Poundland UK and Europe Limited

Annual report and financial statements

Registered number 09127615

For the year ended

30 September 2018

Contents

Strategic report

The directors present their strategic report for the year ended 30 September 2018.

Principal activity and business review

The principal activity of the Company is that of an investment holding company. The Company held interests in one direct investment as at 30 September 2018.

Given the limited nature of the Company's activities, no key performance indicators are monitored.

The Company's ultimate parent undertaking is Steinhoff International Holdings N.V.

The Pepkor Europe Limited Group consolidate the Company and its subsidiaries financial statements within their Pepkor Europe Limited financial statements. Thus, only Company financial statements have been prepared for the year ended 30 September 2018.

Results and key performance indicators

The Company made a loss before taxation for the year ended 30 September 2018 of £197m (*2017: £9m loss*).

The Company recognised an impairment in its investment of £173m as explained in note 8.

Given the limited nature of the Company's activities, no key performance indicators are monitored.

Principal risks and uncertainties

As an investment holding Company, the principal risks are those faced by its main indirect investment, Poundland Limited, details of which are disclosed in the annual report of Poundland Limited.

Future developments

The Company will continue to operate as an investment holding Company.

By order of the board

D Williams
Director

Wellmans Road
Willenhall
WV13 2QT

25 September 2019

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2018.

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

Directors

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

S Cardinaal	(appointed 4 December 2017)
R Ellis	(resigned 21 June 2019)
A Bond	(resigned 4 December 2017)
P Erasmus	(resigned 4 December 2017)
M Elliott	
N Wharton	(appointed 21 June 2019)
D Williams	(appointed 21 June 2019)

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

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Director indemnities

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

Results and dividends

The results for the year are set out in the income statement on page 8. No dividend has been paid in the current or preceding year and none is proposed in respect of the current year.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

The directors have obtained a letter of support from its parent undertaking, Pepkor Europe Limited, and have considered the ability of Pepkor Europe Group to be able to give this letter of support for a period of 12 months from the date of these accounts.

Further details regarding the adoption of the going concern basis can be found in note 1 of the financial statements.

Events subsequent to the reporting date

Further details are presented in Note 16 'Events subsequent to the reporting date'.

Policy and practice on payment of creditors

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

Directors' report *(continued)*

Environmental matters

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

Approved by the Board and signed on its behalf by:

D Williams
Director

Wellmans Road
Willenhall
WV13 2QT

25 September 2019

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

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

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

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

Independent auditor's report to the members of Poundland UK and Europe Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 30 September 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

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

25 September 2019

Income statement
for the year ended 30 September 2018

	Note	Year ended 30 September 2018 £000	Year ended 30 September 2017 £000
Administrative expenses		**(8)**	(8)
Impairment loss	8	**(173,420)**	-
Operating loss		**(173,428)**	(8)
Financial income	4	**-**	905
Financial expense	5	**(23,329)**	(10,326)
Loss before taxation		**(196,757)**	(9,429)
Taxation	7	**(1,839)**	1,848
Loss for the year		**(198,596)**	(7,581)

There is no other comprehensive income or expense other than the loss shown for the years above and therefore no separate statement of other comprehensive income has been presented.

All activities were continuing throughout the current and preceding year.

The notes on pages 11 to 19 form part of these financial statements.

Statement of financial position
At 30 September 2018

	Note	30 September 2018 £000	30 September 2017 £000
Non-current assets			
Investments in subsidiaries	8	**546,999**	607,460
Current assets			
Trade and other receivables	9	**171**	2,010
Total assets		**547,170**	609,470
Current liabilities			
Trade and other payables	11	**(387)**	(379)
Non-current liabilities			
Trade and other payables	12	**(292,080)**	(268,751)
Total liabilities		**(292,467)**	(269,130)
Net assets		**254,703**	340,340
Equity attributable to equity holders of the parent			
Share capital	13	**1**	1
Share premium	13	**461,226**	348,267
Retained losses		**(206,524)**	(7,928)
Total equity		**254,703**	340,340

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The notes on pages 11 to 19 form part of these financial statements.

These financial statements were approved by the board of directors on 25 September 2019 and were signed on its behalf by:

D Williams

D Williams
Director

Registered number: 09127615

Statement of changes in equity
for the year ended 30 September 2018

	Share capital £000	Share premium £000	Retained losses £000	Total equity £000
Balance at 1 October 2016	1	18	(347)	(328)
Total comprehensive expense for the year				
Loss for the year	-	-	(7,581)	(7,581)
Total comprehensive expense for the year	-	-	(7,581)	(7,581)
Transactions with owners, recorded directly in equity				
Issue of share capital payment	-	348,249	-	348,249
Total contributions by and distributions to owners	-	348,249	-	348,249
Balance at 30 September 2017	1	348,267	(7,928)	340,340
Balance at 1 October 2017	1	348,267	(7,928)	340,340
Total comprehensive expense for the year				
Loss for the year	-	-	(198,596)	(198,596)
Total comprehensive expense for the year	-	-	(198,596)	(198,596)
Transactions with owners, recorded directly in equity				
Share premium on share issues	-	112,959	-	112,959
Total contributions by and distributions to owners	-	112,959	-	112,959
Balance at 30 September 2018	**1**	**461,226**	**(206,524)**	**254,703**

The notes on pages 11 to 19 form part of these financial statements.

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

1 Significant accounting policies

Poundland UK and Europe Limited is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The registered office is Wellmans Road, Willenhall, England, WV13 2QT.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view. The accounting policies have been used consistently, other than where new policies have been adopted.

The Company has taken advantage of the exemptions under FRS 102 The Financial Reporting Standard (sections 1.8 to 1.13) from the requirement to produce a cash flow statement, disclose information on key management personnel compensation and the disclosure of related party information.

The financial statements are prepared under the historical cost basis.

1.2 Investments in associates and subsidiaries

Investments in subsidiaries and associates are all held at cost in the separate financial statements of the Company.

1.3 Financial assets

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

1.4 Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Notes *(continued)*

1 Significant accounting policies *(continued)*

1.4 Financial liabilities (continued)

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

1.5 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

1.6 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1.7 Classification of financial instruments

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 share capital exclude amounts in relation to those shares.

1.8 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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.

Notes *(continued)*

1 Significant accounting policies *(continued)*

1.8 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of assets

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

When value in use calculations are undertaken, the directors must estimate the expected future cash flows from the investment and choose a suitable discount rate in order to calculate the present value of those cash flows. The key source of estimation uncertainty is the growth rates applied. An investment impairment of £173m was made in the year to 30 September 2018. See note 8 for details.

1.9 Going concern

At 30 September 2018, the Company was in net current liabilities position. As such, the directors have obtained a letter of support from its immediate parent company, Pepkor Europe Limited, and have considered the ability of Pepkor Europe Limited and the wider Pepkor Europe Group to be able to give this letter of support for a period of 12 months from the date of these accounts. It has available to it intercompany funding to support its requirements. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2 Fees payable to the auditor

Auditor's remuneration is borne by Poundland Limited, another Group undertaking. Amounts payable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Steinhoff International Holdings N.V.

3 Staff numbers and cost

Excluding directors, no persons were employed by the Company during the year (*year ended 30 September 2017: None*).

4 Finance income

	Year ended 30 September 2018 £000	Year ended 30 September 2017 £000
On amounts owed by Group undertakings	**-**	905

5 Finance expense

	Year ended 30 September 2018 £000	Year ended 30 September 2017 £000
On amounts owed to Group undertakings	**23,329**	10,326

Notes *(continued)*

6 Remuneration of directors

The directors of the Company were also directors of other companies in the Pepkor Europe Limited Group. The directors do not believe it is practical to apportion their remuneration between their services as directors of the Group and their services as directors of other companies within the Pepkor Europe Limited Group.

7 Taxation

	Year ended 30 September 2018 £000	Year ended 30 September 2017 £000
Total tax charge/(credit) for the year	**1,839**	(1,848)

Reconciliation of effective tax rate

The tax charge/(credit) is reconciled with the standard rates of UK corporation tax as follows:

	Year ended 30 September 2018 £000	Year ended 30 September 2017 £000
Current taxation		
Loss before tax	**(196,757)**	(9,429)
UK corporation tax at 19% *(2017: 19.5%)*	**(37,384)**	(1,839)
Tax effect of expenses that are not deductible in determining taxable profit	**37,384**	(9)
Prior year adjustment	**1,839**	-
Total charge/(credit) for the year	**1,839**	(1,848)

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 30 September 2018 has been calculated based on these rates.

8 Investments in subsidiaries

	2018 £000	2017 £000
Investments in subsidiaries	**546,999**	607,460

The Company has not designated any financial assets that are not classified as financial assets at fair value through the Income statement.

Notes *(continued)*

8 Investments in subsidiaries *(continued)*

Movement in investments:

	Shares in Group undertakings £000
Cost or valuation	
At beginning of year	607,460
Additions	112,959
Impairment	(173,420)
At end of year	**546,999**
Net book value	
At 30 September 2018	**546,999**
At 30 September 2017	607,460

During the year, intercompany loans between the Company's main trading subsidiary Poundland Limited and the Steinhoff group were restructured. These loans were novated to Pepkor Europe Limited on 18 January 2018. On 12 February 2018, £113m of the receivable was used to settle an increase in share capital. This transaction impacted all companies in the direct chain between Poundland Limited and Pepkor Europe Limited.

During the year, the investment was tested for impairment, and an impairment charge of £173m arose (*2017: No impairment*).

The methodology applied in assessing the equity value is to calculate the enterprise value of Poundland UK and Europe Limited Group (the "sub-group") that the investment relates to (i.e. its value in use) and then to adjust this value for the sub-group's net debt of £485m to arrive at an equity value. The key assumptions on which the value in use calculations are based on relate to future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. The forecast cash flows include the directors' latest estimates on future revenue, pricing and other operating costs. Management has reviewed and approved the assumptions inherent in the model as part of the annual budget process using historic experience and considering economic and business risks facing the sub-group.

In assessing the Group's value in use a pre-tax discount rate of 10.4% (*2017: 7.5%*) has been applied for the first five years and 9.4% (*2017: 7.5%*) for the terminal value.

The impairment charge recognised during the year relates to the Company's investment in Poundland Group Limited. A deduction from the value in use has been taken for the net debt of £192m within the Poundland Group Limited subgroup.

In assessing future EBITDA growth the Group has used an average growth rate of 17% in the first five years and a terminal growth rate of 2%. EBITDA % conversion of net sales to profit is projected to grow through business efficiency improvements to 5.6% of net sales in the terminal year from the current rate of 2.6%. The resulting growth in EBITDA is projected at a CAGR rate of 14.2% per annum from year 1 to year 5 (the period assessed in the DCF calculation), with higher growth in the earlier years (resulting from sales growth and efficiency improvements).

Management have considered reasonable possible changes in the key assumptions and have identified the following instances that could cause the carrying amount of the CGUs in Poundland to increase or decrease:

Key Inputs	Changes in key inputs	Impact on recoverable amount £m
Pre-tax discount rate	100 bps increase	(109)
	100 bps decrease	154
Cash EBITDA	£5 million increase per annum	60
	£5 million decrease per annum	(60)

Notes *(continued)*

8 Investments in subsidiaries *(continued)*

Cash EBITDA is significantly impacted by product mix, shrinkage rates and future rent reductions.
• Product mix:
The roll-out of the Pep&Co clothing range in Poundland stores, product mix improvements in general merchandise together with further buying efficiencies from increased intergroup trading is driving improvements in margin.
• Shrinkage rate:
There was an increase in stock losses during the year subsequent to year-end compared to historical norms. The losses increased to 2.7% of net sales, compared to historical trends of 1.6% of net sales. Management identified the causes behind this increase and is implementing plans to address these losses. The business plan included a reduction in the shrinkage rate to 2.05% of net sales by 2021, which is below the current rate, but significantly above the historical trends.
• Rent reduction rate:
There is an opportunity to re-negotiate lease costs to current market related rentals upon expiry of existing leases. Current leases are significantly above market rates. The majority of the lease portfolio comes up for renewal or termination by 2023.

Details of the Company's subsidiaries at 30 September 2018 are as follows:

Name of undertaking	Country of incorporation	Nature of business	Class of shares held	% held Direct	% held Indirect
Poundland Group Limited	England	Holding company	Ordinary	100.00	
Poundland Group Holdings Limited	England	Holding company	Ordinary		100.00
Poundland Holdings Limited	England	Holding company	Ordinary		100.00
Poundland Trustee Limited	England	Holding company	Ordinary		100.00
Poundland Limited	England	General merchandise retailer	Ordinary		100.00
Poundland Far East Limited	Hong Kong	Purchasing company	Ordinary		100.00
Pepkor UK Retail Limited	England	Clothing retailer	Ordinary		100.00
Poundland International Limited	England	Holding company	Ordinary		100.00
Vaucluse Diffusion SA	France	General merchandise retailer	Ordinary		100.00
Dealz Espana SL	Spain	General merchandise retailer	Ordinary		100.00
Dealz Poland Sp. z o.o	Poland	General merchandise retailer	Ordinary		100.00
GHM Stores Limited	England	Non-trading entity	Ordinary		100.00
M&O Business Systems Limited	England	Dormant	Ordinary		100.00
Bargain Limited	England	Dormant	Ordinary		100.00
Poundland Value Retailing Limited	England	Dormant	Ordinary		100.00
Sheptonview Limited	England	Dormant	Ordinary		100.00
Home & More Limited	England	Dormant	Ordinary		100.00
Poundland Retail Limited	England	Dormant	Ordinary		100.00
Dealz Retailing Ireland Limited	Republic of Ireland	Dormant	Ordinary		100.00
Poundland Stores Limited	England	Dormant	Ordinary		100.00
Poundland Willenhall Limited	England	Dormant	Ordinary		100.00

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

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

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

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

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

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

Notes *(continued)*

9 Trade and other receivables

	2018 £000	2017 £000
Corporation tax recoverable from related parties	-	1,839
Other debtors	**171**	171
	171	2,010

10 Borrowings

	2018 £000	2017 £000
Loans from parent undertakings	**292,080**	268,751
Payable after one year	**292,080**	268,751
Amounts included above which fall due after five years:		
Payable other than by instalments	**292,080**	268,751

11 Trade and other payables: amounts falling due within one year

	2018 £000	2017 £000
Amounts due to Group undertaking	**370**	370
Accruals and deferred income	**17**	9
	387	379

Amounts due to Group undertakings is non-interest bearing and is repayable on demand.

12 Trade and other payables: amounts falling due after one year

	2018 £000	2017 £000
Loans from parent undertakings	**292,080**	268,751

The amount due to parent undertaking represents an unsecured loan of £292,080,414 *(2017: £268,751,139)* that incurs an interest charge of 8.5% per annum, the loan plus interest accrued is repayable on 30 April 2027. Interest of £32,750,414 *(2017: £9,421,139)* has been accrued and added to the loan.

Notes *(continued)*

13 Share capital

	2018	2017
	£	£
Issued and fully paid		
83,689,926 *(2017:* 83,689,925 shares of £0.00001 each*)* ordinary shares of £0.00001 each	**837**	837

During the year, intercompany loans between the Group's main trading subsidiary Poundland Limited and the Steinhoff Group were restructured. These loans were novated to Pepkor Europe Limited on 18 January 2018. On 12 February 2018, £113 million of the receivable was used to settle an increase in share capital. This transaction impacted all companies in the direct chain between Poundland Limited and Pepkor Europe Limited.

As part of this transaction, Poundland UK and Europe Limited increased its investments in subsidiaries by £113 million and issued one ordinary £0.00001 share at a premium of £113 million.

The overall impact on net assets is an increase of £113 million.

Reconciliation of movements during the year

	Ordinary Number
At beginning of year	83,689,925
Issue of fully paid shares	1
At end of year	**83,689,926**

Share premium reserve

The share premium reserve represents the amount received by the Company over and above the nominal value of the share capital. During the year 1 Ordinary share of £0.00001 was issued at a premium of £112,959,000.

14 Related party transactions

Transactions with related parties

	Interest receivable		**Interest payable**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Entities with control, joint control or significant influence over the Company	-	-	**23,329**	10,326
Other related parties	-	905	-	-
	-	905	**23,329**	10,326

Notes *(continued)*

14 Related party transactions (continued)

The following amounts were outstanding at the year end:

	Amounts owed to related parties	
	2018	2017
	£000	£000
Entities with control, joint control or significant influence over the company	**292,450**	269,121

	2018		2017	
	Amounts owed to related parties		Amounts owed to related parties	
	Balance	**Net**	Balance	Net
	£000	**£000**	£000	£000
Entities with control, joint control or significant influence over the Company	**171**	**171**	171	171

No guarantees have been given or received.

15 Ultimate parent company

At the statement of financial position date the Company is a direct subsidiary undertaking of Pepkor Europe Limited which is registered in England and Wales. Pepkor Europe Limited's registered address is Unit B, 120 Weston Street, London, SE1 4GS.

Following a Group reorganisation in August 2019 the Company's immediate parent undertaking changed to PEU (Fin) Limited. PEU (Fin) Limited's registered address is Unit B, 120 Weston Street, London, SE1 4GS.

Relationship between entity and parents

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

The parent of the smallest group in which these financial statements are consolidated is Pepkor Europe Limited, incorporated in England and Wales.

16 Events subsequent to the reporting date

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

The Pepkor Europe Limited Group has commenced an exercise to simplify its legal structure. This has resulted in certain Pepkor Europe Limited investment and intercompany balances being moved around the Pepkor Europe Limited Group or consolidated. As a consequence, Pepkor Europe Limited is to forgive its loan to Poundland UK and Europe Limited.