluctuations</li> </ul>	S, O, G

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		<p>rates, interest rates, inflation rates, levels of employment, disposable income, salaries, wage rates (including any increase as a result of payroll cost inflation or governmental action to increase the statutory minimum wage or contributions to pension provisions) and consumer confidence.</p> <p>In relation to foreign exchange risk, the Group pays the majority of its overseas suppliers in US Dollars and in certain countries in which the Group is expanding it is customary for certain of the Group's costs, including leases, to be denominated in a foreign currency (such as Euros) rather than the local currency. However, the Group's customers pay for products in the local currency in each of the countries in which the Group operates.</p>	<ul style="list-style-type: none"> <li>FX positions are subject to constant oversight</li> <li>The substantial majority of the Group's debt is at fixed coupons with exposure limited to movements in LIBOR or EURIBOR</li> <li>Currency deposits are maintained across a number of financial institutions to minimise counterparty risk</li> </ul>	
<b>Tax compliance</b>	11	<p><b>Risk of subjective tax interpretation and risk of challenge</b></p> <p>The Group is subject to many different forms of taxation including, but not limited to, corporation tax, withholding tax, value added tax, property tax and social security and other payroll-related taxes and has obligations to file tax returns and pay tax across several different jurisdictions. Tax law and administration is complex and often requires subjective interpretation and determinations. Although the Group considers that it complies with all relevant obligations, there is a risk that it may inadvertently fail to comply with applicable laws and regulations in any jurisdiction in which it does business. Additionally, the tax authorities may not agree with the determinations that are</p>	<ul style="list-style-type: none"> <li>Group tax policy targets high compliance with limited tax planning</li> <li>KPMG engaged as Group's tax advisor</li> <li>Expert advice sought before implementation of any changes in Group structures or operations</li> <li>The Group is well progressed in a programme to simplify its legal entity structure</li> <li>Experienced and qualified colleagues employed in all key business units</li> </ul>	S, G

## STRATEGIC REPORT

RISK TYPE	RISK NO.	DESCRIPTION AND POTENTIAL IMPACT	RISK MITIGATION	STRATEGIC RELEVANCE
		made by the Group with respect to the application of tax law, leading to potentially lengthy and costly disputes which could potentially result in the payment of substantial amounts for tax, interest and penalties.		
<b>Credit default/liquidity</b>	12	<p><b>Inability to meet obligations under credit facilities (particularly in respect of holding companies with no business operations and dependency on subsidiaries for cash to cover business operations) and/or inability to access further external financing in the future</b></p> <p>The borrower is a holding company with no independent operations and is dependent on earnings and distributions of funds from its operating subsidiaries for cash, in order to pay interest obligations and dividends.</p> <p>Any failure to comply with the covenants or payment obligations contained in the Group's financing arrangements could result in a default thereunder. This would permit the acceleration of the maturity of the indebtedness under such agreements and, if the Group is unable to refinance in a timely fashion or on acceptable terms in the longer term, would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.</p>	<ul style="list-style-type: none"> <li>• Group is strongly cash generative with no structural blocks preventing payment of dividends or provision of loans within the Group</li> <li>• Funding is available to the senior Group structure if required</li> <li>• Debt financing is primarily provided by Steinhoff group creditors, providing strong alignment of objectives</li> <li>• Significant headroom on financial covenants</li> </ul>	G

## **S172(1) STATEMENT AND OUR STAKEHOLDERS**

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

The Board has received training from the General Counsel to remind it of its duties and put the Board in a position where it could purposefully apply Section 172 in relation to its decision making.

### **Our stakeholders**

The Board recognises that it is only through close engagement with and careful assessment of the interests of our stakeholders that the Company will achieve its vision and purpose. The Board considers that our key stakeholders are our customers, colleagues, suppliers, the communities where we operate and investors. The Board seeks to understand the respective interests of our stakeholders so that these may be properly considered in the Board's decision making.

We achieve this through various methods, including direct engagement by Board members, receiving reports and updates from members of management who engage with certain of our stakeholder groups and coverage in our Board papers of relevant stakeholder interests with regard to proposed courses of action.

#### **Having regard to the likely consequences of any decision in the long term**

The Board is mindful that its strategic decisions can have long-term implications for the business and its stakeholders and these implications are carefully assessed.

The Board engages in regular structured reviews of the Group's financial performance and core strategy projects to ensure oversight of the key value drivers of future growth. In the Board's decisions with regard to capital allocation, particularly during the period when the Company's operations were challenged due to the impact of Covid-19, the Board was in regular dialogue with management to approve adjustments to our operating expenditure and the timing of delivery of our strategic plan. The Board was careful to balance the need for capital expenditure on new and existing stores, warehouses and systems and expansion into new markets to support operational performance with cautious cash management practices to reflect the economic uncertainties of the past year.

#### **Having regard to the interests of the Company's 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 perform 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 Head of Human Resources.

The Executive Directors regularly visit the Group's operating divisions, across the head office, distribution and store networks. These visits provide a purposeful opportunity for all colleagues to interact with senior management.

##### **Diversity, inclusion and wellbeing**

With regard to health, safety and wellbeing, the Company has introduced a number of health and wellbeing initiatives. This year our Poundland business 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, Poundland will initiate regular employee engagement surveys which will cover the vast majority of Poundland's workforce. The results will be reported to management. The Board will also nominate a Non-Executive Director to be responsible for employee engagement and consultation.

##### **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's business relationships with customers, suppliers and others**

**Customers**

**Engagement**

Understanding the needs of our customers 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 Executive 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 Poundland, the extension of our homewares range, the broadening of our food offering to include chilled and frozen foods and the introduction of new product categories including alcohol and health and wellbeing products are a direct result of customer feedback.

**Board decision making and stakeholder interests**

The Executive 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 and European customer behaviour and post-Covid-19 macro-economic trends has informed the Board's continuous review of the Group's strategy.

With the interests of customers in mind, during the year the Board reviewed proposals in respect of: new store openings including the decision to open PEPCO's first stores in Spain; store upgrade investments in both PEPCO and Poundland; further multi-price development; and product category development, including the acquisition of Fultons Foods which was completed in October 2020.

**Suppliers**

**Engagement**

The scale and sourcing advantage afforded to the Group by our low-cost direct sourcing model is a key area of competitive advantage to the Group, and our competitive advantage can only be achieved through strong relationships with our suppliers.

We regularly meet with our suppliers on an individual ad-hoc basis and at least once a year in a structured forum in which our senior management presents to our suppliers on the

Group's growth plan and gives feedback on supplier performance. Our PEPCO business is working with key strategic suppliers to build long-term partnerships through which the supplier enters into a joint business plan with PEPCO, providing the supplier with a secure foundation to grow 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 programme 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's strategy with regard to suppliers, notably on the establishment of partnerships with our key strategy suppliers and the development of the supplier support programme. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers with the need to obtain value for money for our investors and the desired 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.

**Credit facility providers**

We rely on our credit facility providers as essential sources of capital to further our business objectives. They rely on us to protect and manage their investments in a responsible and sustainable way that generates value for them.

The Group CFO is responsible for managing the relationship with our bank syndicates and for the Group's cash/debt management and financing activities. We provide information on our financial performance to our credit facility providers on a monthly basis and provide a detailed strategic update on an annual basis.

**Board decision making and stakeholder interests**

The Group CFO provides regular updates to the Board on these activities including the Company's plans to ensure appropriate access to debt capital, monitoring the headroom and maturity schedules of our primary credit facilities. The Board approves the Company's Treasury Policy annually.

During the year the Board, in response to Covid-19 and in order to provide additional liquidity to protect the Group for the benefit of all stakeholders, approved a new €50m shareholder loan facility and an increase of €32.5m of credit available to the Group under the existing senior facilities agreement. The



Board carefully considers the Group's cash position and forecasts when making decisions on capital allocation.

### **Having regard to the impact of the Company's 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 directly giving back to our local communities.

In the UK we have partnerships with national charities and have recently established 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 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 Group's 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 Group's approach to climate change and further measures we can take to contribute to the reduction of our impact on the environment.

### **Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct**

#### **Corporate governance**

The Board recognises the importance of operating a robust corporate governance framework and you can read about our approach to governance in our Corporate governance report on pages 52 to 55.

During the year the Board approved the Group's Modern Slavery Statement and Anti-Bribery and Corruption Policy.

#### **Ethical trading and responsible sourcing**

The Audit Committee exercises oversight over the Group's 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. A copy of our Supplier Ethical Code of Conduct can be found on our website.

The Group's direct sourcing business complies with the Ethical Trading Initiative Base Code.

#### **Political donations**

No donations were made for political purposes.

### **Having regard to the need to act fairly as between members of the Company**

The Company has three classes of shares in issue and the rights attaching to each class of shares are set out in the Company's Articles of Association, the Companies Act 2006 and a Subscription and Shareholders' Agreement. Representatives of the holders of each class of shares are represented on the Board. The Board recognises its legal and regulatory duties and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

## VIABILITY STATEMENT

### Our approach to assessing long-term viability

The UK Corporate Governance Code requires the Directors to assess the future prospects of the Group over a period significantly longer than twelve months for the purposes of both the Going concern and Viability statements and to issue a Viability statement to declare whether we believe that the Group will continue to operate and meet its liabilities over the longer term. The Directors have therefore assessed the prospects of the Group relying on a number of existing processes, including the annual budget and long-term financial plan, taking into account the current position of the Group, the principal risks and uncertainties (outlined on page 29), the business model (page 5) and our strategy (page 9). In addition, the Board regularly reviews the financing position of the Group, its projected funding requirements and future needs.

The Group is operationally and financially strong and has a track record of generating profits and cash.

#### Assessment of viability

We operate in the retail sector which is inherently competitive and fast paced and so we need to be able to react to changing trends in customer and competitor behaviour across all of the diverse territories in which we operate. Whilst we set our strategic planning process over a longer horizon, detailed forecasts focus on the next three years, as is common in the retail sector. The Directors have therefore assessed viability over a three-year period ending 30 September 2023 which we believe strikes an appropriate balance between the planning horizons that the business operates on and a reasonable period over which stakeholders and shareholders would expect a retail business of our type to be assessed.

In assessing viability, the Directors have considered:

- the current and expected strength of the Group's balance sheet and operational cash flows, with severe but plausible stress testing of key trading and operational assumptions;
- the Group's debt facilities of a €492m external term loan (expires February 2022) and a €224m long-term intergroup Steinhoff loan (expires April 2027) along with revolving credit facilities that expire in November 2021. Based on discussions with lenders and advisors, and taking into account the Group's expected leverage ratios, the Directors believe that the Group will be able to refinance this debt on acceptable terms;
- the impact on the Group's business model of potential risk factors summarised in the principal risks and uncertainties section; and
- the potential impact of effectiveness of the mitigation factors associated with the principal risks and uncertainties.

In order to assess viability, the Directors have considered a number of severe but plausible stress test scenarios across the first three years of the Group's Board-approved long-term financial plan. Scenarios considered include a protracted reduction in the Group's future revenue from reduced new store roll-outs and lower like-for-like sales revenues reflecting an extended economic downturn or the failure to establish the Group's PEPCO brand in new development markets and scenarios considering increases in the Group's costs through both higher product and labour costs.

The Board-approved long-term financial plan model assumes no further sustained national lockdowns occurring as a consequence of Covid-19. Whilst the financial plan was approved shortly before the most recent second wave of Covid-19-driven lockdowns, these restrictions have not to date resulted in a material deviation to the financial year 2021 business plan and therefore this plan remains a relevant base to use for the viability assessment and reflective of current expected trading. However, in assessing future viability and going concern, the Group has performed reverse stress test scenarios assessing the impact of significant reductions in revenue of similar or greater magnitude than those seen in spring 2020.

## STRATEGIC REPORT

This stress testing confirmed that in all cases headroom remained positive, including scenarios where the trade impacts tested were significantly worse than that observed during the Covid-19-driven lockdowns in spring 2020. None of the scenarios tested, either individually or collectively, would threaten the viability of the business over the three-year assessment period.

### **Viability statement**

Based on the viability review and stress testing scenarios, the Directors confirm that they have adequate resources available and therefore a reasonable expectation that the Group will remain commercially viable, continue in operation and be able to meet its liabilities as they fall due over the three-year period ending 30 September 2023.

### **Going concern statement**

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

Based on the Group'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 Group 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.

## CORPORATE SOCIAL RESPONSIBILITY

We promote transparency and integrity across our business by adhering to ethical standards and operating our business in a sustainable and responsible manner. We adopt a holistic approach to assessing risk and opportunities to enhance our customer proposition and we integrate environmental, social and governance factors into our decision making.

Our stakeholders expect us to operate our business in a sustainable and responsible manner and we operate our business to deliver sustainable, profitable growth and deliver long-term value for our stakeholders whilst minimising our impact on the environment and enhancing our role in the communities in which we operate.

In order to leverage our collective scale and share sustainability knowledge and initiatives across our retail brands, we are developing a Group-wide sustainability framework. Through this unified strategic framework we will build upon the environmental and social initiatives already in place throughout the Group to achieve better practices and improve monitoring and measurement of our activities in the future.

### Environment

Our business operations result in environmental impacts which we are committed to minimising by improving our energy efficiency and reducing the carbon intensity of our activities. We believe that significant changes start with seemingly small actions that, as a result of our scale, deliver measurable impacts. We make operational decisions taking into account their impact on the environment, for example the use of natural resources, recycling and energy efficiency.

In addition to the measures taken to reduce energy usage in our UK and ROI estate outlined in the Energy and Carbon Report set out on pages 58 to 60, the Group has implemented a number of other sustainability initiatives in the year under review as part of its commitment to improving environmental practice.

- **Plastic bags** – All shopping bags sold in our PEPCO stores are ecoLoop bags, which are made from recycled plastic waste and include at least 85% recycled material. The production of ecoLoop bags reduces carbon dioxide emissions by as much as 40% when compared with traditional plastic shopping bags.

“Bags for Life” sold in our Poundland and Dealz stores reduce the use of disposable bags and were the best-selling item in store during the year. We have also continued to see an overall reduction in carrier bag use in

our stores. During the year under review we replaced our 5p disposable carrier bags with 10p carrier bags which are made from 100% recycled materials and are larger in size, reducing the number of disposable bags our customers use. Proceeds raised through the sale of these disposable bags are donated to Poundland’s charity partners.

- **Plastic packaging** – The primary source of waste in our business is packaging. We are working with our suppliers to minimise packaging waste. Changes have been implemented through our PGS sourcing operation, for example changing packaging on flipflop hangers from plastic to cardboard. Over the next five years this change is anticipated to replace over 20 million plastic hangers – a simple change with a big impact. We are now working to develop cardboard hangers for other footwear products with the ambition of removing a further 37 million hangers from waste circulation and on the replacement of swing tags with paper ones with FSC certification. PEPCO has also started replacing plastic sock hooks with cardboard hooks, which is anticipated to eliminate 75 million plastic hooks in FY21.
- **Waste recycling** – All of our stores offer a collection facility for used batteries. In our Poundland and Dealz stores in the UK and ROI, upcycled CDs, DVDs and computer games are sold for customers to enjoy without requiring a new physical medium to be constructed.
- **LED lighting** – We continued the roll-out of energy efficient LED lighting across our estate. As noted in the ECR section on page 59, 70% of our UK and ROI store portfolio is now fitted with LED lighting. All newly opened PEPCO stores are fitted with LED lighting and in existing stores, older, less efficient lighting is continuously replaced with the newer, more environmentally friendly technology.
- **Office solutions** – PEPCO is implementing ecological solutions for new head office buildings including thermal insulation, energy saving windows, an independent ventilation and air conditioning system, based on units with class A energy ratings, and fully automated lighting.
- **Transport** – Fuel consumption and emissions from our distribution fleet are limited by efficient logistics planning. For Poundland, vehicle utilisation is maximised by targeting collections direct from suppliers on return legs from our store deliveries. All of our PEPCO fleet cars conform to the most restrictive European emissions standard, Euro 6, effective since 2014.

## Colleagues

### Employee engagement

We work hard and aspire for each of our businesses to be a great place to work, to grow a career and to work alongside supportive colleagues.

PEPCO operates a full colleague survey every two years, including all store colleagues. Next year Poundland will introduce colleague surveys for its whole workforce. These surveys will be implemented and analysed by an external party to ensure independence.

A range of approaches are employed across the Group to keep our colleagues up to date and engaged in the Group's activities. Within Poundland, we communicate with our workforce both formally and informally, including through direct communication from the Managing Director, the TV production "Good Morning Poundland" and daily sales information shared with senior managers.

Our PEPCO colleagues receive e-mails and newsletters from management and access information through a dedicated online platform called "Pepclopedia". The PEPCO distribution centres also have daily briefings with the shift managers. PEPCO's head office staff also benefit from these initiatives together with online meetings with the Board and dedicated senior manager meetings.

### Developing our colleagues

We are committed to training and retaining our colleagues through learning and development programmes, the right remuneration and open and honest feedback.

We have many talented and committed colleagues across our workforce and where possible we seek to promote internally. Within PEPCO, 91% of store manager and deputy store manager positions are filled internally. Poundland has achieved a rate of approximately 65% of vacancies filled internally and has set a target of raising this to 75% of available vacancies through internal promotions.

New training and development opportunities are continually being developed to complement the existing initiatives. Our retail career pathway helps colleagues to plan their development within our retail stores and distribution centres and is a key enabler to help us to achieve our internal promotion targets and ensure a pipeline of talent. The Group also provides support to allow our colleagues to gain professional qualifications and development, for example gaining formal financial and HR qualifications.

As an example, in the year under review, Poundland intends to introduce an apprenticeship programme and a senior leadership programme to provide training to colleagues who wish to progress to new roles within the organisation.

### Wellbeing

Poundland has partnered with the Retail Trust to provide a comprehensive employee assistance programme to all colleagues. This year Poundland launched a partnership with Mental Health UK (MHUK) to provide the Poundland workforce with access to mental health resources and to train regional managers, area managers and store managers. The training will be delivered in early 2021, having been delayed due to the Covid-19 pandemic. The partnership with MHUK will be supported by trained Mental Health Champions within Poundland.

### Diversity

As you would expect from a business that trades in 14 countries with a diverse workforce, we do not tolerate any discrimination based on ethnicity, religion, disability, gender or sexual orientation.

To embed the principles of diversity and inclusion across Poundland's business, this year Poundland's board has adopted a sponsor model, under which each Director will sponsor a diversity and inclusion topic, champion awareness within the business and be a responsible point of contact for the topic.

## Community

### Supporting charitable and community projects

Our central mission is to offer value to families on a budget. That means that we are at the forefront of lowering the cost of living in our local communities, providing items that people buy week-in, week-out for their homes and families at an affordable price point. But while that is our core mission, we are proud that our businesses make a real difference to the customers we serve and the communities in which we trade in many other ways and without fanfare.

Our businesses are empowered to partner with local charities to provide direct support to their local communities. For several years PEPCO has cooperated with the Society of Friends of Children, Happy Kids Foundation and SOS Children's Villages, which support children's development. This year PEPCO extended its scope of charitable activities to implement the Helpful Package from PEPCO campaign. The Helpful Package is a campaign in which PEPCO provides material support for medical facilities, nursing homes and ten children's hospitals struggling with the effects of the Covid-19 pandemic.

## STRATEGIC REPORT

Towarzystwo Przyjaciół Dzieci (TPD) is the oldest Polish non-profit organisation that focuses on helping children from communities at risk of social exclusion. It has educational institutions and centres all over Poland. PEPCO and TPD have worked together for several years, thanks to which young children in day-care centres all over the country participate in activities to develop their interests, including summer camps during the summer school holidays. The PEPCO product range includes charity teddy bears, the profit from which goes to the implementation of TPD projects.

Every year, the Foundation for Help for Children organises the Happy Bus Stop sponsored by PEPCO. The action is based on the idea of a "figlobus" tour, that is, a bus transformed into a playground on wheels, through smaller Polish towns and villages.

In other European countries where PEPCO operates, PEPCO cooperates with local villages that are members of the SOS Children's Villages International organisation to help abandoned, orphaned children and children at risk of losing their parents' care to prepare them for adult life. PEPCO supports the implementation of various educational and recreational projects in participating villages.

PEPCO operates a grant programme for its colleagues to support social initiatives aimed at children within their local community, with awards of up to PLN 5,000 per project. Colleagues also volunteer to renovate childcare centres with the financial support of PEPCO. Finally, each year PEPCO brings together hundreds of colleagues to prepare packages for families in need.

This year, Poundland is proud to have partnered with Mental Health UK, Whizz-Kidz, Make A Wish and Tommy's. These charitable partnerships involve providing colleague education and fundraising activities within stores, including collection buckets within the stores and an option to add a donation to customers' shopping at the till. All fundraising efforts are celebrated on a dedicated section of Poundland's website called "Proudland", which is accessible by partners, customers and colleagues.

Poundland also provides reactive support to address local requirements. In spring 2020, Poundland launched a series of Buy One Give One promotions on selected products. The products were given by Poundland to local charities.

The Group's sourcing business, PGS, has partnered with the School of Hope, an organisation operated by Hope Worldwide with a primary school and vocational training centre in Bangladesh. The School of Hope changes lives by harnessing the passion and commitment of staff and volunteers to deliver a high-impact,

community-based service to those in need and is exclusively funded by the Group.

Regular food bank donations are made by the Dealz Spain head office to help families in need. Dealz Spain also works with local employment associations to provide internships within stores for people with social integration issues. Excess product is donated via the Red Cross, particularly the excess product that resulted from the Covid-19 store closures.

Dealz Poland provided support to 20 local hospitals through the donation of essential products during the first wave of Covid-19.

## Our customers

The products offered by the Group's businesses aim to provide value for money to help our customers' budgets go further. Our customers' in-store shopping experience is crucial to the success of our business and we regularly review our product offering and store fitout to ensure the best possible customer experience.

Our store colleagues receive customer service training, the effectiveness of which is monitored through KPIs and reinforced through regular development training. Lead indicators are used to monitor customer satisfaction.

In 2020 PEPCO received the 2020 Service Quality Star from the Polish Service Quality Programme. This award given to companies in Poland for high-quality customer service. The Polish Service Quality Programme uses independent data to examine the level of consumer satisfaction throughout the year and this research clearly shows that PEPCO's customers recognise us as a friendly and trustworthy brand.

## Integrity

### Supply chain

We strive to act responsibly and expect the same from all our associates and business partners.

The Group's own vertically integrated sourcing business, PGS, is responsible for over 75% of the general merchandise and apparel items that we offer in our stores. PGS operates a Code of Conduct for its supply chain and factories. Our Supplier Code of Conduct (a copy of which is available here

<https://www.pepcogroup.eu/corporate-governance>) ensures colleagues in factories are treated fairly and lays out our position on bribery, transparency and unauthorised subcontracting. It is aligned with the Ethical Trading Initiative Base Code, an internationally recognised set of labour standards based on International Labour Organisation conventions.

## STRATEGIC REPORT

Our Modern Slavery Statement is published here: <https://www.pepcogroup.eu/corporate-governance>.

We operate a zero-tolerance policy in relation to:

- dangerous working conditions;
- forced labour;
- child labour;
- bribery and corruption;
- access denied to belongings or documents;
- minimum wages not being paid; and
- unauthorised subcontracting.

PGS works hand-in-hand with key suppliers and develops them as trusted and long-term partners. PGS also uses regular audits to drive improvements in factories.

PGS is also a member of Sedex, the world's largest collaborative platform for sharing responsible sourcing data on supply chains across its members. This enables us to make the right supplier choices and facilitates transparency amongst our retail peers.

The overwhelming majority of FMCG products on sale in Poundland and Dealz are sourced

from leading global suppliers such as Nestlé, Unilever and Procter & Gamble. These companies have established, robust and audited sourcing policies that allow customers to buy their brands with confidence.

### **Anti-bribery and anti-corruption**

We are committed to high standards of ethics, honesty and integrity. Our Anti-Bribery and Corruption Policy sets out the standards of conduct which we expect of our workforce and our business partners. The policy includes our procedure regarding hospitality and the giving and receiving of gifts, political donations and the mechanisms through which our workforce can report concerns relating misconduct, including confidential reporting. This year the Group will implement an external speak-up hotline to provide further independence and transparency across our business. The hotline will be operated by an independent third party, with experienced call handlers and the support of local language translators for all colleagues.

We will consider taking disciplinary action against anyone who fails to comply with the standards of behaviour set out in our Anti-Bribery and Corruption Policy, up to and including dismissal.

## **GOVERNANCE**

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## GROUP STRUCTURE

Pepco Group Limited (the "Company") is the holding company for the PEPCO, Poundland and Dealz retail businesses and PGS, the Group's in-house direct sourcing business.

The Board of Directors of the Company (the "Board") determines the long-term strategy of the Group, monitoring performance and ensuring that the Group acts ethically and has the necessary resources to meet its objectives and regulatory responsibilities.

Flow Newco Limited is the immediate parent of the Company and the ultimate parent company of the Group is Steinhoff International Holdings N.V. (SIHNV).

### Our owners

98.79% of the Company's issued share capital is ultimately owned by SIHNV, with the remaining 1.21% held by a trustee on behalf of certain members of Group management and a family trust of a member of Group management.

The Company has three classes of shares in issue and the rights attaching to each class of shares are set out in the Company's Articles of Association, the Companies Act 2006 and a Subscription and Shareholders' Agreement.

At 15 December 2020, the shareholding of the Company was as follows:

Estera Trust (Jersey) Limited	16,572 B ordinary shares of £0.001 each and 5,250 C ordinary shares of £0.001 each (1.21%)
Flow Newco Limited	1,779,420 A ordinary shares of £0.001 (98.79%)

There are no limits on issued share capital.

## Subscription and Shareholders' Agreement

All shareholders of the Company are party to a Subscription and Shareholders' Agreement which establishes certain governance procedures for the Company. Under the terms of the Subscription and Shareholders' Agreement, Flow Newco Limited has the right to nominate up to five directors to the Board, provided it holds at least 25% of the A class ordinary shares. At the date of this report, Louis Du Preez is the only member of the Board who has been nominated by Retail Holdings S.a.r.l. (former holder of the shares held by Flow Newco Limited) under the terms of the Subscription and Shareholders' Agreement. There are also a limited number of matters which cannot be approved without the consent of the minority shareholders.

## Governance arrangements resulting from the Steinhoff group facilities agreements

In August 2019, the Steinhoff group completed a corporate and financial restructuring, implemented by way of two company voluntary arrangements. Pursuant to the revised terms of the first and second lien facilities agreements between the Steinhoff group and its lenders, the lenders have board appointment rights over certain entities in the broader Steinhoff group. Neil Brown, H. Helen Lee Bouygues and Paul Soldatos were appointed to the Board of the Company following nomination by the lenders of the Steinhoff group.

## BOARD OF DIRECTORS

The Directors at the date of signing the accounts were as follows:

### Neil Brown

#### Chairman

(appointed 19 November 2019)



Neil has extensive global experience in corporate restructurings, private equity and dispute resolution and wide international commercial board experience. He has held a number of chairman, director and committee positions in international organisations including Magma Fincorp India, gategroup, Iceland Foods and Islandsbanki. Earlier in his career Neil helped to build the successful financial services arm of Apax Partners. He acted as a special advisor to the Senior Oversight Committee of the Asset Protection Scheme, operated by an executive arm of HM Treasury. Neil is a qualified Chartered Accountant and a former corporate finance partner at PwC and Deloitte.

### Andy Bond

#### Chief Executive Officer

(appointed 11 July 2014)

Andy acted as an advisor to the legacy Pepkor SA group since 2012, before jointly setting up Pepkor Europe (the former name of the Company) as a founder investor in 2015 and becoming Chief Executive. Andy has an extensive retail career, focused on the discount sector, having been chief operating officer and then chief executive officer of Asda between 2005 and 2010 and chair from 2011. Earlier in his 16-year career at Asda, Andy acted as corporate marketing director and managing director of George clothing.

### Nick Wharton

#### Chief Financial Officer

(appointed 7 June 2019)

Nick joined the Group as Group Chief Financial Officer in 2018. He has 20 years' experience within the retail sector, both within the UK and internationally, and significant experience in public companies, having served as the chief financial officer at each of Superdry and Halfords Group and chief executive officer of Dunelm Group. Nick is a qualified Chartered Accountant and earlier in his career held finance and international positions within The Boots Company and Cadbury Schweppes.

### Sean Cardinaal

#### Executive Director

(appointed 28 April 2017)

Sean joined the Group as Chief Operating Officer in 2017 after previously working for Pepkor SA. Sean has 17 years' experience within the retail sector and a further 10 years' experience in manufacturing, having held a number of general management roles within

both sectors. Before joining the Group, Sean was Managing Director of Ackermans, a South African value retailer with 600 stores, and served on the board of directors of Pepkor SA.

### Louis Du Preez

#### Non-Executive Director

(appointed 6 December 2018)



Louis was appointed as a Non-Executive Director on 24 January 2018. He qualified as an attorney of the High Court of South Africa in 1997 after completing his articles. Louis joined Jan S de Villiers and was appointed a partner of the firm in 1998. With the merger of Werksmans Attorneys in 2009, he became a member of the national executive committee of the combined firm and served as such until early 2017. He joined the Steinhoff group as general counsel in mid-2017, was appointed as the commercial director of Steinhoff International Holdings N.V. on 19 December 2017 and as chief executive officer of Steinhoff International Holdings N.V. with effect from 1 January 2019.

### H. Helen Lee Bouygues

#### Non-Executive Director

(appointed 19 November 2019)



H. Helen Lee Bouygues started her career in 1995 at J.P. Morgan in the M&A group in New York and in Hong Kong. From 2000 until 2004, she worked at Cogent Communications Inc. as chief operating officer, chief financial officer and treasurer before becoming a partner at Alvarez & Marsal Paris. In 2010, she launched her own consulting firm specialising in corporate turnaround and transformations. From 2014 to 2017 she was partner responsible for the Recovery and Transformation Services division at McKinsey & Company in Paris before leaving to progress her career, providing strategic board level advice for multiple companies.

### Paul Soldatos

#### Non-Executive Director

(appointed 19 November 2019)



Paul is a board member and senior advisor in the industrial, service and consumer/retail sectors. He has international experience in M&A, strategic assessment, organisational transformation and financial structuring with a focus on the US and Europe. Paul has served and is serving as Chairman or member of Audit, Remuneration, Governance and Nomination Committees. Additionally, Paul previously was a partner and member of the Management Committee of AEA Investors LP in AEA's London office.

## GOVERNANCE

### Mark Elliott

#### Executive Director

(appointed 11 July 2014;  
resigned 22 November 2019)

Mark Elliott resigned as a Director of the Company on 22 November 2019. Mark continues to lead the Dealz business in Spain.

### Committee key

	Committee Chair
<b>A</b>	Audit and Risk Committee
<b>R</b>	Remuneration Committee
<b>N</b>	Nomination Committee

## Senior Managers

### Andy Bond

#### Chief Executive Officer

See "Board of Directors" on page 49 for Andy Bond's biography.

### Nick Wharton

#### Chief Financial Officer

See "Board of Directors" on page 49 for Nick Wharton's biography.

### Sean Cardinaal

#### Divisional Managing Director, Poundland Group and PGS

See "Board of Directors" on page 49 for Sean Cardinaal's biography.

### Trevor Masters

#### Managing Director, PEPCO

Trevor joined the Group in November 2019. He has 40 years' experience within the retail sector, both within the UK and internationally, and significant executive experience having served as the chief executive officer of Tesco International for seven years and in various operational roles within the UK for Tesco. Trevor held several board positions within Tesco's international businesses, including various joint ventures and investment vehicles.

## CHAIRMAN'S INTRODUCTION

The following pages provide information on the composition of the Board and its governance structure and processes.

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

The Wates Principles provide a framework for the Board to monitor the corporate governance of the Group and see where governance standards can be raised to a higher level across the business. The governance framework will also provide the right environment for the Board to make decisions for the long-term success of the Group.

The table below summarises the six Wates Principles and indicates where more information can be found in the Strategic and Governance reports. During 2021 the Board will continue to review and improve the Group's corporate governance.

Principle	Summary	Page
<b>Purpose and leadership</b>	The Board determines the long-term strategy and direction of the Group. Our vision is to become Europe's pre-eminent discount variety retailer and the Board is responsible for ensuring that values, strategy and culture are aligned with that purpose.	9
<b>Board composition</b>	The Board comprises the Chair, CEO, CFO and three Non-Executive Directors. The composition of the Board is largely determined by the Subscription and Shareholders' Agreement and it is considered to be in the best interests of the Group for the senior executives and all shareholders and lenders to the ultimate parent company to be represented at the meetings.	49
<b>Directors' responsibilities</b>	The Group has a separate Chair and CEO to ensure that the balance of responsibilities, accountabilities and decision making is effectively maintained. 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. Non-Executive Directors provide constructive challenge to the Board's decision-making process.	52
<b>Opportunity and risk</b>	The Board seeks out opportunity while mitigating risk. Long-term strategic opportunities are highlighted in the annual business planning process presented to the Board. The Audit and Risk Committee ensures that risks are identified and managed appropriately and in a timely manner.	8 29 61
<b>Remuneration</b>	The Remuneration Committee is responsible for making recommendations to the Board concerning the Group's strategy for executive and senior management remuneration, including long-term incentive plans, to ensure that pay is aligned with performance.	65
<b>Stakeholder relationships and engagement</b>	The Company's shareholders are kept informed of the Group's activities through the attendance of their representatives at Board meetings. Our S172 statement on pages 38 to 40 sets out the details of some of the engagement that takes place at an operational or Group level with key stakeholders.	38

## CORPORATE GOVERNANCE REPORT



### Board responsibilities

The Board is collectively responsible for the strategy and long-term success of the Group, and for ensuring that there is an effective system of internal controls within the Group for the assessment and management of key risks.

A detailed presentation on the business, activities and performance of the Group is provided by the CEO at each Board meeting, together with comprehensive financial reports and analysis presented by the CFO. During months falling outside the regular cycle of Board meetings, the CEO and CFO update the Board on the current trading performance of each of the Group's businesses and other key information on a monthly call.

The Board has delegated the execution of certain responsibilities to its three Committees: Audit and Risk, Remuneration and Nomination. These Committees operate within agreed parameters.

### Audit and Risk Committee

The main responsibilities of the Audit and Risk Committee are to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half year financial statements and accounting policies, and internal and external audits and controls; reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors; advising on the appointment of external auditors; and reviewing the effectiveness of the internal audit, internal controls and whistleblowing and fraud systems in place within the Group.

All meetings of the Committee are attended by the CFO and the Group's General Counsel. Louis Du Preez is also invited to attend. The audit partner of the Company's external auditors also attends.

See pages 61 to 64 for a copy of the Committee's report.

### Remuneration Committee

The main responsibilities of the Remuneration Committee are to recommend the Group's policy on executive remuneration and determine the levels of remuneration for Executive Directors and the Chair and have oversight of the remuneration strategy for other senior executives of the Group.

All meetings of the Committee are attended by the Group's General Counsel and the CEO and CFO regularly attend meetings of the Committee, in each case at the invitation of the Chair of the Committee. The CEO and CFO are not present during discussions regarding their remuneration.

### Nomination Committee

The main responsibilities of the Committee are to assist the Board in reviewing the structure, size and composition of the Board. It is also responsible for reviewing succession plans for the Directors, including the Chair, the CEO and other senior executives.

### Executive Directors and senior management

The Executive Directors of the Group are responsible for implementing the Group's strategy and managing day-to-day operations across its four businesses which are its retail businesses, PEPCO, Poundland and Dealz, and its direct sourcing business, PGS.

The Executive Directors are supported by senior management teams in each of the Group's businesses. Members of the senior management team participate in meetings of the Board, including the annual strategy day, and the Audit Committee as and when invited.

### Roles and responsibilities

The roles of Chair and Chief Executive Officer of the Group are separate, with a clear division of roles and responsibilities.

Neil Brown, as the Chair of the Board, is responsible for leading the Board and ensuring its effectiveness, setting its agenda and high standards of corporate governance. The Chair facilitates the contribution of the Non-Executive Directors and constructive relations between them and the Executive Directors.

Andy Bond, as the Group CEO, is responsible for the day-to-day management of the Group and implementation of the strategy approved by the Board and other Board decisions. His role is supported by the Group CFO, the Divisional Managing Director, Poundland Group and PGS, the Managing Director, PEPCO and the senior executive management teams in each of the Group's businesses.

Nick Wharton, as the Group CFO, is responsible for the financial performance of the Group and supporting the CEO in developing and implementing strategy.

The role of Company Secretary is performed by the General Counsel. The General Counsel of the Group attends all Board meetings and is responsible for information flows to the Board and advising the Board on corporate governance and compliance matters. Directors may also take professional advice at the Company's expense.

### Composition of the Board and its Committees

The names and biographies of all Directors of the Board are published on page 49. The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Group's strategy and performance.

During the year under review three new Non-Executive Directors (including the Chair) were appointed to the Board. Due to a significant proportion of the Non-Executive Directors being newly appointed to the Board, the Board did not consider it appropriate to undertake a formal review of the effectiveness of the Board and its Committees during this year. The Board is focusing its efforts on enhancing boardroom cohesion and further improving existing practices and procedures to ensure that the Directors receive accurate, timely and clear information, that the information received by the Directors is sufficient to enable informed decision making and other such good corporate governance practices. Where Directors have external appointments, the Committee and the Board are satisfied that they do not impact on the time the Directors need to devote to the Company.

### Diversity

The Board has one female Board member, H. Helen Lee Bouygues, who also chairs the Audit and Risk Committee. The percentage of female Board members this year is 16.66%, which is an increase from the year-end position last year when the Board had no female Board members. The first level of senior management below the Board did not have any female representation.

### Board and Committee attendance

The Board has a rolling programme of Board and Committee meetings throughout the year and an annual two-day strategy session in addition to the scheduled Board meetings.

The Board held eight Board meetings during the 2019/20 financial year. Between March and September 2020, members of the Board predominantly attended Board meetings by video conference due to Covid-19 travel restrictions.

## GOVERNANCE

Attendance at Board and Committee meetings was as follows:

	<b>Board</b>	<b>Audit and Risk Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
Meetings held during FY19/20	8	4	3	10
Directors	Attended	Attended	Attended	Attended
Neil Brown (Chairman) (appointed 19 November)	8	4	3	—
Andy Bond	7	—	—	—
Nick Wharton	8	—	—	—
Sean Cardinaal (appointed 28 April 2017)	5	—	—	—
Louis Du Preez	8	—	3	—
H. Helen Lee Bouygues (appointed 19 November)	7	4	—	10
Paul Soldatos (appointed 19 November)	8	—	3	10
Mark Elliott (resigned 22 November 2019)	0 -	—	—	—

During the 2019/20 financial year Neil Brown was appointed Chairman and Non-Executive Director, H. Helen Lee Bouygues and Paul Soldatos were appointed as additional Non-Executive Directors and Mark Elliott resigned as Executive Director.

The Board focused on a number of areas as set out below:

<p style="text-align: center;"><b>Strategy and operational</b></p> <ul style="list-style-type: none"> <li>• Considered operational and business performance</li> <li>• Reviewed new store openings</li> <li>• Approval of new territories</li> <li>• Review of store footprints</li> <li>• Optimisation of supply chain and logistics</li> </ul>
<p style="text-align: center;"><b>Leadership and stakeholders</b></p> <ul style="list-style-type: none"> <li>• Approved the appointment of Neil Brown as Chair and H. Helen Lee Bouygues and Paul Soldatos as Non-Executive Directors</li> </ul>
<p style="text-align: center;"><b>Financial performance</b></p> <ul style="list-style-type: none"> <li>• Reviewed financial performance and forecasts. The frequency of these reviews was reduced post Covid-19 with greater focus on short-term cash flow</li> <li>• Reviewed and increased the Group's level of external debt facilities</li> <li>• Considered and approved the 2019/20 budget</li> </ul>
<p style="text-align: center;"><b>Governance</b></p> <ul style="list-style-type: none"> <li>• Considered the impact of new corporate governance requirements, including additional reporting requirements</li> <li>• Considered and agreed key risks and their mitigation and control</li> <li>• Agreed Modern Slavery Act Statement</li> <li>• Agreed Anti-Bribery and Corruption and Whistleblowing Policies and establishment of external speak-up helpline</li> </ul>

## Risk management activities of the Board

The Board has overall responsibility for ensuring that the Group maintains a strong system of internal controls.

The system of internal controls is designed to identify, manage and evaluate, rather than eliminate, the risk of failing to achieve business objectives. It can therefore provide reasonable but not absolute assurance against material misstatement, loss or failure to meet objectives of the business, due to the inherent limitations of any such system.

An internal audit function exists within the Group's two largest businesses, PEPCO and Poundland. Poundland's internal audit function also supports the Group's Dealz business. In FY20/21, the Group will engage an appropriately qualified external service provider to establish an internal audit function at the Group's head office.

The Board is satisfied that the key risks to the business and relevant mitigating actions are acceptable for a business of the type, size and complexity as that operated by the Group.

The key elements of the Group's system of internal controls are as follows:

- **Financial reporting**  
Monthly management accounts are provided to members of the Board that contain current financial and operational reports. Reporting includes an analysis of actual versus budgeted performance and overviews of reasons for significant differences in outcomes. The annual budget is reviewed and approved by the Board. The Company reports half yearly.
- **Risk management**  
A risk register has been created and is continuously updated and monitored, with full reviews occurring on at least an annual basis. Each risk identified on the risk register is allocated an owner and the action required or acceptance of the risk is also recorded. The risk registers are provided to the Audit and Risk Committee as appropriate.
- **Monitoring of controls**  
The Audit and Risk Committee receives regular reports from the external auditors. There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records of the Group and to safeguard its assets.
- **Staff policies**  
There are formal policies in place within the Group in relation to anti-bribery and corruption, and anti-slavery, as well as whistleblowing policies to facilitate the reporting of any suspected wrongdoing or malpractice.

The Audit and Risk Committee carried out a review of the effectiveness of internal controls during FY19/20.

Information on the key risks and uncertainties of the Group is set out on pages 29 to 37.



## DIRECTORS' REPORT

The Board presents its report, together with the audited accounts for the year ended 30 September 2020.

### Indemnity provisions

The Company entered into deeds of indemnity with the following Directors during the financial year, relating to losses and liabilities that may arise through the exercise of their responsibilities as Directors of the Company:

- H. Helen Lee Bouygues
- Louis Du Preez
- Neil Brown
- Paul Soldatos
- Nick Wharton

The Company also entered into a deed of indemnity with Rob Swales relating to losses and liabilities that may arise through the exercise of his responsibilities as an officer of Fully Sun China Limited.

The Company entered into deeds of indemnity with the following Directors prior to the financial year, relating to losses and liabilities that may arise through the exercise of their responsibilities as Directors of the Company:

- Andy Bond
- Sean Cardinaal

All of the above deeds remain in force at the date of this report.

In addition, the Company holds Directors' and Officers' liability insurance, which provides cover for liabilities incurred by Directors in the performance of their duties or powers.

No payments were made as a result of the indemnity or by the insurer during the reporting period.

### Conflicts of interest

Group-wide processes are in place to review potential conflicts of interest held by senior management, including the Board. Conflicts are routinely raised at Board meetings and recorded as appropriate.

### Audit information

The Board confirms that (i) to its knowledge there is no relevant audit information of which the auditors are unaware; and (ii) the Board has taken all reasonable steps to ascertain any relevant audit information and ensure that the auditors are aware of such information.

## Information contained in the Strategic report

The Strategic report on pages 4 to 46 contains certain information required to be included within this Directors' report. This relates to employee matters, future developments, risk management and how the Board considers the views of stakeholders.

The Strategic report and Directors' report are prepared for the shareholders of the Company and should not be relied upon for any other purpose. To the extent that the reports contain forward-looking statements, these are made by the Board in good faith based on the information available at the time of the Annual Report.

### Financial instruments

Details of the Group's objectives and policies on financial risk management and of the financial instruments currently in use are set out in note 17 to the consolidated financial accounts on pages 102 to 108 which forms part of the report.

## Share capital and major shareholders

### Share capital

The Company has three classes of shares in issue and the rights attaching to each class of shares are set out in the Company's Articles of Association, the Companies Act 2006 and a Subscription and Shareholders' Agreement. The shareholding of the Company is set out on page 48.

There are no limits on issued share capital.

### Share transfers

The Articles of Association contain restrictions on the transfer of shares. A ordinary shares may not be transferred without minority consent, and no manager shares may be transferred without the consent of the Director appointed to the Board by the holder of A ordinary shares. Full details of the restrictions contained in the Articles of Association can be found within the Company's Articles of Association.

The Subscription and Shareholders Agreement places a requirement on the holder of A ordinary shares to obtain minority consent from the holders of B and C ordinary shares for any proposed alterations to the rights attaching to shares, the creation of new classes of shares, or the waiver of any right to receive payment on any of its shares issued partly paid. Minority consent must also be sought to allot or issue any share capital or grant or agree to grant any options or warrants for the issue of any share capital or issue any securities convertible into shares except to the investor, a nominee or an Employee Benefit Trust, or in accordance with the Articles or provisions of the Subscription and Shareholders Agreement. Approval is not required for the allotment or issue of share capital to another Group company or an employee, related person of an employee or Employee Benefit Trust.

## GOVERNANCE

### Voting rights

Each ordinary share entitles the shareholder to vote at any general meeting of the Company and constitute an eligible member for the purpose of written resolutions of the Company. Each share is entitled to one vote.

### Employees

#### Diversity and inclusivity

The Company is fully committed to the elimination of unlawful and unfair discrimination and values the difference that a diverse workforce brings to the Company. The Company has policies applicable to all colleagues in furtherance of these commitments and will continue to focus on developing these in the next financial year.

#### Disabled people

The Group seeks to ensure that disabled people, whether applying for a vacancy or already in employment, receive equal opportunities in respect of job vacancies that they are able to fulfil. They are not discriminated against on the grounds of their disability and are given full and fair consideration of applications, continuing training while employed and equal opportunity for career development and promotion. Where an existing colleague suffers a disability it is our policy to retain them in the workforce where that is practicable.

### Going concern

The Board is satisfied that the Group will be able to operate within the levels of its facilities and resources for the foreseeable future and deems it appropriate to adopt the going concern basis in preparing the financial statements. This is outlined in more detail in the Viability statement on page 41.

### Additional information

#### Political donations

No political donations were made and no political expenditure was incurred during the year (2019/20: £Nil).

#### Dividends

No dividends were recommended or paid.

#### Significant post-balance sheet events

In October 2020, Poundland Limited purchased Viewtone Trading Group Limited (trading as "Fultons") and its subsidiaries. This allows Poundland to utilise Fultons' significant sector experience and scale operating capability to accelerate the expansion of the chilled and frozen foods proposition.

In autumn 2020 Europe was impacted by a second wave of rising Covid-19 cases which resulted in further government-imposed restrictions in the territories in which the Pepco Group operates. These restrictions mirrored those in place in spring 2020 including full closure of non-essential retail stores (e.g. Czechia from late October until December),

closure of large shopping malls (e.g. Poland) and "lockdown" restrictions in the UK and other European countries. While these revised restrictions have consequentially reduced customer footfall across this key trading period the impact experienced to date has not been as significant or prolonged as that seen in the initial Covid-19 wave in spring 2020.

### Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

### Statement of engagement with suppliers and customers

Engagement with employees, suppliers and customers is described in detail within the S172 statement from page 38.

### Research and development

The Group designs products for sale in stores and has arrangements with suppliers for the development of goods.

### Change of control

The Company is party to a senior facilities agreement (SFA) in relation to a €475m term loan (which has been drawn down in full) and a €130m revolving credit facility (of which €13.6m has been utilised). The SFA provides that a change of control of the Company in circumstances which are not expressly permitted in the SFA will require the consent of all lenders under the SFA.

The Company is also party to two shareholder loan facilities of €284m (of which €224m has been utilised) and €50m (none of which has been drawn down). Under these loans, upon a change of control of the Company, the respective facilities will be cancelled and any loans will become immediately due and payable.

### Branches

The Company has established branches through its operating companies as follows:

Place of branch	Origin entity	Country of origin entity
Bangladesh	Fully Sun China Limited	China (Hong Kong)
Taiwan	Fully Sun China Limited	China (Hong Kong)
Isle of Man	Poundland Limited	UK
Ireland	Poundland Limited	UK

## ENERGY AND CARBON REPORT (ECR)

The Group and in particular its UK businesses remain focused on improving their energy efficiency and operate an ongoing programme of initiatives designed to achieve this. As a consequence, during the year ended 30 September 2020, energy usage reduced by 6% annually and greenhouse gas emissions reduced by 11%.

While this improvement is encouraging, the Directors remain committed to ensuring that further progress is made in reducing the impact of our business on the environment.

### Scope of reporting and reporting period

The Company is classified as a large unquoted company due to its size and shareholding structure. UK and Republic of Ireland energy usage (fuel for transport use, electricity consumption and gas combustion) and associated greenhouse gas emissions are presented in accordance with the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) 2018 Regulations. Republic of Ireland energy usage comprises less than 10% of the total UK and Republic of Ireland energy usage presented. Usage across both countries is presented on a combined basis in line with our approach to managing the region via a common management team.

As part of our commitment to achieving good environmental practices and evolving our reporting and activities in this area, we intend to expand the scope of this reporting in future years to cover the Group's global energy usage and associated greenhouse gas emissions.

We are reporting for the financial year ended 30 September 2020 and providing comparative data for the financial year ended 30 September 2019.

### Measurement methodology

The energy and carbon reporting presented below covers emissions from 1 October to 30 September in each reporting year. Energy usage information is being reported for the first time for the year to 30 September 2020 and comparative information for the year to 30 September 2019 has also been presented. It is anticipated that the year to 30 September 2019 will form our baseline year for future reporting.

Energy usage outputs are provided in MWh. Greenhouse gas emissions are provided in tonnes of CO<sub>2</sub>e, using the most up-to-date conversion factors from the UK Government GHG Conversion Factors for Company Reporting relevant to the year in which emissions were made.

Emissions from gas combustion and electricity used in operations have been measured directly based on billing and usage information from providers.

Fuel used by our haulage fleet has been measured directly based on fuel consumption.

Fuel used by our company car fleet has been measured based on fuel mileage expense claims for business use. Fuel use by our company car fleet comprises a relatively small proportion of overall fuel usage.

### Energy usage

Energy use (MWh)	Year ended 30 September 2020	Year ended 30 September 2019 (comparative year)
Transport	52,769	56,191
Gas combustion	2,345	3,270
Electricity	84,335	88,120
<b>Total</b>	<b>139,449</b>	<b>147,581</b>

### Greenhouse gas emissions

Carbon dioxide equivalent emissions (t/CO <sub>2</sub> e)	Year ended 30 September 2020	Year ended 30 September 2019 (comparative year)
Transport	12,689	13,743
Gas combustion	431	601
Electricity	19,662	22,523
<b>Total</b>	<b>32,782</b>	<b>36,867</b>

### Intensity ratio

Energy use per sqm retail space	Year ended 30 September 2020	Year ended 30 September 2019 (comparative year)
ktCO <sub>2</sub> e / sqm retail space	73.0	79.3

### Energy and carbon performance commentary

Energy usage (measured in MWh) and associated greenhouse gas emissions (measured in tonnes of CO<sub>2</sub>e) as reported above have both reduced in FY20 from FY19 levels (by 5.5% and 11.1% respectively, with the greater reduction in greenhouse gas emissions driven by a year-on-year reduction in UK Government GHG Conversion Factors as UK electricity generation has become less carbon intensive).

This has also resulted in an improvement in the intensity ratio (energy use per square metre of retail space), driven by a year-on-year reduction in energy usage greater than the reduction in size of our UK and ROI store portfolio (3.4% retail space reduction year on year, in line with our strategy to optimise the Poundland store estate in the UK).

The sustainability and efficiency initiatives undertaken by the Group in the year under review which have contributed to the reduction in these measures are described below.

## GOVERNANCE

In addition, Covid-19-related trading restrictions and the associated reduction to store footfall in the UK resulted in the temporary closure of c. 130 stores at the peak of restrictions in April 2020, with closures lasting on average for 19 weeks. This corresponds to a loss of approximately 2% of trading days in the UK and ROI estate, which has also partially contributed to the reduction in energy use by our store footprint in the year.

### **Sustainability and efficiency initiatives**

The improvement in energy and carbon performance reflects a number of initiatives undertaken in the year under review within our Poundland Group segment to minimise the Group's energy usage in the UK and ROI:

- **LED lighting** – We continued the roll-out of energy efficient LED lighting across our estate. 70% of our UK and ROI store portfolio is now fitted with LED lighting.

- **Energy efficient refrigeration systems** – We commenced a programme to replace our more inefficient open-fronted chiller units with full glass door alternatives, resulting in a significant reduction in our refrigeration energy use.
- **Transport strategy** – Distribution fleet utilisation has been maximised in order to reduce road miles by targeting collections direct from suppliers on return legs from our store deliveries.

In addition to the measures taken to reduce energy usage in our UK and ROI estate outlined above, the Group has implemented a number of other sustainability initiatives in the year under review as part of its commitment to improving environmental practices. These initiatives are described in our Corporate Social Responsibility Report from page 43.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and Directors' remuneration report comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice standards and applicable law, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties they face; and
- the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

The Statement of Directors' Responsibilities has been approved by the Board of Directors and is signed on behalf by:



**Andy Bond**  
**Chief Executive Officer**

4 February 2021



**Chief Financial Officer**

4 February 2021

## COMMITTEE REPORTS

### AUDIT AND RISK

#### Introduction

The Audit and Risk Committee continues to carry out a key role within the Group's governance framework, supporting the Board in risk management and providing oversight of the Group's internal control and financial reporting.

The Committee exercises oversight of the Group's financial policies and reporting. It monitors the integrity of the financial statements and reviews and considers significant financial and accounting estimates and judgements. The Committee satisfies itself that the disclosures in the financial statements about these estimates and judgements are appropriate and obtains from the external auditors an independent view of the key disclosure issues and financial statement risks.

In relation to risks and controls, the Committee ensures that these have been identified and that appropriate responsibilities and accountabilities have been set.

The annual calendar was approved by the Committee during the year and comprises four meetings, which were each held as scheduled. The calendar allows that at least once a year the Committee will meet separately with the external auditors without management present. The Committee met without management present in December 2020.

The quality of papers presented to the Committee continues to improve and they were provided in a timely fashion to allow due consideration of the subjects under review.

The development of processes by which financial integrity is assured across the Group will continue and I shall ensure that the Committee continues in its role of protecting the interests of shareholders as regards the integrity of published financial information and the effectiveness of audit.

#### Committee composition

The Committee comprises two members, each of whom is a Non-Executive Director of the Company. Two members constitutes a quorum.

Recognising his professional accounting qualification, providing recent and relevant financial experience, and the need to balance Committee membership, Neil Brown was asked by the Board to act as a member of the Audit and Risk Committee.

All members are expected to have an understanding of financial reporting, the Group's internal control environment, relevant corporate legislation, the roles and functions of internal and external audit and the regulatory framework of the business. As reflected in the biographical summaries on page 49, all members of the Committee have significant commercial

experience of working in or with companies in the retail and consumer goods sectors and, as such, the Audit Committee as a whole has competence relevant to the retail sector.

In addition to myself, the other member of the Committee during the year was Neil Brown. Details of Committee meetings and attendance are set out in the Corporate governance report.

The timing of Committee meetings is agreed in advance and set to accommodate the dates of release of financial information. In addition to scheduled meetings, the Chair of the Committee regularly meets with the Group Chief Financial Officer (CFO).

Although not members of the Committee, the Group CFO, the Group General Counsel and representatives from the external auditors attend all meetings and are available to meet with me on a one-to-one basis as and when required to support me in fulfilling my role as Committee Chair. The other Non-Executive Directors and the CEO are also provided with Committee papers and invited to attend.

#### Responsibilities

The responsibilities of the Audit and Risk Committee, as delegated by the Board, are set out in its terms of reference which are available on the Group's corporate website.

They include the following:

- reviewing the integrity of the financial statements and any formal announcement relating to the Group's financial performance. This includes reviewing the significant financial judgements and estimates relating thereto, together with compliance with accounting standards and other legal and regulatory requirements;
- providing oversight of the Group's internal control and risk management systems and considering reports on their effectiveness from the Group CFO;
- assisting the Board with the development and execution of a risk management strategy, risk policies and current risk exposures, including the maintenance of the Group's corporate risk register;
- monitoring the scope of work, quality, effectiveness and independence of the external auditors and recommending to the Board their appointment, reappointment and fees; and
- reviewing the engagement of the external auditors to ensure that the provision of non-audit services by the external audit firm is in accordance with the Group's policy which seeks to ensure that their independence is not impaired.

#### Committee activities in FY20

In discharging its oversight of the responsibilities summarised above, the

## GOVERNANCE

Committee was assisted by management, the Group's General Counsel and the external auditors.

The Committee considered the following matters during the year:

- consideration of the FY19 Annual Report and financial statements of the Group;
- consideration of key significant areas of accounting estimation or judgement, including items of income or expenditure classified as non-underlying;
- consideration of the significant risks included in the Annual Report;
- review of the progress and status of the programme to restructure some of the Group's legal entities;
- review of the Group's ongoing response to the growing exposure to information security (including cyber) risks;
- approval of the external auditors' terms of engagement, audit plan and fees;
- consideration of the Going concern and Viability statements;
- review of the approach to and conclusions from impairment testing of goodwill and other assets within the Group;
- within a broader consideration of treasury management, review of the appropriateness and execution of the Group's foreign currency hedging policy;
- review of the status and provisions regarding any material litigation against the Group; and
- monitoring the implementation of IFRS 16 with regard to leases.

In considering the accounting matters referred to above the Committee had regard to papers and reports prepared by the Group's Finance department and the external auditors and the explanations and disclosures made in the Group's financial statements. The Committee also considered the significance of these accounting matters in the context of the Group's financial statements and their impact on the Group statement of comprehensive income and statement of financial position.

In relation to IFRS 16, the Committee was satisfied with the model the Group had developed for implementing the new standard.

## Regulation

The Group operates within an increasingly regulated marketplace and is challenged by regulatory requirements across the board, including those controlling bribery and corruption, the importation of goods, data protection and health and safety.

This creates risk to the organisation as non-compliance can lead to financial penalties and reputational damage in respect of customers, colleagues, suppliers and stakeholders.

The Board reviewed the Group's compliance procedures and the application of policies relating to fraud, anti-money laundering and anti-bribery.

The Group has processes in place for whistleblowing and the Committee is satisfied that colleagues have the opportunity to raise concerns about possible fraudulent activity and any other concerns that arise within the organisation. The Committee is also satisfied that arrangements are in place for proportionate investigation of such matters, including appropriate follow-up action. Controls and procedures are also in place regarding compliance with the Bribery Act 2010.

During the year the Committee received updates on any instances of fraud within the Group.

## Internal control and risk management

The Board has overall responsibility for ensuring that the Group maintains a sound system of internal control. There are inherent limitations in any system of internal control and no system can provide absolute assurance against material misstatements, loss or failure. Equally, no system can guarantee elimination of the risk of failure to meet the objectives of the business.

Against that background, the Committee has helped the Board develop and maintain an approach to risk management which incorporates a framework within which risk is managed and the responsibilities and procedures pertaining to the application of the policy.

The Group is proactive in ensuring that corporate and operational risks are identified and managed within each business unit. In addition, a corporate risk register has been developed which details:

- the risks and the impact they may have;
- actions to mitigate risks; and
- ownership of risks.

A description of the principal risks is set out on pages 29 to 37.

The Board has confirmed that it has carried out a robust assessment of the principal risks facing the Group, including those which threaten its business model, future performance, solvency or liquidity.

## GOVERNANCE

The Board considers that the processes undertaken by the Committee are appropriately robust and effective and in compliance with the guidelines issued by the Financial Reporting Council.

During the year, the Board has not been advised by the Committee nor has it identified itself any failings, fraud or weaknesses in internal control which it has determined to be material in the context of the financial statements.

The Committee continues to believe that appropriate controls are in place throughout the Group and that the Group has a well-defined organisational structure with clear lines of responsibility and a comprehensive financial reporting system. The Committee also believes that the Company complies with the FRC Guidance on Risk Management, Internal Control and Related Financial Business Reporting.

### Reviewing the draft Annual Reports

The Committee considered in particular the following:

- the accounting principles, policies and practices adopted and the adequacy of related disclosures in the reports;
- the significant accounting issues, estimates and judgements of management in relation to financial reporting;
- whether any significant adjustments were required as a result of the audit;
- compliance with statutory tax obligations;
- whether the information set out in the Strategic report was balanced, comprehensive, clear and concise and covered both positive and negative aspects of performance; and
- whether the use of Alternative Performance Measures obscured IFRS measures.

The Committee received and considered presentations in respect of the various items identified as non-underlying. The Committee considered whether these items are non-underlying in accordance with guidelines on Alternative Performance Measures and, after consultation with the auditors, concurred with this judgement.

### Going concern and financial viability

The Committee reviewed the appropriateness of adopting the going concern basis of accounting in preparing the full year financial statements and whether the business was viable in the longer term. The assessment included a review of the principal risks facing the Group, their financial impact, how they are managed, the availability of finance and the appropriate period for assessment. The Committee also ensured that the assumptions underpinning forecasts were stress tested.

The Group's Viability statement is on page 41.

### Fair, balanced and understandable

At the request of the Board, the Committee considered whether the financial statements and the elements of the Annual Report that are relevant to the financial statements, as a whole, is fair, balanced and understandable and whether it provides the necessary information to shareholders to assess the Group's position, performance, business model and strategy.

The Committee considered management's assessment of items included in the financial statements and the prominence given to them. The Committee and subsequently the Board were satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable.

### External auditors

Mazars LLP were appointed as the Group's independent external auditors for the financial year ended 30 September 2019. The partner responsible for the audit is David Herbinet.

### Supervision of the external auditors

The Committee oversees the external auditors by reviewing, challenging and approving the audit plan and ensuring that it is consistent with the scope of the audit engagement. During the review of the audit plan, the Committee discussed and agreed those financial statement risk areas identified by the auditors that required additional audit emphasis and discussed and challenged the auditors' assessment of materiality including the de minimis level for reporting unadjusted differences.

The audit opinion on pages 70 to 71 provides a full explanation of the scope of the audit, concept of materiality and key accounting and reporting judgements.

### Independence of the external auditors

Auditor independence is maintained by reviewing Mazars' confirmation of their independence and monitoring the nature and value of non-audit services performed.

The Committee approved a revised policy in this regard during the period under review which takes account of the UK Financial Reporting Council's Revised Ethical Code 2019 (the "Code"). The Committee is also mindful of the attitude investors have to the auditors performing non-audit services.

The Group's policy prevents the external auditors providing any services designated as prohibited within the Code and requires Audit Committee approval for the provision of any other services regardless of their magnitude. Any non-audit services will be subject to tender processes with the allocation of work made on the basis of competence, cost effectiveness, regulatory requirements, potential conflicts of interest and knowledge of the Group's business.



## GOVERNANCE

The level of non-audit fees is monitored to ensure it does not exceed 70% of the average annual statutory audit fees payable over the last three years.

No payments were made to Mazars in the financial year ended 30 September 2020 for non-audit services.

### **Auditors' reappointment**

The external audit of the Group is scheduled to be the subject of a tender process during the forthcoming financial year. The successful auditors will be appointed or reappointed at the Annual General Meeting.

**H. Helen Lee Bouygues**  
**Audit and Risk Committee Chair**

## REMUNERATION COMMITTEE REPORT

### Introduction

The Remuneration Report provides an explanation of the structure of our remuneration framework, its alignment with the business strategy and the decisions made by the Committee as a result of the business performance for this year.

The Remuneration Committee is responsible for setting the remuneration framework for all Executive Directors and the Company's Chair and senior management and approving the compensation packages for the Executive Directors and Company Secretary.

The Group is an active equal opportunity employer. It promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

### Roles and responsibilities

The Remuneration Committee is a sub-committee of the Board and its responsibilities include approvals of:

- the remuneration framework and the compensation packages for the Executive Directors, the Company Secretary and the Chair including salary, bonus, pension, incentive payments and performance-based initiatives;
- the design and terms of performance-related pay schemes operated by the Company, including the total annual payments made under such schemes;
- the design and terms of all share incentive plans and awards made under such plans, including the performance targets to be used; and
- the policy for authorising claims for expenses from the directors.

The following Non-Executive Directors were members of the Remuneration Committee during the year: Paul Soldatos, Neil Brown and Louis du Preez. The Committee is required to meet at least twice each year and details of Committee meetings and attendance are set out in the Corporate governance report.

Although not a formal member of the Committee, Andy Bond (CEO) is invited to Committee meetings to advise on the remuneration of other Executive Directors; however, he was not in attendance when his own remuneration was being discussed.

### 2020 activities

The Remuneration Committee held three scheduled meetings during the year, and its main activities were:

- approving the Company's permanent health insurance policy for the Executive Directors and senior management;
- reviewing executive base salaries for the financial year ending 30 September 2021;
- approving the payment of the 2020 Short Term Incentive Plan;
- discussing and approving the metrics for the Group's Long Term Incentive Plans;
- reviewing the remuneration framework for the Executive Directors and senior management;
- considering and agreeing the application of Committee discretion to the performance metrics for FY20 within the Long Term Incentive Plans in operation across the Group's operating companies; and
- approving the performance conditions of the 2021 bonus scheme.

### Base salary

Executive Directors' base salaries are normally reviewed annually, taking into account business and individual performance, salary levels at companies of a similar size, industry, growth and complexity and salaries paid to other colleagues across the Group.

Recognising the absolute performance of the Group in the financial year and wider pay constraints across the Group no salary increases (FY19: Nil) are proposed for the Executive Directors.

### FY20 Short Term Incentive Plan (STIP)

The STIP is based purely on financial profit measures, which during the current year were not met due to the impact on Group revenue of the severe Covid-19-related restrictions in place across the Group in the second half of the financial year. Consistent with the treatment of colleagues at all levels across the Group, the Remuneration Committee applied the discretion available to it to make payments to Executive Directors under the STIP at a level representing 30% of the maximum available to each Director.

### Consideration of conditions elsewhere in Pepco Group

The Committee has oversight of the main compensation provisions throughout the Group's businesses and actively considers the relationship between changes to wider colleague remuneration and that of senior managers. When considering changes to Executive Director and senior manager remuneration the Committee is provided with relevant comparative employee information.

### Gender pay gap reporting

Poundland is the only entity within the Group which is required to publish gender pay gap information in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations

2017. This information can be found on Poundland's website.

### Remuneration components

The Remuneration Committee reviews the Group's remuneration structure for the Executive Directors and senior management each year to ensure that the framework supports the Group's strategic ambitions and rewards the Executive Directors and senior management fairly for the contribution that they make to the business.

Remuneration is set with reference to the market and at a level that will enhance the Group's resources by attracting and retaining quality leaders who can deliver the Group's strategic ambitions in a manner consistent with its values, purpose and the interests of its shareholders.

The remuneration structure for the Group's Executive Directors and senior management comprises a base salary, benefits, retirement provisions, annual bonus and long term incentive plans (LTIPs) as outlined below.

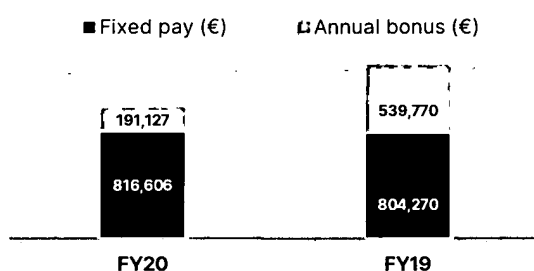
Component and purpose in supporting business strategy	Executive Directors and senior management
<b>Base salary</b> Core element of fixed remuneration, reflecting the size and scope of the role To recruit and retain quality talent to deliver the Group's strategy	Salary levels are reviewed annually and take into account a range of factors including: <ul style="list-style-type: none"> <li>the role's scope, responsibilities and accountabilities;</li> <li>individual performance;</li> <li>prevailing market conditions; and</li> <li>fair pay and conditions across our workforce.</li> </ul>
<b>Benefits</b> Ensures an overall market competitive remuneration package	Benefits include the provision of a company car or car allowance, private health care, life insurance and permanent health insurance and are set taking into account market practice in the senior managers' home jurisdiction.
<b>Retirement provision</b> To provide market competitive post-employment benefits as part of a market competitive remuneration package, rewarding sustained contribution and encouraging retention	Where pension provisions are available for colleagues within a particular business unit, senior managers are eligible to participate in those schemes. These schemes are defined contribution plans in nature and require colleague contributions which are matched with an employer contribution. All colleagues impacted by the Pension Lifetime Allowance, applicable in the UK, may opt for an equivalent alternative cash allowance.
<b>Annual bonus</b> Motivates the achievement of the Group's strategic ambitions, linking this with annual measurable performance criteria and rewarding individual contributions to the Group's success	Each colleague participates in the bonus plan in operation for their respective Group business. All bonus plans are measured against targets for PBT and individual performance. Subject to satisfying individual and financial performance criteria, the maximum incentive opportunity varies by role with a maximum of 100% of base salary.

<p><b>Long Term Incentive Plans (LTIPs)</b></p> <p>Aligns the interests of Executive Directors with those of our ultimate shareholders, rewarding long-term sustainable results, creating shareholder value and encouraging retention</p>	<p>Long Term Incentive Plans are in place in each individual business unit rewarding senior managers based on the long-term development of their individual business.</p> <p><b>Group Value Creation Plan (VCP)</b></p> <p>A Group level Value Creation Plan (VCP) was put in place from 1 October 2019. The VCP has been designed to incentivise the Group's Executive Directors and senior management to deliver exceptional returns for shareholders over a five-year period. It should be noted that where Executive Directors and senior managers participate in other LTIPs the number of shares vesting under the VCP will be reduced by any value realised within those other schemes.</p> <p><b>Background</b></p> <p>The VCP is a one-off award with a performance period of five years and minimum release period of five years. Under the VCP, participants will receive, in the form of shares, a proportion of the returns delivered for the Company's shareholders above a threshold rate of total shareholder return (TSR) of 10% per annum. Participants in the VCP granted shares to date will not be eligible for any further awards under the VCP nor will they be eligible to receive any awards under any future Group-wide LTIP that vests prior to the fifth anniversary of the VCP. To avoid value realisation being duplicated for participants in the VCP, including the Group CEO, who also hold founder shares in the Company, then the number of shares subject to nil-cost options vesting under the VCP for that participant will be reduced by the number of founder shares held.</p> <p>The proportion to which each participant is entitled is awarded at the discretion of the Remuneration Committee. The returns are granted to the participants in the form of nil-cost share options in the Company. The Group CEO and Group CFO have been granted conditional share awards under the VCP equal to a participation rate of 2.5% and 0.6% respectively. With regard to the Executive Directors, vesting is subject to personal annual caps totalling €20m for the CEO and €6m for the CFO.</p> <p><b>Operation of the Plan</b></p> <p>There is one Group VCP grant in operation, the FY20 VCP grant, with performance measured over 2020 to 2025, with a baseline equity valuation, at 1 October 2019, of €4bn. The Remuneration Committee can adjust the performance metrics and targets in appropriate circumstances and may impose different eligibility criteria and performance conditions on future awards.</p> <p>The nil-cost options granted under the VCP will normally vest in three tranches. At the first and second vesting points, 50% of the unvested nil-cost options accrued up to that point will normally vest. However, if the cumulative TSR to that point is less than the threshold TSR growth of 10% per annum, the nil-cost options will not vest at that point but will not lapse. Were the threshold TSR growth of 10% per annum not to be achieved at the third vesting point, the nil-cost options will lapse.</p> <p>The VCP is subject to various provisions including dilution limits, malus and clawback and annual caps. In any ten-year period no more than 5% of the Company's issued share capital may be issued under the VCP and any other discretionary employee share scheme adopted by the Group. Shares issued out of treasury under the VCP will count towards these limits for the period required under institutional shareholder guidelines. Malus and clawback provisions may be invoked in respect of a VCP award or nil-cost option at the discretion of the Board.</p> <p>Subject to market standard good leaver provisions, if a participant ceases to hold office or employment with a member</p>
---	--

Component and purpose in supporting business strategy	Executive Directors and senior management
	<p>of the Group, they will lose their entitlement to any VCP award and unvested nil-cost options.</p> <p><b>Equity Award Plan</b></p> <p>The Equity Award is an award of nil-cost options granted to the Group CFO on 3 March 2020. The rules and terms of the Equity Award are based on the Group VCP rules.</p> <p>The Equity Award seeks to compensate the CFO for the absence of a long-term incentive award in the initial period of his employment in the previous financial year. The award is therefore one-off in nature with performance measured based on the three-year cumulative profit before tax over a three-year period from 1 October 2019 to 30 September 2022. Vesting is also subject to the CFO's continued employment and is subject to a holding period of two years post vesting.</p> <p>If the performance condition is not met at the end of the performance period, then the Equity Award will lapse in full.</p>

### Highest earning director's remuneration

The graph and tables present the highest earning director's total remuneration figures for the years ended 30 September 2019 and 30 September 2020.



#### Note:

Fixed pay comprises base salary, pension and benefits.

Annual bonus includes the STIP for the relevant year.

2020				Performance pay (€)	
Fixed pay (€)				Annual bonus	Total
Salary/ fees	Benefits	Pension	Sub-total		
796,362	18,749	1,495	816,606	191,127	1,007,733

2019				Performance pay (€)	
Fixed pay (€)				Annual bonus	Total
Salary/ fees	Benefits	Pension	Sub-total		
791,490	12,780	Nil	804,270	539,770	1,344,040

### Policy for Chair and Non-Executive Directors

The Chair and Non-Executive Directors do not receive a fee for their services and are not eligible to participate in benefit, pension or bonus and other incentive plans. The Chairman and Non-Executive Directors were appointed to the Board of the Company in accordance with the right of Flow Newco Limited to nominate up to five directors to the Board under the terms of the Subscription and Shareholders' Agreement. This is explained in more detail on page 48.

## FINANCIAL STATEMENTS

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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEPKO GROUP LIMITED

## Opinion

We have audited the financial statements of Pepco Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 September 2020 which comprise the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, notes to the consolidated financial statements, Company statement of financial position, Company statement of changes in equity and notes to the Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company is applicable law and United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) and, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## 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 Auditors' 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 Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' 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.

## FINANCIAL STATEMENTS

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

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

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

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

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

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

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

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 60, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditors' 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 auditors' 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 Auditors' 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 auditors' 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 Auditors

Tower Bridge House

St Katharine's Way

London E1W 1DD

Date: 5 February 2021



**CONSOLIDATED INCOME STATEMENT**

for the year ended 30 September 2020

	Note	Underlying 2020 €000	Non- underlying items (note 5) €000	Total 2020 €000	Underlying 2019 €000	Non- underlying items (note 5) €000	Total 2019 €000
<b>Continuing operations</b>							
Revenue	3	3,517,879	—	3,517,879	3,415,051	—	3,415,051
Cost of sales		(2,084,755)	—	(2,084,755)	(1,972,064)	—	(1,972,064)
<b>Gross profit</b>		<b>1,433,124</b>	<b>—</b>	<b>1,433,124</b>	<b>1,442,987</b>	<b>—</b>	<b>1,442,987</b>
Distribution costs		(1,052,987)	—	(1,052,987)	(971,826)	—	(971,826)
Administrative expenses		(233,733)	(19,699)	(253,432)	(220,630)	—	(220,630)
Other operating income		5,363	—	5,363	7,311	—	7,311
Other expenses		—	(12,060)	(12,060)	—	—	—
<b>Operating profit</b>	4	<b>151,767</b>	<b>(31,759)</b>	<b>120,008</b>	<b>257,842</b>	<b>—</b>	<b>257,842</b>
Total financial income	6	1,601	—	1,601	12,834	67,251	80,085
Total financial expense	7	(105,957)	—	(105,957)	(68,487)	(7,939)	(76,426)
Gain on disposal of subsidiary		1,995	—	1,995	—	—	—
<b>Profit before taxation from continuing operations for the year</b>		<b>49,406</b>	<b>(31,759)</b>	<b>17,647</b>	<b>202,189</b>	<b>59,312</b>	<b>261,501</b>
Taxation	9	(17,245)	—	(17,245)	(42,793)	—	(42,793)
<b>Profit/(loss) from continuing operations for the year</b>		<b>32,161</b>	<b>(31,759)</b>	<b>402</b>	<b>159,396</b>	<b>59,312</b>	<b>218,708</b>
Loss on discontinued operations	25	(939)	—	(939)	(8,355)	—	(8,355)
<b>Profit/(loss) for the year</b>		<b>31,222</b>	<b>(31,759)</b>	<b>(537)</b>	<b>151,041</b>	<b>59,312</b>	<b>210,353</b>

The notes on pages 78 to 115 form part of these financial statements.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for year ended 30 September 2020

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
(Loss)/profit for the year	(537)	210,353
<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	(40,216)	6,337
Effective portion of changes in fair value of cash flow hedges	(7,488)	14,665
Net change in fair value of cash flow hedges reclassified to profit or loss	(6,865)	3,138
Deferred tax on items that are or may be reclassified subsequently to profit or loss	1,423	(2,435)
<b>Other comprehensive (expense)/income for the period, net of income tax</b>	<b>(53,146)</b>	<b>21,705</b>
<b>Total comprehensive (expense)/income for the year</b>	<b>(53,683)</b>	<b>232,058</b>

The notes on pages 78 to 115 form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****at 30 September 2020**

	Note	30 September 2020 €000	30 September 2019 €000
<b>Non-current assets</b>			
Property, plant and equipment	10	378,968	348,040
Right-of-use asset	12	806,854	—
Goodwill and other intangible assets	11	810,117	818,336
Trade and other receivables	14	3,200	—
Derivative financial instruments		1,488	8,971
Deferred tax asset	18	49,741	32,958
		<b>2,050,368</b>	<b>1,208,305</b>
<b>Current assets</b>			
Inventories	13	566,676	537,520
Tax receivable		3,043	2,243
Trade and other receivables	14	45,689	69,758
Derivative financial instruments		3,961	13,858
Cash and cash equivalents		400,167	246,974
		<b>1,019,536</b>	<b>870,353</b>
<b>Total assets</b>		<b>3,069,904</b>	<b>2,078,658</b>
<b>Current liabilities</b>			
Trade and other payables	15	610,564	409,958
Current tax liabilities		5,196	17,659
Lease liabilities	12	247,345	—
Borrowings	15	4,135	4,496
Derivative financial instruments		5,630	2,451
Provisions	19	9,854	42,333
		<b>882,724</b>	<b>476,897</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	16	16,809	39,152
Lease liabilities	12	671,517	—
Borrowings	16	706,066	685,783
Derivative financial instruments		969	360
Provisions	19	38,168	80,372
		<b>1,433,529</b>	<b>805,667</b>
<b>Total liabilities</b>		<b>2,316,253</b>	<b>1,282,564</b>
<b>Net assets</b>		<b>753,651</b>	<b>796,094</b>
Equity attributable to equity holders of the parent			
Share capital	20	2	2
Cash flow hedge reserve		(4,899)	8,031
Merger reserve		4,952	4,952
Translation reserve		(49,631)	(9,415)
Share-based payment reserve		11,800	—
Retained earnings		791,427	792,524
<b>Total shareholders' equity</b>		<b>753,651</b>	<b>796,094</b>

The notes on pages 78 to 115 form part of these financial statements. These financial statements were approved by the Board of Directors on 14 December 2020 and were signed on its behalf by:



**Nick Wharton**  
**Director**

Registered number: 09127609

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 September 2020

	Share capital €000	Cash flow hedge reserve <sup>1</sup> €000	Translation reserve <sup>2</sup> €000	Merger reserve <sup>3</sup> €000	Share- based payment reserve <sup>4</sup> €000	Retained earnings <sup>5</sup> €000	Total equity €000
Balance at 1 October 2019	2	8,031	(9,415)	4,952	—	792,524	796,094
<b>Total comprehensive income for the year</b>							
Loss for the year	—	—	—	—	—	(537)	(537)
Other comprehensive income for the year	—	(12,930)	(40,216)	—	—	—	(53,146)
Total comprehensive income for the year	—	(12,930)	(40,216)	—	—	(537)	(53,683)
<b>Transactions with owners, recorded directly in equity</b>							
Equity settled share-based payments (see note 21)	—	—	—	—	11,800	—	11,800
Distributions <sup>5</sup>	—	—	—	—	—	(560)	(560)
Total contributions by and distributions to owners	—	—	—	—	11,800	(560)	11,240
Balance at 30 September 2020	<b>2</b>	<b>(4,899)</b>	<b>(49,631)</b>	<b>4,952</b>	<b>11,800</b>	<b>791,427</b>	<b>753,651</b>

- 1 The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.
- 2 The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.
- 3 The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the aggregate carrying value of assets and liabilities of the acquired.
- 4 The Group implemented a Value Creation Plan (VCP) for its Executive Directors; see note 21.
- 5 The Group acquired loans from a parent company at an amount greater than their fair value. The resulting loss has therefore been treated as a distribution.

The notes on pages 78 to 115 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 September 2019

	Share capital €000	Share premium <sup>4</sup> €000	Cash flow hedge reserve <sup>1</sup> €000	Translation reserve <sup>2</sup> €000	Merger reserve <sup>3</sup> €000	Retained earnings €000	Total equity €000
Balance at 1 October 2018	2	433,491	(7,337)	(15,752)	4,952	155,592	570,949
<b>Total comprehensive income for the period</b>							
Loss for the period	—	—	—	—	—	210,354	210,354
Other comprehensive income for the period	—	—	15,368	6,337	—	—	21,705
Total comprehensive income for the period	—	—	15,368	6,337	—	210,354	232,059
<b>Transactions with owners, recorded directly in equity</b>							
Share capital reduction	—	(433,491)	—	—	—	433,491	—
Equity settled share-based payments (See note 21)	—	—	—	—	—	(1,913)	(1,913)
Distributions	—	—	—	—	—	(5,000)	(5,000)
Total contributions by and distributions to owners	—	(433,491)	—	—	—	426,578	(6,913)
Balance at 30 September 2019	2	—	8,031	(9,415)	4,952	792,524	796,094

- 1 The cash flow hedge reserve represents the cumulative effect of fair value gains and losses on cash flow hedges in the Group.
- 2 The translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.
- 3 The merger reserve represents the difference between the cost of the Company's investment in its subsidiaries acquired using the principles of merger accounting and the aggregate carrying value of assets and liabilities of the acquired.
- 4 The Group reduced its share capital by eliminating the share premium reserve as part of the restructure undertaken during the year.

The notes on pages 78 to 115 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 30 September 2020

	Note	Year to 30 September 2020 €000	Year to 30 September 2019 €000
<b>Cash flows from operating activities</b>			
Profit/(loss) for the period:			
Continuing operations		402	216,847
Discontinued operations		(939)	(6,493)
Adjustments for:			
Depreciation, amortisation and impairment	10,11	90,561	77,953
Right-of-use asset amortisation	12	199,832	—
Financial income	6	(1,601)	(12,834)
Financial expense	7	105,996	77,731
Gain on sale of non-current assets		(1,995)	—
Loss on sale of property, plant and equipment		(45)	1,955
Equity settled share-based payment expenses	21	13,300	(1,913)
Taxation	9	17,245	42,793
Gain on settlement of intergroup loan relationships		—	(67,251)
		<b>422,756</b>	<b>328,788</b>
Decrease/(increase) in trade and other receivables		19,570	(1,238)
Increase in inventories		(50,745)	(77,543)
Increase in trade and other payables		238,394	17,483
Decrease in provisions and employee benefits		(11,907)	(30,738)
Settlement of derivatives		10,261	(893)
<b>Cash generated by operations</b>		<b>628,329</b>	<b>235,859</b>
Interest paid		(19,865)	(40,408)
Tax paid		(48,758)	(53,732)
<b>Net cash from operating activities</b>		<b>559,706</b>	<b>141,719</b>
<b>Cash flows used in investing activities</b>			
Proceeds from sale of property, plant and equipment		729	801
Interest received		1,367	4,140
Disposal of a subsidiary net of cash disposed	25	(3,510)	—
Additions to property, plant and equipment	10	(139,170)	(123,283)
Additions to other intangible assets	11	(24,774)	(12,528)
<b>Net cash used in investing activities</b>		<b>(165,358)</b>	<b>(130,870)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank loan net of fees incurred		53,000	457,116
Repayment of borrowings		(53,000)	(302,534)
Payment of interest on lease liabilities		(40,660)	—
Repayment of lease liabilities		(182,669)	—
Repayment of loan to Group undertakings		—	(101,306)
<b>Net cash from financing activities</b>		<b>(223,329)</b>	<b>53,276</b>
<b>Net increase in cash and cash equivalents</b>		<b>171,019</b>	<b>64,124</b>
Cash and cash equivalents at beginning of period		246,974	184,485
Effect of exchange rate fluctuations on cash held		(17,826)	(1,635)
<b>Cash and cash equivalents at end of period</b>		<b>400,167</b>	<b>246,974</b>

The notes on pages 78 to 115 form part of these financial statement

## FINANCIAL STATEMENTS

### 1. Significant accounting policies

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

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 116 to 128.

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

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

#### 1.1 Measurement convention

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, pre-IFRS 16 implementation leasing transactions that are within the scope of IFRS 3, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

#### 1.2 Going concern

At the time of signing the financial statements, the Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future, which is not less than twelve months from signing these financial statements. In doing so the Directors have considered reasonable downside sensitivities including assessing the impacts of the Covid-19 global pandemic on the going concern position. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position including the response to Covid-19, is set out in the CEO and CFO's reports.

#### 1.3 Basis of consolidation

##### **Subsidiaries**

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

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

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

## 1. Significant accounting policies (continued)

### 1.3 Basis of consolidation (continued)

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

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

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

#### *Transactions eliminated on consolidation*

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

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

### 1.4 Foreign currency

Transactions in foreign currencies are translated to the Group's presentation currency at the monthly average foreign exchange rate. 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.

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

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

### 1.5 Non-derivative financial instruments

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

#### *Trade and other receivables*

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

#### *Trade and other payables*

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

#### *Interest-bearing borrowings*

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

### 1.6 Derivative financial instruments and hedging

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

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.



## 1. Significant accounting policies (continued)

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

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

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

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

### 1.7 Property, plant and equipment

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

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

Short leasehold property (less than 50 years)	– over the term of the lease
Fixtures and equipment	– 3 to 25 years (dependent upon lease term)
Buildings	– 10 to 40 years

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

### 1.8 Business combinations

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

### 1.9 Intangible assets and goodwill

#### **Goodwill**

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

#### **Brand**

In FY19 the Group revised its judgement on the life of its brand asset from indefinite to 40 years.

Brand is stated at cost less any accumulated amortisation and accumulated impairment losses. Brand is amortised over 40 years on a straight-line basis from 1 October 2018.

#### **Other intangible assets**

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

#### **Amortisation**

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

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

Favourable leases	– over the remaining term of the lease (only applicable to pre-IFRS 16 periods)
Trademarks	– 5 years
Software	– 3–7 years

## 1. Significant accounting policies (continued)

### 1.10 Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving inventory. Cost is calculated on a weighted average basis. The Group estimates a slow-moving inventory provision based on prior stock performance and current market conditions. The Group also provides for obsolete inventory.

### 1.11 Impairment excluding inventories and deferred tax assets

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

The Group is not exposed to large amounts of credit risk due to the nature of its operations as a direct to customer retailer; however, the Group recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. These losses are calculated with reference to the difference between contractual cash flows and cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

#### **Non-financial assets**

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

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 (CGUs). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

### 1.12 Cash and cash equivalents

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

### 1.13 Employee benefits

#### **Defined contribution plans**

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

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

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

## 1. Significant accounting policies (continued)

### 1.14 Provisions

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

### 1.15 Revenue

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

It is the Group's policy to sell its products to customers with a right to return. The Group uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Group will be entitled. However, the level of returns is 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 ongoing basis.

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

### 1.16 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 subsequently measured at the transition amount less any accumulated amortisation and impairment losses. Amortisation is provided 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 note 12.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group 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 Group 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.

#### **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 lease payments are discounted at the Group's incremental borrowing rate.

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 Group 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 Consolidated 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.

## 1. Significant accounting policies (continued)

### 1.16 Lease accounting (continued)

#### ***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 Group 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.

The right-of-use asset is presented as a separate line in the balance sheet.

#### ***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 Group 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 Group has not used this practical expedient.

### 1.17 Taxation

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

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

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

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

## 1. Significant accounting policies (continued)

### 1.18 Supplier income

#### ***Rebate income***

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

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

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

#### ***Promotional funding***

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

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

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

### 1.19 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.

### 1.20 Reserves

#### ***Share capital***

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

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

#### ***Cash flow reserve***

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

#### ***Translation reserve***

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

#### ***Merger reserve***

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

### 1.21 New standards and amendments

#### ***New standards and interpretations applied***

For the year ended 30 September 2020 the Group has adopted IFRS 16 "Leases" and IFRIC 23 *Uncertainty over Income Tax Treatments* for the first time using the modified retrospective method. The nature and effect of these changes is discussed in detail below.

**1. Significant accounting policies (continued)****1.21 New standards and amendments (continued)****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 1 October 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 1 October 2019 and no prior periods restatements.

**Practical expedients applied**

The Group 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 1 October 2019; and
- excluding initial direct costs from measuring right-of-use assets at the date of initial application.

The Group 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.

**Impact on financial statements**

The Group recognised an opening right-of-use asset of €787.9m and a lease liability of €860.2m.

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.

The following table presents the impact of the application of IFRS 16 on the income statement for 30 September 2020:

	As reported €000	IFRS 16 impact €000	Information with IAS 17 €000
<b>Continuing operations</b>			
Revenue	3,517,879		3,517,879
Cost of sales	(2,084,755)		(2,084,755)
<b>Gross profit</b>	<b>1,433,124</b>	<b>—</b>	<b>1,433,124</b>
Distribution costs	(1,052,987)		(1,052,987)
Administrative expenses <sup>1</sup>	(253,432)	(13,158)	(266,590)
Other operating income	5,363		5,363
Other expenses	(12,060)		(12,060)
<b>Operating profit</b>	<b>120,008</b>	<b>(13,158)</b>	<b>106,850</b>
Total financial income	1,601		1,601
Total financial expense	(105,957)	47,474	(58,483)
Gain on disposal of subsidiary	1,995		1,995
<b>Profit before taxation from continuing operations for the year</b>	<b>17,647</b>	<b>34,316</b>	<b>51,963</b>
Taxation	(17,245)		(17,245)
<b>Profit from continuing operations for the year</b>	<b>402</b>	<b>34,316</b>	<b>34,718</b>
Loss on discontinued operations	(939)		(939)
<b>(Loss)/profit for the year</b>	<b>(537)</b>	<b>34,316</b>	<b>33,779</b>

1 Administrative expenses impact of IFRS 16 consists of €213m release rent costs offset by €200m right-of-use asset amortisation, resulting in a net credit to the income statement.

## FINANCIAL STATEMENTS

### 1. Significant accounting policies (continued)

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

The following table presents the impact of the application of IFRS 16 on the statement of financial position for 30 September 2020:

	As reported €000	IFRS16 impact €000	Information with IAS 17 €000
<b>Non-current assets</b>			
Property, plant and equipment <sup>1</sup>	378,968	6,120	385,088
Right-of-use asset	806,854	(806,854)	—
Goodwill and other intangible assets	810,117	1,809	811,926
Trade and other receivables	3,200	—	3,200
Derivative financial instruments	1,488	—	1,488
Deferred tax asset	49,741	—	49,741
	<u>2,050,368</u>	<u>(798,925)</u>	<u>1,251,443</u>
<b>Current assets</b>			
Inventories	566,676	—	566,676
Tax receivable	3,043	—	3,043
Trade and other receivables	45,689	3,070	48,759
Derivative financial instruments	3,961	—	3,961
Cash and cash equivalents	400,167	—	400,167
	<u>1,019,536</u>	<u>3,070</u>	<u>1,022,606</u>
<b>Total assets</b>	<u>3,069,904</u>	<u>(795,855)</u>	<u>2,274,049</u>
<b>Current liabilities</b>			
Trade and other payables	610,564	19,608	630,172
Current tax liabilities	5,196	—	5,196
Lease liabilities	247,345	(243,529)	3,816
Borrowings	4,135	—	4,135
Derivative financial instruments	5,630	—	5,630
Provisions	9,854	5,426	15,280
	<u>882,724</u>	<u>(218,495)</u>	<u>664,229</u>
<b>Non-current liabilities</b>			
Other non-current liabilities	16,809	18,020	34,829
Lease liabilities	671,517	(667,608)	3,909
Borrowings	706,066	—	706,066
Derivative financial instruments	969	—	969
Provisions	38,168	40,849	79,017
	<u>1,433,529</u>	<u>(608,739)</u>	<u>824,790</u>
<b>Total liabilities</b>	<u>2,316,253</u>	<u>(827,234)</u>	<u>1,489,019</u>
<b>Net assets</b>	<u>753,651</u>	<u>31,379</u>	<u>785,030</u>
Equity attributable to equity holders of the parent			
Share capital	2	—	2
Cash flow hedge reserve	(4,899)	—	(4,899)
Merger reserve	4,952	—	4,952
Translation reserve	(49,631)	(2,937)	(52,568)
Share-based payment reserve	11,800	—	11,800
Retained earnings	791,427	34,316	825,743
<b>Total shareholders' equity</b>	<u>753,651</u>	<u>31,379</u>	<u>785,030</u>

1 Property, plant and equipment includes assets capitalised under finance leases; intangible assets relates to unfavourable market rent adjustments.

## FINANCIAL STATEMENTS

### 1. Significant accounting policies (continued)

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

Reconciliation of lease liabilities on the date of transition with off-balance sheet commitments at 1 October 2019:

<b>Operating lease liability commitment reconciliation</b>		€000
Total operating leases commitments disclosed at 30 September 2019		(1,039,642)
Discounting of operating lease commitments at 1 October 2019		136,981
Add: finance lease liabilities at 30 September 2019		(11,593)
Less: low-value leases not recognised as a liability		583
Less: short-term leases not recognised as a liability		28,586
Add: variable lease payments included in operating lease commitments		21,682
Add/(less): adjustments as a result of a different treatment of extension and termination options		(11,169)
Others <sup>1</sup>		14,381
<b>Lease liability recognised at 1 October 2019</b>		<b>(860,191)</b>

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

The weighted average incremental borrowing rate used to discount the lease liability was 4.6%

#### IFRIC 23

The Group adopted IFRIC 23 for the first time for the year ended 30 September 2020. The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over the tax position. In particular it addresses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept that treatment;
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The adoption of this interpretation did not have a material impact on the Group's financial statements.

#### 1.21b New standards and interpretations applied

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 1 October 2019 and have not been adopted early:

		<b>Effective date</b>
IFRS 3	Business Combinations	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 17	Insurance Contracts	1 January 2020
IFRS 10	Consolidated Financial Statements (amendments)	Deferred
IAS 28	Investments in Associates and Joint Ventures (amendments)	Deferred

These standards, interpretations and amendments to published standards and interpretations are not expected to have a material effect on the Group's financial statements.



## 1. Significant accounting policies (continued)

### 1.22 Accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The Directors continually evaluate the estimates, assumptions and judgements based on available information and experience.

#### **Key sources of estimation uncertainty**

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

#### **Impairment of intangible assets (goodwill and right-of-use asset)**

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

When value in use calculations are undertaken, the Directors must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key sources of estimation uncertainty are the future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. See note 11 for detailed disclosures.

#### **Lease discount rate**

Where a rate implicit to the lease is not available, the selection of a discount rate for a lease is based upon the marginal cost of borrowing to the business in relation to the funding for a similar asset.

Management calculates appropriate discount rates based upon the marginal cost of borrowing currently available to the business as adjusted for several factors including the term of the lease, the location and type of asset and how often payments are made.

Management considers that these are the key details in determining the appropriate marginal cost of borrowing for each of these assets. See note 1.21 for detailed disclosures.

#### **Life of brand asset**

Subject to initial recognition, prior to 2019 intangible assets with an indefinite useful life were measured at cost less accumulated impairment charges. Management had assessed the brand to have an indefinite useful life assessing the factors outlined in IAS 38; however, following a review of industry trends and best practice and in light of the ongoing challenges in the retail sector (wage and business rates inflation, weak consumer spending growth and the shifts in shopping habits to large online retailers), management considers a finite useful life to be more appropriate on an ongoing basis. The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on the trading history of the business, future financial projections and ongoing investment in the business, along with the retail segment occupied by Poundland and the active proposition development happening within the business. The brand will be amortised on a straight-line basis. See note 11 for detailed disclosures.

#### **Leases**

Management exercises judgement in determining the lease term on its lease contracts. Within its lease contracts, particularly those in respect of its retail business, break options are included to provide operational and financial security should store performance be different to expectations. At inception of a lease, management will typically assess the lease term as being the full lease term as such break options are not typically considered reasonably certain to be exercised.

As stated in the accounting policies, the discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined quarterly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including the risk-free rate based on government bond rates, country specific risk and entity specific risk. See note 12 for detailed disclosures.

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

### **1.23 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 non-underlying 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 non-underlying items in the current and/or prior years include:

- business restructuring programmes;
- asset impairment and onerous property-related contract charges; and
- IFRS 2 charges in respect of management Value Creation Plan.

In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as non-underlying items. Further information about the determination of non-underlying and other items in financial year 2020 is included in note 5.

### **1.24 Alternative performance measures (APMs)**

Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive suitable APMs. As set out in note 26, APMs are used as management believes these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

## FINANCIAL STATEMENTS

### 2. Segmental analysis

Operating segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (CODM), or decision-making group, in deciding how to allocate resources and in assessing performance.

The Group has identified two significant revenue-generating operating segments, being "multi-price" and "price-anchored" businesses. The multi-price segment refers to the businesses trading under the PEPCO banner. The price-anchored segment refers to businesses trading under the Poundland and Dealz banners. A third "other" operating segment includes the Group's sourcing operations, Group functions and other activities that do not meet the threshold requirements for individual reporting.

EBITDA is the primary profit metric reviewed by the CODM and has been presented by operating segment with a reconciliation to operating profit. EBITDA is defined as operating profit before depreciation, amortisation, impairment, profit/loss on disposal of tangible and intangible assets and amortisation of capital contributions in respect of property leases.

Tax and interest are not reviewed by the CODM on an operating segment basis.

Segment assets and liabilities are measured in the same way as in the consolidated historical financial information. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. Investments in subsidiaries within the Group are included within the "other" segment and the consolidation adjustments and eliminations are presented within "eliminations". Inter-segment trade balances and borrowings are included within the relevant segment and the consolidation adjustments and eliminations are presented within "eliminations". Group external borrowings and other activities that do not meet the threshold requirements for individual reporting are included within the "other" segment.

	2020 €000	2019 €000
<b>External revenue</b>		
PEPCO (apparel-led multi-price)	1,737,956	1,626,954
Poundland Group (FMCG-led price-anchored)	1,779,923	1,788,097
Other	—	—
Group external revenue	<u>3,517,879</u>	<u>3,415,051</u>
<b>EBITDA</b>		
PEPCO (apparel-led multi-price)	298,971	273,667
Poundland Group (FMCG-led price-anchored)	135,304	58,619
Other	(11,651)	474
Group EBITDA	<u>422,624</u>	<u>332,760</u>
<i>Less reconciling items to operating profit</i>		
Depreciation of property, plant and equipment	(80,263)	(68,066)
Impairment of property, plant and equipment	(53)	—
Amortisation of right-of-use asset	(199,832)	—
Amortisation of other intangibles	(10,245)	(9,887)
Amortisation of capital contributions in respect of property leases	—	5,305
Loss on disposal of property, plant and equipment	(163)	(2,270)
Other expenses	(12,060)	—
Group operating profit	<u>120,008</u>	<u>257,842</u>
<b>Profit before tax</b>		
PEPCO (apparel-led multi-price)	123,662	240,053
Poundland Group (FMCG-led price-anchored)	100,826	(22,817)
Other	(206,841)	44,265
Group profit before tax	<u>17,647</u>	<u>261,501</u>

## FINANCIAL STATEMENTS

### 2. Segmental analysis (continued)

	2020 €000	2019 €000
<b>Depreciation and amortisation</b>		
PEPCO (apparel-led multi-price)	156,696	33,645
Poundland Group (FMCG-led price-anchored)	136,118	43,530
Other	1,728	778
Group depreciation and amortisation	294,542	77,953
<b>Impairment of property, plant and equipment and intangible assets</b>		
PEPCO (apparel-led multi-price)	53	—
Group impairment of property, plant and equipment and intangible assets	53	—
<b>Total assets</b>		
PEPCO (apparel-led multi-price)	2,574,490	728,370
Poundland Group (FMCG-led price-anchored)	1,319,994	910,462
Other	1,183,599	1,194,023
Eliminations	(2,008,179)	(754,197)
Group total assets	3,069,904	2,078,658
<b>Total liabilities</b>		
PEPCO (apparel-led multi-price)	766,668	219,873
Poundland Group (FMCG-led price-anchored)	1,002,335	658,609
Other	720,568	587,347
Eliminations	(173,318)	(183,265)
Group total liabilities	2,316,253	1,282,564
<b>Additions to non-current assets</b>		
PEPCO (apparel-led multi-price)	279,874	99,939
Poundland Group (FMCG-led price-anchored)	127,155	34,783
Other	1,923	2,126
Group additions to non-current assets	408,952	136,848

\* Items presented in the reconciliation between operating profit and EBITDA include discontinued operations as is consistent with the presentation in the operating profit note 4.

All income statement disclosures are for the continuing businesses only. The total asset, total liability and capital expenditure disclosures are for the entire Group including discontinued operations.

### 3. Revenue

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

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
UK and Republic of Ireland	1,499,712	1,742,471
Rest of Europe	2,018,167	1,672,580
	3,517,879	3,415,051

## FINANCIAL STATEMENTS

### 4. Operating profit

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
<b>Operating profit for the period has been arrived at after charging/(crediting):</b>		
Payments under operating leases:		
Other	—	8,410
Land and buildings	—	270,497
Expense relating to short-term, low-value and variable leases	<b>45,532</b>	—
Depreciation of tangible fixed assets and other items:		
Owned	<b>80,263</b>	65,289
Leased	—	2,777
Amortisation of right-of-use assets	<b>199,832</b>	—
Impairment of property, plant and equipment	<b>53</b>	—
Amortisation of other intangibles	<b>10,245</b>	9,887
Amortisation of landlord contributions in respect of property leases	—	(5,305)
Cost of inventories recognised as an expense	<b>2,043,978</b>	1,964,073
Write downs of inventories recognised as an expense	<b>18,441</b>	8,628
<b>Auditors' remuneration</b>		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts	<b>216</b>	334
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries	<b>649</b>	789
Fees payable to other auditors and their associates for the audit of the Company's subsidiaries	<b>251</b>	450
Fees payable to other auditors and their associates in the current year in relation to prior year audit	<b>68</b>	159
Total audit fees	<b>1,184</b>	1,732
Other services	<b>165</b>	—
Total assurance-related fees	<b>165</b>	—
Total auditors' remuneration	<b>1,349</b>	1,732

#### EBITDA reconciliation

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

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Operating profit	<b>120,008</b>	257,842
Add back:		
Depreciation of property, plant and equipment	<b>80,263</b>	68,066
Impairment of property, plant and equipment	<b>53</b>	—
Amortisation of right-of-use assets	<b>199,832</b>	—
Amortisation of other intangibles	<b>10,245</b>	9,887
Amortisation of landlord contributions in respect of property leases	—	(5,305)
Loss on disposal of tangible and intangible fixed assets	<b>163</b>	2,270
Other expenses*	<b>12,060</b>	—
EBITDA	<b>422,624</b>	332,760

\* Other expenses relate to project costs associated with a potential exit transaction that was aborted as a consequence of Covid-19.

## FINANCIAL STATEMENTS

### 5. Non-underlying expenses

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

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Restructuring, strategic change and other costs	(6,399)	—
IFRS 2 charge (note 21)	(13,300)	—
<b>Total non-underlying items in operating profit</b>	<b>(19,699)</b>	—
Other expenses	(12,060)	—
Finance income	—	67,251
Finance expenses	—	(7,939)
Income tax	—	—
<b>Total non-underlying items</b>	<b>(31,759)</b>	<b>59,312</b>

Restructuring, strategic change and other costs: During the year the Group undertook head office cost reduction and strategic change to rationalise the supply chain network. The €6.4m relates to costs associated with stock moves, short-term productivity under utilisations, third-party transitional storage and HR costs relating to redundancy and retention.

IFRS 2 charge: A new Value Creation Plan was approved by the Board of Directors in March 2020 as a reward tool to incentivise the top management of the Pepco Group. The scheme is one-off, material and unusual in nature; the awards will be granted once under the VCP to the management team. See note 21 for more details.

Other expenses: Other expenses relate to project costs associated with a potential exit transaction that was aborted as a consequence of Covid-19 of €11.3m and emergency refinancing-related costs of €0.7m.

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

Non-underlying financial expenses: Interest costs incurred on the early settlement of loans.

### 6. Financial income

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Bank interest receivable	946	1,291
Other interest receivable	655	4,152
Interest receivable from Group undertakings	—	7,391
Ineffective portion of changes in fair value of cash flow hedges	—	—
	<b>1,601</b>	<b>12,834</b>
Non-underlying financial income <sup>1</sup>	—	67,251

<sup>1</sup> Non-underlying financial income relates to gains made on settlement of loan relationships with related companies. The Group has assessed that the settlement of loan relationships is financial income as it relates to a loan extinguishment and not a capital contribution from related companies.

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### 7. Financial expense

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Interest on bank loans and amortisation of capitalised finance costs	37,657	41,521
Interest on lease liabilities	40,660	330
On amounts owed to Group undertakings	18,251	26,514
Unrealised foreign currency losses on borrowings	9,389	122
	<b>105,957</b>	<b>68,487</b>
Non-underlying financial expenses <sup>1</sup>	—	7,939
Discontinued operations <sup>2</sup>	39	1,284

1 Non-underlying financial expenses relate to interest costs incurred on the early settlement of loans.

2 Finance expenses relating to discontinued operations.

### 8. Staff numbers and costs

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

	Number of employees	
	Year to 30 September 2020	Year to 30 September 2019
Administration	1,768	1,662
Selling and distribution	37,002	33,648
	<b>38,770</b>	<b>35,310</b>

The aggregate payroll costs of these persons were as follows:

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Wages and salaries	489,337	468,768
Social security costs	50,052	49,251
Other pension costs (note 23)	14,862	5,234
Share-based payments expense (note 21)	13,400	(1,913)
	<b>567,651</b>	<b>521,340</b>

The remuneration of the Directors was as follows:

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Emoluments	2,291	2,508
Long-term incentive schemes	—	—
	<b>2,291</b>	<b>2,508</b>

No Directors (2019: none) were members of defined contribution pension schemes and there was €Nil compensation (2019: €Nil) to Directors or past Directors in respect of loss of office. In the prior year some Directors of the Company were compensated by the parent company (2020: €Nil).

## FINANCIAL STATEMENTS

### 8. Staff numbers and costs (continued)

#### Highest paid Director

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

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Emoluments	1,008	1,344
Long-term incentive schemes	—	—
	<u>1,008</u>	<u>1,344</u>

### 9. Taxation

#### Analysis of charge for the year

	Year to 30 September 2020		Year to 30 September 2019	
	€000	€000	€000	€000
<b>Current tax</b>				
Current tax on income for the period	(34,209)		(52,876)	
Adjustments in respect of prior periods	<u>2,506</u>		<u>3,773</u>	
Total current tax charge		(31,703)		(49,103)
<b>Deferred tax</b>				
Origination and reversal of temporary timing differences	<u>14,458</u>		<u>6,310</u>	
Total deferred tax credit		14,458		6,310
Total charge for the period		<u>(17,245)</u>		<u>(42,793)</u>

#### Factors affecting the tax credit for the year

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Profit before tax – continuing operations	17,647	261,502
Loss before tax – discontinued operations	<u>(939)</u>	<u>(8,355)</u>
	<u>16,708</u>	<u>253,147</u>
Current tax at 19% (2019: 19.0%)	(3,175)	(48,098)
Effects of:		
Unrecognised deferred tax	(12,866)	(4,613)
Expenses not deductible for tax purposes	(10,770)	4,263
Overseas rate adjustment	3,029	2,689
Prior year adjustments <sup>1</sup>	2,437	3,773
Change in tax rate	4,100	(807)
Total tax charge for the period	<u>(17,245)</u>	<u>(42,793)</u>

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

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

The corporation tax rate for the year ended 30 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 17 March 2020, using the Provisional Collection of Taxes Act 1968, the UK Government cancelled the proposed drop in corporation tax rate to 17%.



# FINANCIAL STATEMENTS

## 10. Property, plant and equipment

	Land and buildings €000	Leasehold property improvements €000	Fixtures and equipment €000	Total €000
<b>Cost</b>				
Balance at 1 October 2018	—	169,551	256,158	425,709
Additions	39,821	26,074	58,425	124,320
Disposals	—	(8,221)	(16,418)	(24,639)
Differences on translation	(702)	(2,500)	(2,184)	(5,386)
Balance at 30 September 2019	39,119	184,904	295,981	520,004
Balance at 1 October 2019	39,119	184,904	295,981	520,004
Additions	27,237	33,883	78,089	139,209
Disposals	—	(1,932)	(3,855)	(5,787)
Reclassifications <sup>1</sup>	—	—	(19,110)	(19,110)
Differences on translation	(4,375)	(6,703)	(8,279)	(19,357)
Balance at 30 September 2020	<b>61,981</b>	<b>210,152</b>	<b>342,826</b>	<b>614,959</b>
<b>Depreciation</b>				
Balance at 1 October 2018	—	34,332	93,117	127,449
Charge for the period	—	24,788	43,278	68,066
Disposals	—	(7,364)	(14,516)	(21,880)
Differences on translation	—	(682)	(989)	(1,671)
Balance at 30 September 2019	—	51,074	120,890	171,964
Balance at 1 October 2019	—	51,074	120,890	171,964
Charge for the period	820	22,483	56,960	80,263
Disposals	—	(1,613)	(3,483)	(5,096)
Reclassifications <sup>1</sup>	—	—	(5,529)	(5,529)
Impairment	—	53	—	53
Differences on translation	(106)	(1,582)	(3,976)	(5,664)
Balance at 30 September 2020	<b>714</b>	<b>70,415</b>	<b>164,862</b>	<b>235,991</b>
<b>Net book value</b>				
Balance at 30 September 2020	<b>61,267</b>	<b>139,737</b>	<b>177,964</b>	<b>378,968</b>
Balance at 30 September 2019	39,119	133,830	175,090	348,040
Balance at 30 September 2018	—	135,219	163,040	298,260

<sup>1</sup> The reclassifications during the year primarily relate to the previously existing finance lease assets which have now been included within the right-of-use asset.

## FINANCIAL STATEMENTS

### 11. Intangible assets

	Goodwill <sup>1</sup> €000	Brand <sup>1</sup> €000	Favourable leases property €000	Software and trademarks €000	Total €000
<b>Cost</b>					
Balance at 1 October 2018	786,563	123,818	6,775	25,921	943,077
Additions	—	—	—	12,528	12,528
Disposals	—	—	—	(186)	(186)
Differences on translation	1,314	231	13	(457)	1,101
Balance at 30 September 2019	<u>787,877</u>	<u>124,049</u>	<u>6,788</u>	<u>37,806</u>	<u>956,520</u>
Balance at 1 October 2019	787,877	124,049	6,788	37,806	956,520
Additions	—	—	—	24,774	24,774
Disposals	—	—	—	(3)	(3)
Reclassifications <sup>2</sup>	—	—	(6,788)	4,475	(2,313)
Differences on translation	(22,943)	(3,635)	—	(5,122)	(31,700)
Balance at 30 September 2020	<u>764,934</u>	<u>120,414</u>	<u>—</u>	<u>61,930</u>	<u>947,278</u>
<b>Amortisation</b>					
Balance at 1 October 2018	112,519	—	2,607	13,323	128,449
Amortisation for the period	—	3,106	1,597	5,184	9,887
Disposals	—	—	—	(84)	(84)
Differences on translation	59	(4)	(16)	(107)	(68)
Restated balance at 30 September 2019	<u>112,578</u>	<u>3,102</u>	<u>4,188</u>	<u>18,316</u>	<u>138,184</u>
Balance at 1 October 2019	112,578	3,102	4,188	18,316	138,184
Amortisation for the period	—	3,184	—	7,061	10,245
Reclassifications <sup>2</sup>	—	—	(4,188)	—	(4,188)
Disposals	—	—	—	(11)	(11)
Differences on translation	(3,153)	(265)	—	(3,651)	(7,069)
Balance at 30 September 2020	<u>109,425</u>	<u>6,021</u>	<u>—</u>	<u>21,715</u>	<u>137,161</u>
<b>Net book value</b>					
Balance at 30 September 2020	<u>655,509</u>	<u>114,393</u>	<u>—</u>	<u>40,215</u>	<u>810,117</u>
Balance at 30 September 2019	<u>675,299</u>	<u>120,947</u>	<u>2,600</u>	<u>19,490</u>	<u>818,336</u>
Balance at 30 September 2018	<u>674,044</u>	<u>123,818</u>	<u>4,168</u>	<u>12,598</u>	<u>814,628</u>

1 Brand and goodwill solely relate to the acquisition of the Poundland Group.

2 The reclassifications during the year primarily relate to the previously existing finance lease assets which have now been included within the right-of-use asset.

#### Impairment

Under IAS 36 "Impairment of Assets", the Group is required to:

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

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

## 11. Intangible assets (continued)

### Impairment (continued)

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

The recoverable amount represents the higher of the CGU's fair value less the cost to sell and value in use. The recoverable amount has been determined based on value in use. Where the recoverable amount is less than the carrying value, an impairment results. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which the Directors monitor that goodwill.

During the year, all goodwill was tested for impairment and no impairment was booked to goodwill (2019: €Nil). The impairment in 2018 did not arise from a reduction in the expected future performance of Poundland, but predominantly from a required increase in the discount rate as a result of continued Brexit and UK retail market uncertainty.

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

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

In assessing future EBITDA growth the Group has modelled the underlying movements in the constituents of EBITDA and has used a growth rate of the constituent elements ranging from 0.5% to 31.5% in the first five years which has resulted in an average EBITDA growth rate of 8.1% (2019: 11.7%) in the first five years, with higher growth in the earlier years resulting from reversal of the Covid-19 impact and product diversification and a terminal long-term growth rate of 1.2%. EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements to 5% of net sales in the terminal year from the current rate of 0.9%. The Group has also chosen to increase its WACC by 0.9% to reflect any cash flow uncertainties.

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

A 10% reduction in EBITDA in the terminal year will result in a goodwill impairment of €67m; if the pre-tax discount rate applied to the cash flow projections of Poundland had been 1.0% higher than management's estimates the Group would have had to recognise an impairment against goodwill of €25m. Should the projected long-term growth rate applied to the cash flow projections of Poundland reduce to 0.2%, the resulting impairment would have been €12m.

A 10% increase in EBITDA in the terminal year will result in an increase in recoverable amount of €179m; if the pre-tax discount rate applied to the cash flow projections of Poundland had been 1% lower than management's estimates the recoverable amount would have been €187m. Should the projected long-term growth rate applied to the cash flow projections of Poundland increase to 2.2% the recoverable amount will increase by €172m.

Reduction in EBITDA in the terminal year of 6.3%, an increase in the pre-tax discount rate of 0.8% or a reduction in the long-term growth rate to 0.9% will reduce the recoverable amount to €Nil.

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

- **Product mix:** The roll-out of the Pep&Co clothing range in Poundland stores and product mix improvements in general merchandise together with further buying efficiencies from increased intergroup trading are driving improvements in margin.
- **ERP:** The Group is in the process of implementing an ERP system which is expected improve shrinkage rates and also improve inventory management. The business plan included a reduction in the shrinkage rate and working capital improvements as a result of this.
- **Rent reduction rate:** There is an opportunity to renegotiate lease costs to current market-related rentals upon expiry of existing leases. Current leases are significantly above market rates. The majority of the lease portfolio comes up for renewal or termination by 2023.

## FINANCIAL STATEMENTS

### 12. Leases

30 September  
2020  
€000

#### Right-of-use assets

Buildings	786,202
Equipment	12,677
Vehicles	7,975
	<u>806,854</u>

#### Lease liabilities

Current	247,345
Non-current	671,517
	<u>918,862</u>

Additions to right-of-use assets during the 2020 financial year were €239.3m.

#### Amounts recognised in the income statement

30 September  
2020  
€000

Amortisation charge of right-of-use assets	
Buildings	189,300
Equipment	5,192
Vehicles	5,340
	<u>199,832</u>
Interest expenses (included in finance cost)	40,660
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	23,477
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	373
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	21,682
Unrealised foreign exchange loss on revaluation of lease liabilities	<u>7,825</u>

Total cash outflow for leases in the 2020 financial year was €223.3m.

The Group leases various retail stores, offices 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 1 October 2019, the Group 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 cost 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.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

**13. Inventories**

	<b>30 September 2020 €000</b>	30 September 2019 €000
Goods purchased for resale	<b>412,361</b>	514,432
Goods in transit	<b>154,315</b>	23,088
	<b>566,676</b>	537,520

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

**14. Trade and other receivables**

	<b>30 September 2020 €000</b>	30 September 2019 €000
<b>Non-current trade and other receivables</b>		
Other receivables	<b>3,200</b>	—
Loans to Group undertakings	—	—
	<b>3,200</b>	—
<b>Current trade and other receivables</b>		
Trade receivables	—	1,649
Other receivables	<b>10,226</b>	13,485
Amounts owed by Group undertakings	<b>902</b>	1,851
Prepayments	<b>34,561</b>	51,553
Group relief receivable	—	1,220
	<b>45,689</b>	69,758

Current amounts owed by Group undertakings of €0.9m (2019: €1.9m) are non-interest bearing and are repayable on demand. These amounts were recovered in full post year end.

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

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

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

**15. Trade and other payables**

	<b>30 September 2020</b>	30 September 2019
	<b>€000</b>	€000
Trade payables	<b>280,631</b>	171,940
Other taxation and social security	<b>62,671</b>	49,898
Amounts owed to Group undertakings	<b>1,696</b>	—
Other payables	<b>78,274</b>	57,856
Accruals and capital contributions	<b>187,292</b>	130,264
<b>Trade and other payables</b>	<b>610,564</b>	409,958
Borrowings from credit institutions	<b>4,135</b>	799
Obligations under finance leases	<b>—</b>	3,697
<b>Borrowings</b>	<b>4,135</b>	4,496
	<b>614,699</b>	414,454

Amounts owed to Group undertakings are repayable on demand and non-interest bearing at 30 September 2020 and 30 September 2019, respectively.

**16. Non-current liabilities**

	<b>30 September 2020</b>	30 September 2019
	<b>€000</b>	€000
Accruals and deferred income	<b>16,333</b>	39,152
Amounts owed to Group undertakings	<b>476</b>	—
<b>Trade and other payables</b>	<b>16,809</b>	39,152
Borrowings from credit institutions	<b>481,893</b>	465,016
Obligations under finance leases	<b>—</b>	7,832
Loans from Group undertakings	<b>224,173</b>	212,935
<b>Borrowings</b>	<b>706,066</b>	685,783
	<b>722,875</b>	724,935

Included within non-current liabilities are loans from Group undertakings of €224.2m (2019: €212.9m) which are interest bearing at a margin above LIBOR per annum repayable in 2027.

Included within non-current liabilities are loans from credit institutions of €489.2m (2019: €475.0m). Costs incurred in obtaining the loans from credit institutions have been capitalised and are allocated to the Consolidated income statement over the life of the debt facility. At 30 September 2020 borrowings are stated net of unamortised issue costs of €10.5m (2019: €17.3m). Interest is being charged on the net borrowings amount at an effective rate of 7.8%. This facility contains financial covenants which are typical for this type of facility and include minimum EBITDA and minimum cash measured at quarterly intervals. In light of the expected impact of the Covid-19 pandemic, the Group negotiated a waiver of these covenants effective until June 2021; however, following better than forecast trading the Group remained compliant with these covenants for the year ended 30 September 2020.

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

## 17. Financial instruments and related disclosures

### Financial risk management

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

### Credit risk

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

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

### Liquidity risk

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

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

### Market risk

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

### Interest rate risk

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

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

### Foreign currency risk

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

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

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

	30 September 2020				30 September 2019			
	GBP €000	EUR €000	PLN €000	Other €000	GBP €000	EUR €000	PLN €000	Other €000
Cash and cash equivalents	79,854	44,680	222,085	53,548	56,106	48,169	45,164	97,535
Trade and other receivables	3,633	4,013	3,050	431	813	3,372	3,204	10,816
Borrowings	(224,173)	(481,217)	(4,812)	—	(212,232)	(461,551)	(4,966)	—
Trade and other payables	(298,284)	(17,348)	(239,136)	(7,762)	(238,950)	(11,721)	(124,145)	(24,396)
Provisions	(18,085)	—	(29,937)	—	(78,593)	(2,544)	(40,461)	(1,107)
Finance lease liabilities	(368,891)	(397,780)	(121,697)	(30,494)	(11,529)	—	—	—
	<u>(825,946)</u>	<u>(847,652)</u>	<u>(170,447)</u>	<u>15,723</u>	<u>(484,385)</u>	<u>(424,275)</u>	<u>(121,204)</u>	<u>82,848</u>

**17. Financial instruments and related disclosures (continued)****Significant exchange rates used**

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
<b>Average rate for the year</b>		
Polish Zloty	4.39	4.30
Pound Sterling	0.88	0.88
<b>Statement of financial position rates</b>		
Polish Zloty	4.55	4.38
Pound Sterling	0.91	0.89

**Pension liability risk**

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

**Capital risk management**

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

**Fair value disclosures**

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

Trade receivables, trade payables, short-term deposits and borrowings	The fair value approximates to the carrying value because of the short maturity of these instruments.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the statement of financial position.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

**Fair value hierarchy**

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

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

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

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

	30 September 2020 €000	30 September 2019 €000
Cash and cash equivalents	400,167	246,974
Trade and other receivables	11,128	18,205
Derivative contracts used for hedging (assets)	5,449	22,829
<b>Total financial assets</b>	<b>416,744</b>	<b>288,008</b>
Trade and other payables	562,530	399,212
Borrowings at amortised cost	710,202	678,749
Finance lease liabilities	918,862	14,012
Derivative contracts used for hedging (liabilities)	6,599	1,551
<b>Total financial liabilities</b>	<b>2,198,193</b>	<b>1,093,524</b>



**17. Financial instruments and related disclosures (continued)****Financial instrument sensitivity analysis**

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

**Interest rate sensitivity analysis**

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

	<b>2020 (decrease)/ increase in equity €000</b>	<b>2019 (decrease) /increase in equity €000</b>
+1 % movement in interest rates	<b>(7,132)</b>	(6,879)
-1% movement in interest rates	<b>7,132</b>	6,879

**Foreign exchange rate sensitivity analysis**

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

	<b>2020 increase/ (decrease) in equity €000</b>	<b>2019 increase/ (decrease) in equity €000</b>
10% appreciation of the Euro against the Polish Zloty	<b>17,045</b>	5,084
10% depreciation of the Euro against the Polish Zloty	<b>(17,045)</b>	(5,084)
10% appreciation of the Euro against Pound Sterling	<b>82,595</b>	48,475
10% depreciation of the Euro against Pound Sterling	<b>(82,595)</b>	(48,475)

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

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

**17. Financial instruments and related disclosures (continued)****Contractual cash flows**

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

<b>30 September 2020</b>				
	<b>Due in less than one year €000</b>	<b>Expiring between two and five years €000</b>	<b>Expiring after five years €000</b>	<b>Total €000</b>
Borrowings	29,376	504,933	429,839	964,148
Trade and other payables	547,715	6,827	7,988	562,530
Lease liabilities	261,142	808,739	39,008	1,108,889
	<b>838,233</b>	<b>1,320,499</b>	<b>476,835</b>	<b>2,635,567</b>

<b>Restated 30 September 2019</b>				
	<b>Due in less than one year €000</b>	<b>Expiring between two and five years €000</b>	<b>Expiring after five years €000</b>	<b>Total €000</b>
Borrowings	29,413	521,389	415,583	966,385
Trade and other payables	360,162	31,062	7,988	399,212
Finance lease liabilities	3,697	7,832	-	11,529
	<b>393,272</b>	<b>560,283</b>	<b>423,571</b>	<b>1,377,126</b>

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

<b>EUR</b>	<b>30 September 2020</b>		<b>30 September 2019</b>	
	<b>Payable €000</b>	<b>Receivable €000</b>	<b>Payable €000</b>	<b>Receivable €000</b>
Due in less than one year	(3,089)	—	(1,802)	560
Expiring between one and two years	(415)	—	—	—
Contractual cash flows	<b>(3,504)</b>	<b>—</b>	<b>(1,802)</b>	<b>560</b>
Fair value	<b>(3,504)</b>	<b>—</b>	<b>(1,802)</b>	<b>560</b>

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

<b>USD</b>	<b>30 September 2020</b>		<b>30 September 2019</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	(4,575)	—	(2,436)	22,046
Expiring between one and two years	(935)	—	(360)	461
Contractual cash flows	(5,510)	—	(2,796)	22,507
Fair value	(5,510)	—	(2,796)	22,507

<b>CNY</b>	<b>30 September 2020</b>		<b>30 September 2019</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	(5,149)	—	—	—
Expiring between one and two years	—	—	—	—
Contractual cash flows	(5,149)	—	—	—
Fair value	(5,149)	—	—	—

<b>Fuel contracts</b>	<b>30 September 2020</b>		<b>30 September 2019</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	(463)	—	(16)	—
Expiring between one and two years	—	—	—	—
Contractual cash flows	(463)	—	(16)	—
Fair value	(463)	—	(16)	—

<b>Total</b>	<b>30 September 2020</b>		<b>30 September 2019</b>	
	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Due in less than one year	(13,276)	—	(4,254)	22,606
Expiring between one and two years	(1,350)	—	(360)	461
Contractual cash flows	(14,626)	—	(4,614)	23,067
Fair value	(14,626)	—	(4,614)	23,067

**17. Financial instruments and related disclosures (continued)****Changes in liabilities arising from financing activities**

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

	Lease liabilities €000	Loans from Group undertakings €000	Borrowings from credit institutions €000	Total liabilities from financing activities €000
At 30 September 2019	—	(212,933)	(465,815)	(678,748)
Financing cash flows <sup>1</sup>	223,329	—	—	223,329
Interest cash flows <sup>1</sup>	—	—	19,865	19,865
Set-off <sup>2</sup>	—	—	—	—
Other changes <sup>3</sup>	(1,142,191)	(18,251)	(40,078)	(1,200,520)
Foreign exchange	—	7,011	—	7,011
At 30 September 2020	<b>(918,862)</b>	<b>(224,173)</b>	<b>(486,028)</b>	<b>(1,629,063)</b>

	Loans to Group undertakings €000	Loans from Group undertakings €000	Borrowings from credit institutions €000	Total liabilities from financing activities €000
At 30 September 2018	75,142	(429,665)	(319,721)	(749,386)
Financing cash flows <sup>1</sup>	—	101,306	(154,582)	(53,276)
Interest cash flows <sup>1</sup>	—	977	34,805	35,782
Set-off <sup>2</sup>	(76,824)	137,847	—	137,847
Other changes <sup>3</sup>	1,435	(25,274)	(39,769)	(65,043)
Foreign exchange	247	1,876	13,452	15,328
At 30 September 2019	—	(212,933)	(465,815)	(678,748)

- 1 The financing cash flows from loans from Group undertakings and borrowings from credit institutions make up the net amount of proceeds from borrowings and repayments of borrowings and are presented in the cash flow statement on a gross basis. Interest cash flows for these liabilities are presented separately.
- 2 Set-off refers to the set-off of loans to Group undertakings and loans from Group undertakings with the same related party counterparty in January 2018.
- 3 Other changes include interest accruals and payments.

**Derivative financial instruments**

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

	30 September 2020 €000	30 September 2019 €000
Notional currency legs	1,001,987	842,772
Maturity date	<b>To September 2021</b>	<b>To September 2020</b>

**17. Financial instruments and related disclosures (continued)****Financial assets and liabilities by category as at 30 September 2020**

	Amortised cost €000	Fair value through OCI €000	Fair value through income statement €000
<b>Non-current financial assets</b>			
Derivative financial instruments	—	1,488	—
	—	1,488	—
<b>Current financial assets</b>			
Trade receivables	11,128	—	—
Derivative financial instruments	—	3,961	—
Cash and cash equivalents	400,167	—	—
	411,295	3,961	—
<b>Non-current financial liabilities</b>			
Interest-bearing long-term borrowings	706,066	—	—
Lease liabilities	671,517	—	—
Derivative financial instruments	—	969	—
Trade and other payables	16,333	—	—
	1,393,916	969	—
<b>Current financial liabilities</b>			
Current portion of long-term borrowings	4,135	—	—
Lease liabilities	247,345	—	—
Derivative financial instruments	—	5,630	—
Trade and other payables	546,197	—	—
	797,677	5,630	—

**18. Deferred tax**

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

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Net deferred tax assets and liabilities at beginning of period	32,958	29,451
Recognised in the income statement (note 8)	14,458	6,310
Recognised in other comprehensive income	1,437	(2,435)
Exchange differences	888	(368)
Net deferred tax assets and liabilities at end of period	49,741	32,958

	Deferred tax assets		Deferred tax liabilities		Net	
	30 September 2020 €000	30 September 2019 €000	30 September 2020 €000	30 September 2019 €000	30 September 2020 €000	30 September 2019 €000
Property, plant and equipment	15,837	15,809	(2,104)	(2,498)	13,733	13,311
Intangible assets	—	131	(20,469)	(21,087)	(20,469)	(20,956)
Provisions	15,290	14,625	—	—	15,290	14,625
Financial assets	16,221	9,811	(229)	(347)	15,992	9,464
Other	25,195	16,514	—	—	25,195	16,514
	72,543	56,890	(22,802)	(23,932)	49,741	32,958

## FINANCIAL STATEMENTS

### 18. Deferred tax (continued)

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

	1 October 2019	Recognised in income statement	Recognised in equity	Exchange differences	30 September 2020
	€000	€000	€000	€000	€000
Property, plant and equipment	13,311	708	—	(286)	13,733
Intangible assets	(20,956)	—	—	487	(20,469)
Provisions	14,625	1,346	—	(681)	15,290
Financial assets	9,465	4,137	1,437	953	15,992
Tax losses and other	16,513	8,267	—	415	25,195
	<b>32,958</b>	<b>14,458</b>	<b>1,437</b>	<b>888</b>	<b>49,741</b>

	1 October 2018	Recognised in income statement	Recognised in equity	Exchange differences	30 September 2019
	€000	€000	€000	€000	€000
Property, plant and equipment	12,816	566	—	(71)	13,311
Intangible assets	(21,048)	—	—	92	(20,956)
Provisions	13,333	1,543	—	(251)	14,625
Financial assets	11,602	310	(2,435)	(12)	9,465
Tax losses and other	12,748	3,890	—	(125)	16,513
	<b>29,451</b>	<b>6,309</b>	<b>(2,435)</b>	<b>(367)</b>	<b>32,958</b>

### 19. Provisions

	Property provisions		Other provisions		Total	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019	30 September 2020	30 September 2019
	€000	€000	€000	€000	€000	€000
At beginning of period	81,040	113,281	41,664	40,969	122,704	154,250
Reclassifications	(60,259)	—	—	—	(60,259)	—
Provisions made during the period	79	1,196	17,978	17,697	18,057	18,893
Provisions utilised during the period	—	(33,217)	(28,388)	(16,132)	(28,388)	(49,349)
Provisions reversed during the period	(982)	(470)	(191)	97	(1,173)	(373)
Translation differences	(1,793)	250	(1,126)	(966)	(2,919)	(716)
	<b>18,085</b>	<b>81,040</b>	<b>29,937</b>	<b>41,665</b>	<b>48,022</b>	<b>122,705</b>
Current	6,199	23,936	3,655	18,397	9,854	42,333
Non-current	11,886	57,104	26,282	23,268	38,168	80,372
	<b>18,085</b>	<b>81,040</b>	<b>29,937</b>	<b>41,665</b>	<b>48,022</b>	<b>122,705</b>

Provision is made for the exit costs of properties no longer occupied by the Group. The average remaining lease term for these properties is 3.1 years (2019: 4 years).

Reclassifications related to adjustments made on transition to IFRS 16; please see note 1.21 for further information.

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

**20. Share capital**

	<b>30 September 2020 €000</b>	30 September 2019 €000
Ordinary share capital		
Issued and fully paid		
1,763,056 A ordinary shares of 0.1p each (2019: 1,763,056 A ordinary shares of 0.1p)	2	2
29,000 B ordinary shares of 0.1p each (2019: 29,000 B ordinary shares of 0.1p)	—	—
9,186 C ordinary shares of 0.1p each (2019: 9,186 C ordinary shares of 0.1p)	—	—
	<u>2</u>	<u>2</u>

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

**21. Share-based payments****Management Incentive Plan**

During 2016, the Company entered into a long-term incentive plan with certain employees of the Company (the "MIP") under which the employees subscribed and fully paid for "B" shares in the Company (note 20) at fair value. Accordingly the share-based payment expense recognised in relation to the MIP is €nil. The B shares are subject to certain restrictions including the requirement for the continuing employment of the employee by the Company. In the event that the employee ceased employment with the Company, the Company has rights of mandatory repurchase of the B shares from the employee. The B shares also include restrictions over the right of the employee to sell the B shares (which is subject to a pre-emption right of the Company) as follows:

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

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

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

The rights of the B and C classes of shares are fully defined in the Articles of Association of the Company.

**Value Creation Plan**

The Value Creation Plan (VCP) was adopted on 3 March 2020 (the "Grant Date"). The scheme aligns the remuneration of Executive Directors with the value generated for shareholders.

**Nature of conditional award**

Under the VCP, participants are granted a conditional award giving the potential right to earn nil-cost options based on the absolute total shareholder return generated above a hurdle (the "Threshold Total Shareholder Return") at the end of each plan year (the "Measurement Date") over a five-year VCP period.

At each Measurement Date, up to 6.9% of the value created above the hurdle will be "banked" in the form of share awards. The initial price for the VCP was the average valuation for the Group available on the grant date. Participants will receive the right at the end of each year of the performance period to share awards with a value representing the level of the Company's total shareholder return above the Threshold Total Shareholder Return at the relevant Measurement Date.

## 21. Share-based payments (continued)

### Value Creation Plan (continued)

#### Nature of conditional award (continued)

The Threshold Total Shareholder Return or hurdle which has to be exceeded before share awards can be earned by participants is the higher of:

- the highest previous measurement of Total Shareholder Return; and
- the initial price compounded by 10% p.a.

If the value created at the end of a given plan year does not exceed the Threshold Total Shareholder Return, nothing will accrue in that year under the VCP.

The first Measurement Date will be in January 2021, 30 days after publication of the 2020 full year results.

#### Vesting conditions

The vesting schedule provides that 50% of the cumulative number of share awards will vest following the third Measurement Date and 50% of the cumulative balance following the fourth Measurement Date, with 100% of the cumulative number of share awards vesting following the fifth Measurement Date. At each vesting date, vesting of awards is subject to:

- a minimum TSR performance level of 10% CAGR being maintained:
  - where the TSR underpin has been achieved at the third Measurement Date, 50% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point but they will not lapse;
  - where the TSR underpin has been achieved at the fourth Measurement Date, 50% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point but they will not lapse; and
  - where the TSR underpin has been achieved at the fifth Measurement Date, 100% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point and the remaining cumulative balance will lapse;
- any shares vesting cannot be sold prior to the fifth anniversary of the date of the implementation of the VCP; and
- an annual cap on vesting of €20.0m for the CEO and a proportionate limit for other participants:
  - in the event that in any year vesting as described above would exceed the annual cap, any share awards above the cap will be rolled forward and allowed to vest in subsequent years provided the cap is not exceeded in those years, until the VCP is fully paid out or after five years after the fifth Measurement Date when any unvested share awards will automatically vest. Rolled forward share awards will not be subject to further underpins, performance conditions or service conditions.

#### Interaction with legacy MIP scheme

Banked shares under the VCP will be reduced to account for MIP shares that have been awarded. Under this approach, VCP shares will only be banked if and when the cumulative value created under the VCP (converted to a number of shares) exceeds the number of shares awarded to individuals under the MIP.

#### Valuation of awards

The fair value of awards granted under the VCP to date is €45.3m and employer's National Insurance liability of €5.6m spread over the five-year period. An expense of €13.3m was recognised during the period (2019: €(1.9m)). The expense recognised consisted of €11.8m in relation to share awards and €1.5m for employer's National Insurance liability. In determining the fair value of the VCP awards granted during the period, a Monte Carlo model was used.

#### Linked JOE awards

Under the terms of the VCP, at the time a VCP award is made, the participant may acquire a linked jointly owned equity (JOE) award with Estera Trust (Jersey) Limited, the Trustee of the Employee Benefit Trust. The JOE award permits participants to benefit from the increase (if any) in the value of a number of ordinary shares above a hurdle of 10% p.a. cumulative annual growth rate (which reflects the VCP Threshold Total Shareholder Return) over a time period matching the performance period of the VCP. The value of these JOE awards (if any) will be applied to deliver part of the total value of the participants' VCP awards on realisation of the VCP awards.

JOE award participants paid an initial cost for the JOE awards which is not repayable to them even if no value is delivered under the JOE awards.



**22. Capital commitments**

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

	<b>2020</b>	2019
	<b>€000</b>	€000
Acquisition of property, plant and equipment and intangible assets	<b>11,830</b>	59,561

**23. Pension scheme**

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to €14,862,000 (2019: €5,234,000). Contributions amounting to €819,000 (30 September 2019: €1,269,008) were payable to the scheme at the year end and are included in accruals.

**24. Transactions with related parties****Transactions with key management personnel**

The compensation of key management personnel is as follows:

	<b>Year to 30 September 2020</b>	Year to 30 September 2019
	<b>€000</b>	€000
Short-term employee benefits	<b>2,291</b>	2,352

**Transactions with parent and fellow subsidiaries**

	Interest incurred from		Interest receivable from	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>€000</b>	€000	<b>€000</b>	€000
Steinhoff group <sup>1</sup> companies	<b>(18,251)</b>	(26,514)	—	(7,931)

	Revenue from		Operating expenses incurred from	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>€000</b>	€000	<b>€000</b>	€000
Steinhoff group <sup>1</sup> companies	<b>5,714</b>	8,244	—	—

	Receivables outstanding		Payables outstanding	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>€000</b>	€000	<b>€000</b>	€000
Steinhoff group <sup>1</sup> companies	<b>902</b>	3,071	<b>(226,345)</b>	(215,935)

<sup>1</sup> Steinhoff group refers to the ultimate parent company, Steinhoff International Holdings N.V., and its subsidiaries.

Interest receivable from and payable to Steinhoff companies relates to loans to and from Group undertakings as described in notes 14, 15 and 16.

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

Operating expenses incurred from Steinhoff companies relate to logistics services provided by members of the Steinhoff group.

Receivables outstanding from and payables outstanding to Steinhoff companies are described in notes 14, 15 and 16.

## FINANCIAL STATEMENTS

### 25. Discontinued operations

On 31 March 2019 the Group announced its intention to exit the business in France and initiated an active programme to unwind its activities in France, Vaucluse Diffusion SAS. On 14 February 2020 the Group disposed of Sapphire 117 Limited, the mobile top-up and sim card business which trades under the banner of "Flash". Further details relating to the disposal can be found below. Flash made a pre-disposal loss of €0.3m in the year, which has been disclosed as a discontinued operation in these financial statements.

The associated assets and liabilities of both businesses have consequently been presented as discontinued in the 2020 financial statements.

#### Financial performance and cash flow information

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Revenue	1,136	5,818
Expenses	(2,075)	(14,173)
<b>Loss before taxation</b>	<b>(939)</b>	<b>(8,355)</b>
Income tax	—	—
<b>Loss from discontinued operation</b>	<b>(939)</b>	<b>(8,355)</b>
Net cash inflow/(outflow) from operating activities	940	(1,152)
Net cash inflow/(outflow) from investing activities	—	—
Net cash inflow/(outflow) from financing activities	—	—
<b>Net increase/(decrease) in cash generated by discontinued operation</b>	<b>940</b>	<b>(1,152)</b>

#### Details of the sale of the subsidiary

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Consideration received	—	—
Carrying amount of net liabilities sold	(1,982)	—
Profit on disposal before reclassification of foreign currency translation reserve	1,982	—
Reclassification of foreign currency translation reserve	13	—
Gain on sale	1,995	—

The carrying amount of assets and liabilities at the date of sale (14 February) were:

	14 February 2020 €000
Trade and other receivables	940
Cash at bank and in hand	3,510
<b>Total assets</b>	<b>4,450</b>
Trade and other payables	(3,083)
Borrowings from Group undertakings	(3,349)
<b>Total liabilities</b>	<b>(6,432)</b>
<b>Net liabilities</b>	<b>(1,982)</b>

## 26. Alternative Performance Measures (APM)

### Introduction

The Directors assess the performance of the Group using a variety of performance measures; some are IFRS and some are adjusted and therefore termed “non-GAAP” measures or “Alternative Performance Measures” (APMs). The rationale for using adjusted measures is explained below. The Directors principally discuss the Group’s results on an “underlying” basis. Results on an underlying basis are presented before non-underlying items (large and unusual items) and excluding the impact of IFRS 16 for comparability to FY19 results.

The APMs used in this Annual Report are underlying EBITDA, underlying profit before tax, like-for-like revenue growth and net debt.

A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The APMs we use may not be directly comparable with similarly titled measures used by other companies.

### Non-underlying and other items

The Group statement of comprehensive income separately identifies trading results before non-underlying and other items. The Directors believe that presentation of the Group’s results in this way provides a useful alternative analysis of the Group’s financial performance, as non-underlying and other items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing a relevant analysis of the trading results of the Group. In determining whether events or transactions are treated as non-underlying and other items, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

The following charges and credits have been included within non-underlying and other items for the year ended 30 September 2020; see note 5 for more details:

- business restructuring programmes;
- project costs associated with a potential exit transaction that was aborted as a consequence Covid-19;
- IFRS 2 charges in relation to Value Creation Plan award to the management team; and
- cost incurrent on emergency refinancing as result of Covid-19.

### Excluding impact of IFRS 16

The Group’s performance is also analysed excluding the impact of IFRS 16, which provides greater comparability to prior year performance.

### Like-for-like revenue growth

In the opinion of the Directors, like-for-like revenue growth is a measure which seeks to reflect the underlying performance of the Group’s stores. The measure is defined as year-on-year revenue growth for stores open beyond their trading anniversary, with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store. Unless otherwise stated, LFL sales growth includes stores which were temporarily closed in the Poundland estate at the peak of Covid-19 restrictions.

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Reported revenue growth	3.0%	12.4%
Like-for-Like revenue growth	(5.2%)	2.6%

### Underlying EBITDA

Underlying EBITDA is defined as reported EBITDA excluding the impact of non-underlying items and the impact of IFRS 16 on EBITDA. Prior year underlying EBITDA also excluded the impact of the discontinued operations Sapphire 117 Limited and Vaucluse Diffusion SAS.

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Reported EBITDA	422,624	332,760
Non-underlying items	19,699	—
IFRS 16 adjustments	(213,412)	—
Discontinued operations	—	(1,840)
<b>Underlying EBITDA</b>	<b>228,911</b>	<b>330,920</b>

**26. Alternative Performance Measures (APM) (continued)****Underlying profit before-tax**

Underlying profit before tax is defined as reported profit before tax excluding the impact of non-underlying items and the impact of IFRS 16. Prior year underlying profit before tax also excludes the impact of the discontinued operations Sapphire 117 Limited.

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Reported profit before tax	17,647	261,501
Non-underlying items	31,759	(59,312)
Discontinued operations	—	(1,840)
IFRS 16 adjustments	34,316	—
<b>Underlying profit before tax</b>	<b>83,722</b>	<b>200,349</b>

**Cash generated by operations**

Cash generated by operations is defined as net cash from operating activities excluding tax and interest paid and adjusted for the impact of IFRS 16 lease payments.

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Net cash from operating activities	559,706	141,719
Interest paid	19,865	40,408
Tax paid	48,758	53,732
IFRS 16 adjustments	(223,329)	—
<b>Cash generated by operations</b>	<b>405,000</b>	<b>235,859</b>

**27. Subsequent events**

In October 2020, Poundland Limited, a subsidiary of Pepco Group 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 Group or the goodwill and other intangible assets to be recognised on acquisition can be provided.

**28. Ultimate parent company**

The Group is a direct subsidiary undertaking of Flow Newco Limited, which is registered in England. Flow Newco Limited's registered address is Suite 1, 3rd Floor 11-12 St. James's Square, London, United Kingdom SW1Y 4LB.

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

**COMPANY STATEMENT OF FINANCIAL POSITION**

as at 30 September 2020

	Note	30 September 2020 €000	30 September 2019 €000
<b>Non-current assets</b>			
Investments	3	853,031	878,770
Intangible fixed assets	4	2,422	1,798
		<b>855,453</b>	<b>880,568</b>
<b>Current assets</b>			
Trade and other receivables falling due within one year	5	16,271	14,923
Cash at bank and in hand		9,710	29,857
		<b>25,981</b>	<b>44,780</b>
Trade and other payables: amounts falling due within one year	6	(4,386)	(737)
		<b>21,595</b>	<b>44,043</b>
<b>Net current assets</b>			
		<b>21,595</b>	<b>44,043</b>
<b>Total assets less current liabilities</b>		<b>877,048</b>	<b>924,611</b>
Trade and other payables: amounts falling due after more than one year	7	(225,657)	(221,809)
<b>Net assets</b>		<b>651,391</b>	<b>702,802</b>
<b>Capital and reserves</b>			
Called up share capital	9	2	2
Share-based payment reserve		11,189	—
Translation reserve		(41,513)	(22,253)
Retained profit		681,713	725,053
<b>Shareholders' equity</b>		<b>651,391</b>	<b>702,802</b>

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

The Company made a post-tax loss for the year of €43,560,000 (2019: profit €430,076,000).

The notes on pages 119 to 128 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 December 2020 and were signed on its behalf by:



**Nick Wharton**  
**Director**

Company registration number: 09127609

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2020

	Share capital €000	Share-based payment reserve €000	Translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 October 2019	2	—	(22,073)	724,873	702,802
<b>Total comprehensive income for the period</b>					
Profit for the period	—	—	—	(43,160)	(43,160)
Other comprehensive expense for the period	—	—	(19,440)	—	(19,440)
Total comprehensive expense for the period	—	—	(19,440)	(43,160)	(62,600)
<b>Transactions with owners, recorded directly in equity</b>					
Equity settled share-based payments (see Group note 20)	—	11,189	—	—	11,189
Balance at 30 September 2020	2	11,189	(41,513)	681,713	651,391

The notes on pages 119 to 128 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 30 September 2019

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

The notes on pages 119 to 128 form part of these financial statements.

## FINANCIAL STATEMENTS

### Accounting policies

#### Company information

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

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

#### 1.1 Basis of preparation

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

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

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

#### Disclosure exemptions adopted

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

- a cash flow statement and related notes;
- comparative period reconciliations for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

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

- IFRS 2 "Share-based Payment" in respect of Group settled share-based payments; and
- certain disclosures required by IFRS 13 "Fair Value Measurement" and the disclosures required by IFRS 7 "Financial Instruments: Disclosures".

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

#### 1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.3 Going concern

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

#### 1.4 Revenue

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

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



## 1. Accounting policies (continued)

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

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

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

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

### 1.6 Non-derivative financial instruments

#### *Trade and other debtors*

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

#### *Trade and other creditors*

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

#### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost less accumulated impairment.

#### *Interest-bearing borrowings*

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

### 1.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

### 1.8 Impairment excluding deferred tax assets

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

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

#### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

### 1.9 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; 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 statement of financial position date.

## 1. Accounting policies (continued)

### 1.9 Taxation (continued)

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

### 1.10 Employee benefits

#### *Short-term benefits*

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

#### *Defined contribution plans*

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

### 1.11 Leases

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 subsequently measured at the transition amount less any accumulated amortisation and impairment losses. Amortisation is provided 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 note 12 to the Group financial statements.

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group 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 Group 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.

#### *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 lease payments are discounted at the Group's incremental borrowing rate.

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 such as those 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 Group 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 Consolidated 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.

## 1. Significant accounting policies (continued)

### 1.11 Leases (continued)

#### *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 case 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 depreciation and impairment losses.

Where the Group 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.

The right-of-use asset is presented as a separate line in the balance sheet.

#### *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 Group 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 Group has not used this practical expedient.

### 1.12 Foreign exchange

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### 1.13 Employee Benefit Trust

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

### 1.14 Key sources of estimation uncertainty

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

#### *Impairment of fixed asset investments*

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

When value in use calculations are undertaken, the Directors must estimate the expected future cash flows from the investment and choose a suitable discount rate in order to calculate the present value of those cash flows. The key source of estimation uncertainty is the growth rates applied. The carrying value of fixed asset investments assessed for impairment was €853m at 30 September 2020 (2019: €879m).

## FINANCIAL STATEMENTS

### 2. Staff numbers and costs

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

	Number of employees	
	Year to 30 September 2020	Year to 30 September 2019
Administration	16	16

The aggregate payroll costs of these persons were as follows:

	Year to 30 September 2020 €000	Year to 30 September 2019 €000
Wages and salaries	1,795	5,619
Social security costs	220	580
Other pension costs (note 23)	65	77
Share-based payments expense (note 20)	—	(1,913)
	<b>2,080</b>	<b>4,363</b>

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

### 3. Fixed asset investments

	30 September 2020 €000	30 September 2019 €000
Investments	852,531	878,270
Loans	500	500
	<b>853,031</b>	<b>878,770</b>

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

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

#### Movements in non-current investments

	Shares in Group undertakings €000	Loans to Group undertakings €000	Total €000
<b>Cost</b>			
At 1 October 2019	878,270	500	878,770
Additions	—	—	—
Disposals	—	—	—
Interest capitalised	—	—	—
Foreign currency translation differences	(25,739)	—	(25,739)
At 30 September 2020	<b>852,531</b>	<b>500</b>	<b>853,031</b>
<b>Carrying amount</b>			
At 30 September 2020	<b>852,531</b>	<b>500</b>	<b>853,031</b>
At 30 September 2019	878,270	500	878,770

## FINANCIAL STATEMENTS

### 3. Fixed asset investments (continued)

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

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

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

### 4. Intangible fixed assets

	Computer software €000	Total €000
<b>Cost or valuation</b>		
At 1 October 2019	1,798	1,798
Additions	722	722
Foreign currency translation differences	(98)	(98)
At 30 September 2020	<b>2,422</b>	<b>2,422</b>
<b>Carrying amount</b>		
At 30 September 2020	<b>2,422</b>	<b>2,422</b>
At 30 September 2019	<b>1,798</b>	<b>1,798</b>

The additions to computer software during the year relate to the development costs of a new enterprise management system. It is forecast that the asset will be ready for use in March 2021; therefore, amortisation will commence from this date.

### 5. Trade and other receivables

	30 September 2020 €000	30 September 2019 €000
<i>Amounts falling due within less than one year:</i>		
Amounts owed by Group undertakings	<b>14,059</b>	12,486
Prepayments and accrued income	<b>117</b>	121
Other receivables	<b>2,096</b>	2,316
	<b>16,271</b>	14,923

Receivables disclosed above are measured at amortised cost.

### 6. Trade and other payables

	30 September 2020 €000	30 September 2019 €000
Trade payables	<b>2,133</b>	549
Accruals and deferred income	<b>2,226</b>	—
Other taxation and social security	<b>—</b>	157
Other payables	<b>27</b>	31
	<b>4,386</b>	737

**7. Non-current liabilities**

	30 September 2020 €000	30 September 2019 €000
Loans from Group undertakings	224,157	212,935
Accruals and deferred income	1,500	—
Other payables	—	8,874
	<b>225,657</b>	<b>221,809</b>

Loans from Group undertakings include €224,157,000 (2019: €212,935,000) payable after five years.

**8. Financial instruments and related disclosures**

The Company has taken advantage of the exemption available in FRS 101 from the financial instrument disclosures required by IFRS 7 on the basis that equivalent disclosures have been made in the consolidated financial statements of the Group. Disclosures have therefore only been made below for intergroup balances as these are not included in the consolidated financial statements.

The principal risk associated with the amounts owed by Group undertakings is credit risk. Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's maximum exposure to credit risk is the carrying value of the amounts owed by Group undertakings and any associated expected credit losses are immaterial.

**9. Called up share capital**

	30 September 2020 €000	30 September 2019 €000
<i>Ordinary share capital</i>		
Issued and fully paid		
1,763,056 A ordinary shares of 0.1p each (2019: 1,763,056 A ordinary shares of 0.1p)	2	2
29,000 B ordinary shares of 0.1p each (2019: 29,000 B ordinary shares of 0.1p)	—	—
9,186 C ordinary shares of 0.1p each (2019: 9,186 C ordinary shares of 0.1p)	—	—
	<b>2</b>	<b>2</b>

**Reconciliation of movements in share premium reserve during the year**

	30 September 2020 €000	30 September 2019 €000
Share premium reserve at beginning of year	—	433,491
Share capital reduction during the year	—	(433,491)
Share premium reserve at end of year	—	—

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

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

**10. Operating lease commitments**

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

	30 September 2020 €000	30 September 2019 €000
Due within one year	—	132
Due between one and five years	—	209
	<b>—</b>	<b>341</b>

During the year, the only existing operating lease that the business had entered into was novated to a subsidiary of Pepco Group Limited. As a result, at 30 September 2020 the business does not have any operating lease commitments.

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### 11. Directors' transactions

During the year, the Company received consultancy services amounting to €57,000 (2019: €63,000) from Woodcliffe Associates Limited, a company in which Andy Bond is materially interested as Director and shareholder. Amounts totalling €5,000 were outstanding at 30 September 2020 (2019: €10,000).

All transactions were made on a normal commercial basis.

### 12. Subsidiaries

The Group's principal subsidiaries at 30 September 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group or indirectly through a directly owned subsidiaries, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business. All these subsidiaries are fully consolidated into the Group.

Name of undertaking	Country of incorporation	Registered office address	Nature of business	Class of shares held	% Held	
					Direct	Indirect
Peu (Fin) Limited	England	Unit B, 120 Weston Street, London, United Kingdom SE1 4GS	Group financing company	Ordinary	100.00	
Peu (Tre) Limited	England	Unit B, 120 Weston Street, London, United Kingdom SE1 4GS	Group treasury company	Ordinary		100.00
Pepco Holdings Sp. z o.o.	Poland	Strzeszyńska 73 A, 60-479 Poznań, Poland	Holding company	Ordinary		100.00
Pepco Poland Sp. z o.o.	Poland	Strzeszyńska 73 A, 60-479 Poznań, Poland	General merchandise retailer	Ordinary		100.00
Konopacka Holdings B.V.	Netherlands	Noord Brabantlaan 265, 5652LD Eindhoven, the Netherlands	Holding company	Ordinary	0.99	99.01
Rawska Holdings B.V.	Netherlands	Noord Brabantlaan 265, 5652LD Eindhoven, the Netherlands	Holding company	Ordinary	0.99	99.01
Cardina Investments Sp. z o.o.	Poland	Strzeszyńska 73B/4; 60-479 Poznań, Poland	Property holding	Ordinary		100.00
Evarts Investments Sp. z o.o.	Poland	Strzeszyńska 73B/4; 60-479 Poznań, Poland	Property holding	Ordinary		100.00
Pepkor Ingatlan Kft	Hungary	1138 Budapest Váci út 187*	Property holding	Ordinary		100.00
Pepkor Europe GmbH	Switzerland	Kanzlei Pilatushof, Hirschmattstrasse 15, 6003 Luzern, Switzerland	Holding company	Ordinary		100.00
Pepco Croatia d.o.o.	Croatia	Damira Tomljanovića Gavrana 11, 10020 Zagreb, Croatia	General merchandise retailer	Ordinary		100.00
Pepco Czech Republic s.r.o.	Czech Republic	Hvezdova 1716/2b, 14078 Prague 4, Czech Republic	General merchandise retailer	Ordinary		100.00
Pepkor Hungary Kft.	Hungary	1138 Budapest Váci út 187	General merchandise retailer	Ordinary		100.00

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## 12. Subsidiaries (continued)

Name of undertaking	Country of incorporation	Registered office address	Nature of business	Class of shares held	% Held	
					Direct	Indirect
Pepco Slovakia s.r.o.	Slovakia	Nevádzova 6; 821 01 Bratislava, Slovakia	General merchandise retailer	Ordinary		100.00
Pepco Lithuania UAB	Lithuania	Viršuliškių al. 34-1, Vilnius, LT-05132	General merchandise retailer	Ordinary		100.00
Pepco Latvia SIA	Latvia	Strēlnieku 9-7, Riga, LV-1010	General merchandise retailer	Ordinary		100.00
Pepco Estonia OU	Estonia	Sõpruse pst 145C, Tallinn City, Harju county, 13417	General merchandise retailer	Ordinary		100.00
Pepco Retail SRL Sp. z.o.o.	Romania	17/3 Ceasornicului str., Sector 1, Bucharest	General merchandise retailer	Ordinary		100.00
Pepco Bulgaria EOOD	Bulgaria	Sofia 1574, "Slatina" district, "Nikola Tesla №5" str., Building BSR 2, fl.4	General merchandise retailer	Ordinary		100.00
Pepco d.o.o. Beograd-Stari Grad	Serbia	Francuska 27, 11000 Beograd-Stari Grad, Serbia	General merchandise retailer	Ordinary		100.00
Pepco Italy S.r.l	Italy	Via Michelangelo Buonarroti 39, 20145 Milano	General merchandise retailer	Ordinary		100.00
Poundland International Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Holding company	Ordinary		100.00
Vaucluse Diffusion SAS	France	1 bis avenue Guy de Maupassant, 13170 Les Pennes Mirabeau, France	General merchandise retailer	Ordinary		100.00
Dealz Espana SL	Spain	B86867515, Calle Bravo, Murillo 192, Madrid, Spain	General merchandise retailer	Ordinary		100.00
Dealz Poland Sp. z o.o.	Poland	Strzeszyńska 73a Street, Poznań, Poland	General merchandise retailer	Ordinary		100.00
Pepkor Europe Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Non-trading entity	Ordinary		100.00
M&O Business Systems Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Bargain Limited	England		Dormant	Ordinary		100.00
Poundland Value Retailing Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Sheptonview Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Homes & More Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Poundland Retail Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Poundland Elgin Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Non-trading entity	Ordinary		100.00
Dealz Retailing Ireland Limited	Republic of Ireland	Unit 3, Westend Retail Park, Blanchardstown, Dublin 15, Republic of Ireland	Dormant	Ordinary		100.00
Family Bargains (Retail) Limited	England	Poundland Csc, Midland Road, Walsall, WS1 3TX	Dormant	Ordinary		100.00
Pepkor Import B.V.	Netherlands	Naritaweg 165, 1043 BW, Amsterdam, the Netherlands	Holding company	Ordinary		100.00
Pepkor France SAS	France	1, Place Boieldieu, 75002 Paris, France	Non-trading company	Ordinary		100.00
Pepkor Retail Espana S.L.	Spain	1-3 Avenida Baix Llobregat, Barcelona 08820	Non-trading company	Ordinary		100.00
Pepco Group Services Limited	England	Unit B, 120 Weston Street, London, England SE1 4GS	Non-trading company	Ordinary		100.00
Fully Sun China Limited	Hong Kong	19/F., Seaview Commercial Building, 21-24 Connaught Road West, Hong Kong	Purchasing company	Ordinary		100.00
Pepkor GPS (Shanghai) Co Limited	The People's Republic of China	8th floor, 666(H) East Beijing Rd, Huangpu District, Shanghai, Shanghai 200001, China	Purchasing company	Ordinary		100.00
PGS Partner India Private Limited	India	Unit No 128, Suncity Success tower sector 65, Golf Course Extn Road, Gurgram, Haryana-122005, India	Purchasing company	Ordinary		100.00

The investments in subsidiaries are all stated at cost.



### **13. Subsequent events**

The Directors are not aware of any subsequent events affecting the business.

### **14. Parent and ultimate parent undertaking**

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

#### **Relationship between entity and parents**

The parent of the largest and smallest Group in which these financial statements are consolidated is Steinhoff International Holdings N.V., incorporated in the Netherlands.

The address of Steinhoff International Holdings N.V. is:

Building B2  
Vineyard Office Park  
Cnr Adam Tas & Devon Valley Road  
Stellenbosch 7600  
South Africa