PEPCO Group

**PEPCO Group N.V**

Annual Report and Consolidated Financial Statements
September 2022

CCI number 81928491

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

Our vision is to be the largest, the best, the cheapest and the most well-known variety discount brand in Europe.

**About this report**

This report covers the FY22 accounting period, which includes trading for the twelve months up to 30 September 2022 and the comparative period represents the equivalent twelve-month period up to 30 September 2021.

Where appropriate the financial information has been quoted on an "underlying" basis, removing the impact of "non-underlying" items in order to help the reader better understand the key drivers of business performance. Please refer to note 27 in the financial statements for further information on non-underlying items.

**About Pepco Group**

Pepco Group, ("the Group" or "the Company") was established in 2015 and comprises two strong, independent value retailers – Pepco and Poundland, which also trades internationally under the Dealz brand, together with a global sourcing arm, Pepco Global Sourcing (PGS), which works very closely with both operating companies. Together Pepco and Poundland operate across some of Europe's largest economies. Pepco Group is listed on the Warsaw Stock Exchange (PCO).

## About Pepco

After more than 18 years of continuous growth, Pepco now serves over 20 million customers a month, offering apparel for the whole family, household goods and toys at the lowest prices. With its head office in Poznan in Poland, Pepco has around 23,000 employees in 16 different countries across Europe.

The first 14 Pepco shops opened in Poland in 2004. Pepco expanded into Czechia and Slovakia in 2013 and between 2015 and 2017 opened stores in Croatia, Hungary, Lithuania, Romania and Slovenia. From 2018, stores have been opened in Latvia, Estonia, Bulgaria, Italy, Serbia, Spain, Austria and Germany.

Pepco is widely recognised as one of Poland's strongest brands and most dynamic companies. It has regularly won the Forbes Diamond Award as one of the country's fastest-growing companies and the Superbrand Award for quality and trust among Polish consumers. Recently Pepco has been chosen as one of Poland's Best Employers of 2021.

## About Poundland and Dealz

Since opening its first store in Burton-upon-Trent in 1990, Poundland has built a network of c.750 stores in the UK offering top brands and great quality own brand products that provide customers with amazing value every day. Nominated by Retail Week as Value Discounter of the Year 2019, it now has around 18,000 colleagues who serve up to seven million customers every week from Aberdeen to Abingdon, Londonderry to Llandudno and Peterborough to Poole.

From opening its first store in 2011, Dealz has built a network of over 300 stores across the Republic of Ireland, Spain and Poland offering customers a wide selection of over 1,000 well-known top brands and established own label products. Dealz brings Poundland's simple and straightforward pricing model to shoppers, offering unbeatable value.

# Highlights

**Stores[1]**

3,961

+516 net new stores[2] YoY

(+457 including 59 Fultons closures)

| Stores | | |
|---|---|---|
| FY22 | 3,961 | +13% |
| FY21 | 3,504 | +16% |

**Sales**

€4,823m

+17% YoY (+17% constant currency)

| €m | | |
|---|---|---|
| FY22 | 4,823 | +17% |
| FY21 | 4,122 | +17% |

**Underlying EBITDA[3]**

€731m

+13% YoY (+14% constant currency)

| €m | | |
|---|---|---|
| FY22 | 731 | +13% |
| FY21 | 647 | +46% |

**Underlying PBT[4]**

€300m

+23% YoY (+26% constant currency)

| €m | | |
|---|---|---|
| FY22 | 300 | +23% |
| FY21 | 244 | +394% |

**Net debt[5]**

€1,404m

+€202m YoY

| €m | | |
|---|---|---|
| FY22 | 1,404 | +€202m |
| FY21 | 1,202 | -€37m |

**ROIC[6]**

25.0%

-0.5pps YoY

| % | | |
|---|---|---|
| FY22 | 25.0 | -0.5pps |
| FY21 | 25.5 | +12pps |

**Earnings per share[7]**

30.2 cents (€)

| cents (€) | | |
|---|---|---|
| FY22 | 30.2 | +7.4 cents |
| FY21 | 22.8 | n/a |

1. Alternative Performance Measure (APM), defined as net number of stores in the estate as at the period end.
2. APM, defined as year-on-year growth in net new stores (new store openings less store closures).
3. APM, defined as profit on ordinary activities before depreciation, amortisation, finance costs and taxation. A reconciliation of underlying EBITDA to statutory measures is presented on note 27 in the financial statements.
4. APM, defined as profit on ordinary activities before tax. A reconciliation of underlying PBT to statutory measures is presented on note 27 in the financial statements.
5. APM, defined as the Group's long-term borrowings and lease liabilities, net of cash and bank balances as at 30 September 2022.
6. APM, defined as NOPAT/IC, where IC (invested capital) = PP&E + intangibles (excl. goodwill) + NWC (current assets – current liabilities excluding IFRS 16 lease liabilities) and NOPAT = net underlying operating profit after tax.
7. EPS, defined as basic earnings per share from continuing operations. FY21 EPS has been restated to reflect the impact of the IAS 38 IFRIC, see note 28 in the financial statements.

See note 27 for definitions of APMs.

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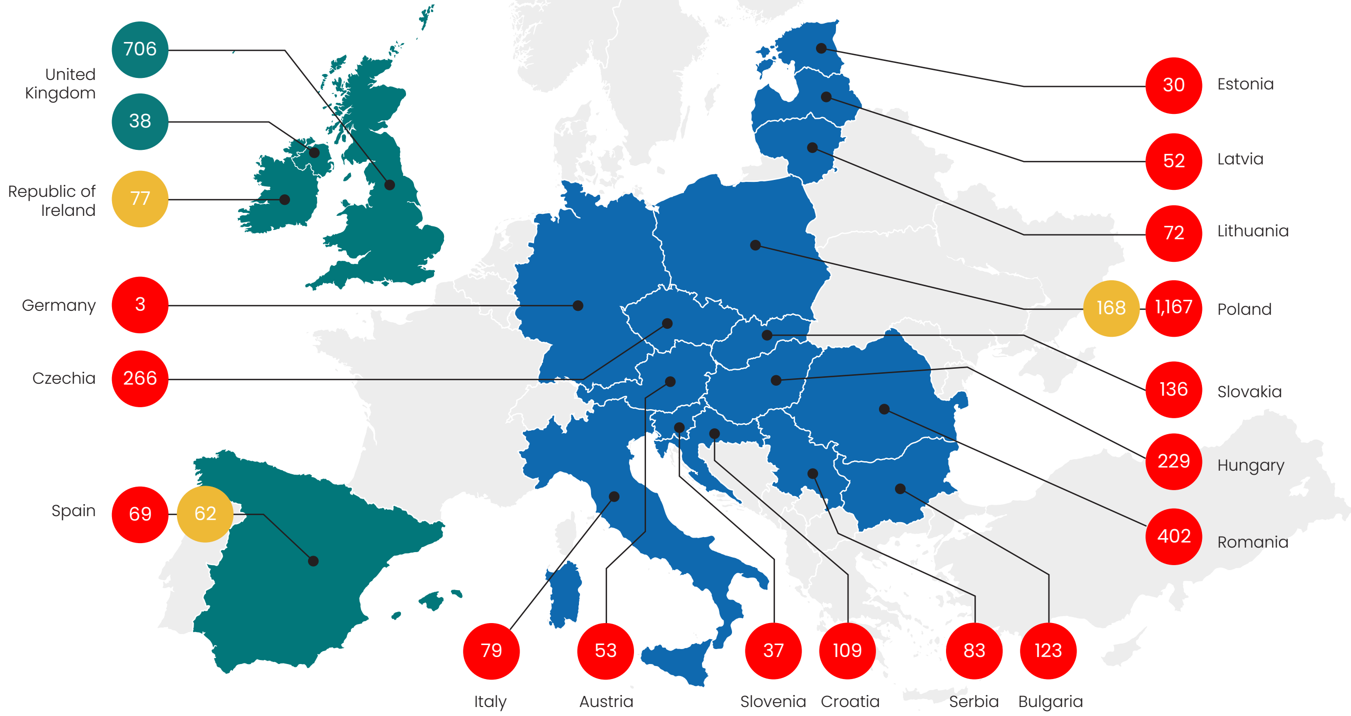
For more on Pepco Group, visit our website:
**www.pepcogroup.eu**

# At a glance

**Stores**
3,961

**Countries of operation**
18

**Colleagues**
>43,000




pepco
**Stores**
2,910

Poundland
**Stores**
744

Dealz
**Stores**
307

## Consolidated results

(in €m and on a reported currency basis unless stated otherwise)

### Income statement

| Key figures | FY22 | FY21 (restated) | YoY |
|---|---|---|---|
| **Revenue** | **4,823** | 4,122 | +17% |
| **Gross profit** | **1,968** | 1,769 | +11% |
| Gross profit margin (%) | **40.8%** | 42.9% | -2.1pps |
| Reported operating profit | **278** | 253 | +10% |
| Underlying operating profit | **352** | 321 | +10% |
| **Reported EBITDA** | **665** | 599 | +11% |
| Underlying EBITDA | **731** | 647 | +13% |
| **Reported PBT** | **226** | 167 | +35% |
| **Underlying PBT** | **300** | 244 | +23% |

### Balance sheet

| Key figures | FY22 | FY21 | YoY |
|---|---|---|---|
| **Reported net debt** | **1,404** | 1,202 | +202 |
| **Net debt: underlying EBITDA multiple (leverage)** | **1.9x** | 1.9x | - |
| **Net debt (pre-IFRS 16)** | **275** | 108 | +167 |
| **Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage)** | **0.6x** | 0.3x | +0.3x |

## Strategic report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# Chair's introduction

516

**net new stores in FY22**

+17%

**revenue growth**

> Our strong financial and operating performance for the year is testament to the underlying resilience and agility of the business.

**Richard Burrows**
Chair

During this past year, I have been impressed by both the quality of our leadership team and the enthusiasm of our colleagues for providing our customers with outstanding service. This has been evident against the backdrop of a challenging macro-economic environment exacerbated by the enduring effects of Covid-19 and the Russian invasion of Ukraine, with their consequent impacts on the supply chain and inflation. Most importantly, perhaps, given the current inflationary environment, has been our steadfast commitment to providing families on a budget across Europe with a value-led proposition, a wide product range, and a focus on convenience across our stores.

Despite challenges faced during the year, the Group continued to make strong progress, delivering a 17% increase in revenue, with underlying profitability up by 13%. In part this was due to the opening of a record 516 new stores, including the first three in our new market of Germany. Like-for-like (LFL) revenue growth of 5.2% reflected an enhanced customer offer and perception driven by 727 store renewals.

Our strong financial and operating performance for the year is testament to the underlying resilience and agility of the business.

## Progress on our environmental, social and governance (ESG) strategy

We are committed to delivering growth and long-term value for our stakeholders whilst also maintaining high standards of ethics, honesty and integrity, managing our impact on the environment, developing our colleagues, and enhancing the communities across our supply chain.

Following the introduction of our ESG Strategic Framework last year, I am pleased to note that we have continued to develop our ESG strategy, building on the framework and increasing our disclosure. Read more on pages 39 to 59.

## Our people

Our people are fundamental to the Group's success – our growth strategy is predicated on a strong focus on employee retention, development and engagement. I would like to thank each and every one of our colleagues across the Pepco Group for their hard work and commitment. It is their relentless focus and their dedication to serving our customers that have enabled us to build the strong platform we have today.

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## Board updates

There was significant change of management during the year due to the retirement caused by the ill health of both the CEO, Andy Bond, and CFO, Nick Wharton. Trevor Masters was appointed as CEO, following a thorough search process undertaken by the Board and Nomination Committee to identify the candidate.

Trevor has demonstrated exceptional leadership in driving growth within the Group, both previously in his role as COO and since his appointment as CEO where he has continued to accelerate our "bigger, better, cheaper, simpler" strategy (covered on page 8).

We will also welcome Neil Galloway into the role of Group CFO on 1 April 2023. He will be nominated as an executive director at the Company's AGM and brings a wealth of retail and finance experience (most recently at IWG plc), as well as a track record in supporting growing businesses in global markets. On behalf of the Board, I would like to thank our Interim CFO, Mat Ankers, who continues to make a significant contribution and will enable a smooth transition as Neil joins.

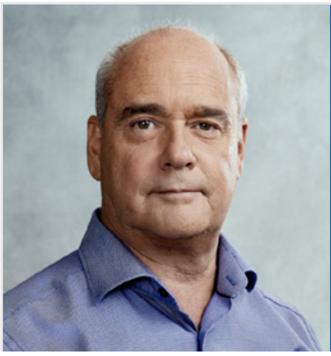
Andy Bond has now made a full recovery to good health and I welcome his return to the company which will be proposed at the AGM when he will be nominated as Chairman and as a director. I will step down as Chair and from the Board at the conclusion of the AGM.

## Looking ahead

Despite the challenging trading conditions that we expect to persist in the near term, I believe we have the right strategy, leadership team and emphasis on our people to drive sustainable EBITDA growth in the mid-teens for FY23. This will provide a strong base allowing further acceleration of our strategy in the medium term within both our existing core territories and into new markets.

**Richard Burrows**
Chair

# CEO's report



727

store renewals

+5.2%

LFL revenue growth

"

## Our vision is to be the largest, the best, the cheapest and the most well-known variety discount brand in Europe.

**Trevor Masters**

Chief Executive Officer

### Introduction

Since assuming the role of CEO of Pepco Group in April, the scale of the potential growth opportunities ahead and how we can achieve our vision have become even clearer. Historically, we have been focused on maximising the returns at each of our operating companies to grow and serve our customers. As we turn to the next chapter of Pepco Group's growth story, we are increasingly focused on leveraging the scale and diversity of the great business we have built in order to unlock the potential of the Group as a whole, by combining the impressive strengths and capabilities of each of the brands we operate.

By integrating our brands to build one infrastructure, we can drive the benefits of operating as a Group and become a bigger, better, cheaper and simpler business. The positive results of this strategy can already be seen in Spain, where we are converting existing Dealz to Pepco stores and adding fast-moving consumer goods (FMCG) where space allows. Our decision to combine the best of our two brands in Spain has created a winning formula in the market, driving sales and exceeding expectations.

Despite industry-wide short-term challenges, Pepco Group delivered another year of good progress and resilient trading performance, driven by our successful and proven strategy (covered on pages 8 to 12). We accelerated our profitable store expansion programme – our biggest source of value creation – and store refit strategy, helping to enhance our LFL performance. We also lowered our cost structure and improved back-office processes to be significantly cheaper and more efficient, helping us grow sales and deliver on EBITDA and cash generation.

The expertise and dedication of our colleagues are central to the success of our strategy to be bigger, better, cheaper and simpler. We remain committed to growing and supporting our people, as evidenced by the progress outlined on pages 53 to 56 of this report. I would like to take this opportunity to join our Chair, Richard Burrows, in thanking all our colleagues for their hard work in meeting our strategic priorities, while continuing to fulfil our purpose in offering families on a budget great range, value and convenience.

## Our approach to ESG

Our approach to ESG is embedded within our bigger, better, cheaper, simpler strategy. Driving efficiency improvements is an integral element of the Group's strategy and we believe there is an important link between increasing efficiencies from a cost perspective and enhancing the long-term sustainability of our operations. By retaining price leadership through low-cost operations, our vision is to democratise sustainability for our customers by showing price is not a barrier to sustainable and ethically produced products.

We have continued to develop our Group-wide ESG Strategic Framework in 2022, focusing on the priority areas which reflect the most impactful activities within our value chain. The Group's operating companies are given freedom within the Group's ESG Strategic Framework to incorporate it within their local strategies and decision-making processes as appropriate. Read more on pages 39 to 59.

## Strong trading performance in volatile market environment

Macro-economic conditions continue to be challenging, driven by inflationary pressures but the Group continues to outperform the wider market. We are driven by maintaining and improving our price leadership position through which we can grow our market share. We are also focused on maintaining and growing our relevance with both our existing customers and new customers, which is testament to the power of our brands across the Group. As a result of our efforts, we have seen a strong start to the year.

Inflation rates continue to rise in many of our key markets albeit there are early signs of this peaking. Price rises in clothing and general merchandise (GM) remain well below headline rates of inflation. During this period of volatility, our virtuous circle of "sell for less, buy for less and operate for less" (demonstrated in our business model on pages 14 and 15) becomes even more important when our customers need it most. The economies of scale we continue to achieve with suppliers as a result of our size and our vertically integrated sourcing model, we can benefit the Group and, more importantly, our customers, through lower prices.

Furthermore, as a result of the successful implementation of our strategy, our operations are becoming more efficient and more effective. Supply side conditions in retail have been more positive recently; the price of both cotton and oil has fluctuated but remains below recent peaks and there has also been some continued easing of freight costs. However, macro-economic volatility is unlikely to abate in the near term as geo-political events continue.

# **CEO's report** continued

## Outlook

Despite the challenging macro-economic conditions, we are confident in our ability to continue to grow our market share and brand presence across Europe. We maintain our guidance for FY23 of delivering EBITDA growth in the mid-teens assuming constant FX rates and in the absence of any further significant deterioration in the macro-economic environment. We anticipate revenue growth to continue in the mid to high teens, driven by a combination of our accelerated store roll-out and like-for-like growth tick-up of the existing estate, supported by the store enhancement programme. Over the longer term, we are accelerating our strategy and as a result we will deliver €1bn EBITDA on an IAS 17 basis in less than five years' time, which is ahead of our target outlined at the time of our IPO in May 2021.

We are committed to accelerating our profitable store roll-out programme which, combined with our increased focus in Western Europe and our extensive refit programme in Central and Eastern Europe, means that our annual capex spend will rise from historical levels to between €350m and €400m over the next couple of years.

This investment will be funded by continued self-help improvements in operational cash flow driven by management action and the strong cash profitability of our existing estate. The timing of the implementation of a progressive dividend policy remains under review by the Board as growth opportunities for capital are fully explored.

We have made significant progress, and I look forward to pushing forward with our ambitious plans and capitalising on the attractive market opportunities ahead.

## Strong strategic progress

### Our four key strategic pillars


**Bigger**

**Grow revenue, brand and market share**


**Better**

**Enhance portfolio of stores, categories and ranges**


**Cheaper**

**Drive cost efficiency**

**Simpler**

**Simplify customer offering and drive operational simplicity**

## Delivering our strategy

# Bigger

### Expansion of the Group's store footprint

Now, more than ever, the Group remains focused on delivering against its profitable store expansion programme – our biggest source of value creation. With inflationary pressures continuing across the wider market, the discount retail market in Europe continues to grow on an annual basis, allowing us to significantly expand our customer base. Pepco Group's continued expansion has meant the whole of Europe is addressable to us and, with a diversified product offering and market-leading price proposition, we are well placed to expand further, and to grow our market share and brand presence.

In FY22, we opened a record number of 516 net new stores (excluding the closure of 59 Fultons stores) – a significant increase ahead of our upgraded target of 450 new stores. This includes 446 new Pepco stores, exceeding guidance of 400, including 163 new stores in the strategically important Western European (WEU) markets of Italy, Spain, Germany and Austria. Within the Poundland Group, 70 new stores were opened (excluding the closure of 59 Fultons stores) – almost exclusively in the Dealz Poland business.

Following this encouraging performance, Pepco Group is further accelerating its store expansion programme, with an upgraded target to open at least 550 net new stores in FY23 to close the year with at least 4,500 stores. Our primary focus for new store openings remains in our core market of Central and Eastern Europe (CEE), alongside the Pepco brand entering Portugal in spring 2023, after launching in Greece in October 2022. Over the course of the next 18 months, we plan to double the number of Dealz stores in Poland to 340 from 170 at the end of FY22, taking advantage of our existing relationships to drive growth in markets with typically smaller store footprints.

In the long term, Pepco Group's ambition is to operate 20,000 stores across Europe. We remain focused on laying the foundations to make this vision possible, by channelling store openings in core markets – such as in Poland, where the Group already operates more than 1,160 and has a strong pipeline of further openings. New stores in CEE have proved accretive to our overall performance given that we achieve an internal rate of return (IRR) there of 85%.

Having validated our Western European proposition through the successful opening of stores in four countries in Western Europe (including Germany in FY22), we believe we can further accelerate store growth whilst maintaining compelling and consistent store economics. Equally, driven by ongoing supply chain efficiencies, we have realised improved working capital and operating cost efficiencies, making our hurdle IRR of 30% for new stores across the Group more easily achievable.

Alongside our successful store expansion programme, Pepco Group remains focused on enhancing its customer proposition, by offering new and improved shopping environments as well as new affluent ranges to attract mid-market customers. Our move to expand the range that Pepco offers with a complementary range of FMCG products, recently implemented in Spain, means a wider range of store sizes is now feasible, facilitating more new store opportunities.

# Better

## Development of the customer proposition

In line with our "better" strategic lever, the Group remains focused on continuing its store and proposition renewals to enhance its customer offering. In FY22, 727 store renewals were completed (598 under the Pepco brand and 129 in the Poundland Group), completing the Pepco GM extension programme and continuing the Poundland store refit programme. This strategic focus has helped us achieve LFL sales growth of 5.2%, drive economies of scale, and improve our customer proposition.

In addition, in spring 2022, we conducted new proposition and store branding trials across 16 Pepco stores in Wroclaw, followed by 47 stores in Warsaw. These trials resulted in an increase in selling space of between 4% and 12% alongside improvements in store branding, layouts and product visibility. The trial stores saw a significant increase in LFL sales of 37pps and a marked improvement in customer satisfaction and delivered a commensurate improvement in financial performance. These proven returns give us confidence to roll out this renewal programme to the rest of the Pepco estate, being c. 2,000 stores in CEE over the next 2 to 2.5 years.

Following our successful trial in Spain of store conversions from Dealz to Pepco – which offer the full range of Pepco clothing and GM and Poundland Group FMCG (Pepco Plus) - the decision was taken to retire the Dealz brand in the Spanish market and pursue a growth strategy for the Pepco brand. We have completed 15 store conversions to date in Spain and c. 50 stores will be converted by March 2023. We are now trialling a small number of Pepco-branded stores in the Republic of Ireland. This trial also brings together our three categories under one roof, converting existing Dealz stores in six locations to the Pepco brand. Initial feedback from our first trial store in the Omni shopping centre in Santry, Dublin, has been exceptionally positive. As in Spain, we will carefully review further customer reactions and evaluate performance before making further decisions.

In addition to trialling the full range in Spain and the Republic of Ireland, we are expanding our FMCG offering across the Group, taking advantage of our strengths and capability in this sector. By Christmas 2022, we will have seasonal snacking products in 1,200 Pepco stores.

Across Poundland stores, following the acquisition of Fultons Foods in 2020, we continue to see strong consumer demand for the popular chilled and frozen items, and will be introducing these ranges more widely across stores as well as new categories, such as clothing and homewares. Furthermore, following an encouraging response to the refurbishment programme, Poundland has refitted 129 stores in FY22, bringing the total to 342 stores. Poundland plans another c. 250 to 275 additional remodels in FY23. In addition, we will continue with our renewal of the Dealz stores in Poland, given the compelling nature of both the financial returns and customer response.

As part of our drive to leverage the Group's scale and become a better business, Poundland will begin to source its clothing and GM offerings from Pepco. The first Pepco-branded clothing items in Poundland will be introduced from autumn 2023, helping to drive increased brand awareness and enhanced purchasing terms with suppliers, and to leverage the Group's fully integrated end-to-end sourcing entity, PGS.

# Cheaper

## Operating cost efficiencies

Our unique and fully integrated end-to-end sourcing entity, PGS, continued to provide us with a significant competitive advantage throughout the year. Our shipment volumes reached US$1.5bn in FY22 (which represented 1.3bn units), up by 40% year on year. In FY23, PGS is opening a near-shore sourcing operation in Poland to increase our sourcing flexibility out of countries such as Turkey, Poland and Romania; as well as continuing to expand our Far East capabilities in countries such as Cambodia, Vietnam and Indonesia.

Not only does our PGS model maximise buying scale and operating efficiencies, enabling us to maintain our price leadership, but it also provides visibility and control over our supply chain (read more on page 52). Due to the significant benefits arising from sourcing our non-branded goods through PGS, we increased the proportion to 84% in FY22, up from 75% in FY21, with a plan to increase to 95% by FY27.

By maintaining direct relations with over 375 suppliers, which represent over 700 factories globally, and working closely with them, we believe we achieve full transparency over our production chain. We are able to achieve significant cost benefits by leveraging the volumes required for the full Pepco Group, together with our ability to offer our factories production continuity. Our strong and consistent relationships through PGS provide us with the ability to negotiate advantageous payment terms, with a consequent positive impact on our working capital.

PGS collaborates closely with our in-house team, developing and designing ranges that are exclusive to the Pepco Group. This involves full end-to-end control over the whole sourcing process, from the design of our own CAD designs and patterns to exclusive ranges, to delivery through our supply chain. By providing and owning the 3D CAD designs for our products in house, we are able to ensure sourcing agility and flexibility, with the ability to move production to any vendor in any country as well as driving scale leverage.

We continued to deliver significant savings on our rental costs, notably in the Poundland business where the volume of lease expiry events and the strength of our negotiating position delivered significant benefits. We renegotiated 82 leases in the year, saving on average 45% versus the prior lease agreement, alongside acquiring new sites at attractive lease terms.

# Simpler

## Ongoing investment in infrastructure

Our simpler programme is focused on providing a more unified customer offering and greater operational efficiency. In FY22, we made significant progress in developing a more lean and efficient supply chain network, while continuing investment in key infrastructure to enable greater scale and efficiency.

Since inception two years ago, our end-to-end supply chain programme has driven meaningful progress across the Group. We have reduced overall dwell time, meaning 20% of goods are allocated to stores on the day they arrive at the warehouse and dispatched the next day. We've reduced overall lead time to three to four days, driving substantial savings benefits given that 75% of our goods sell in an eight-week period. Our stock now flows directly from store receipt to the retail floor, and we have substantially reduced inventories by 14 days, as well as decreasing store staffing levels by 1.5 full-time equivalents.

To reduce transportation costs and decrease the time taken to move stock to stores, we are aiming to deliver directly from our distribution centres (DCs) to stores. This replaces the previous system of delivery through distribution hubs. Through our investment in a Tier 1 Warehouse Management System, over the past twelve months, we have doubled the productivity of our Gyál distribution centre, which is our 100,000 sq m facility that serves over 45% of our Pepco store network. This success can be replicated at our new DCs, such as our new Romanian one opening in 2023.

Following the success of the Pepco programme, the Poundland Group is now undertaking an end-to-end supply chain programme that leverages best practices from Pepco – another example of the benefits we derive from operating as a Group. Dealz continues to optimise its supply chain, and one of the key elements in this area will be the opening of a new warehouse in central Poland at the beginning of next year.

In our new stores in Western Europe, we are installing self-scan tills using our EPOS software from Oracle. This enables faster throughput of our customers through the check-out process, thus enhancing customer satisfaction as well as improving efficiency. We are also continuing with our enterprise resource planning (ERP) implementation programme across the Group.

Central to the fulfilment of our strategy, we continue to invest in our people and promoted over 4,000 people within our businesses during the year. We were delighted that our commitment to our colleagues was evidenced by the fact that we were voted the second-best employer in Poland in Forbes Poland's Best Employers 2021 ranking, improving our rating by two places. The ranking was based on an independent and anonymous survey conducted among employees. Read more about our colleagues on pages 53 to 56.

**Trevor Masters**

Chief Executive Officer

# Business model

## Building Europe's pre-eminent discount variety retailer

Pepco Group offers price leadership and a differentiated proposition. This is facilitated by increasing economies of scale and Group-level buying, and operating cost synergies, made possible by our vertically integrated sourcing model and underpinned by our 'bigger, better, cheaper, simpler' strategy.

## Our inputs

### Unique direct sourcing operation

PGS maximises buying scale and operating efficiencies, thereby lowering costs and improving margins. With the full product development chain managed within the Group, the vertically integrated model also provides a high degree of visibility and control over our supply chain as well as flexibility in sourcing.

### Differentiated product

We offer a diverse range of FMCG, homeware-led GM and apparel, providing our core shopper, a "family on a budget", with their regular shopping replenishment needs. Understanding customer preferences and focusing on quality, we tailor customer proposition development to meet demand and achieve efficiencies of scale through leveraging our product sourcing across the Group.

### Local stores

We own and operate a multi-format, Europe-wide variety discount retail business, through 3,961 local (and therefore convenient) stores located across 18 countries. By focusing on standardisation and repeatability across our store structures, we are able to expand our store footprint efficiently in line with our growth prospects.

### Infrastructure and distribution network

We continue to invest in the development of high-quality, scalable infrastructure, including information technology, automated warehouses and more efficient and resilient multi-point distribution.

### Our colleagues

Talent retention and development is central to the success of our business, and we aim to maintain the right pipeline of skills within the Group to facilitate the long-term success of our growth strategy.

### Natural resources

We aim to use natural resources responsibly, minimise waste and increase our use of sustainable and recyclable packaging. We are introducing new sustainable ranges, for example our 'Pepco is Green' range.

## Our operating segments

### Pepco

#### CEE's leading variety discount retailer

- Multi-price customer offer
- Apparel, for the whole family (with a particular strength in childrenswear), home décor, toys and seasonal products
- 2,706 stores across 12 countries in CEE, and a further 204 stores in the WEU markets of Italy, Spain, Austria and Germany

### Poundland Group

#### Simple price architecture, with expanded price points to meet demand for enhanced choice

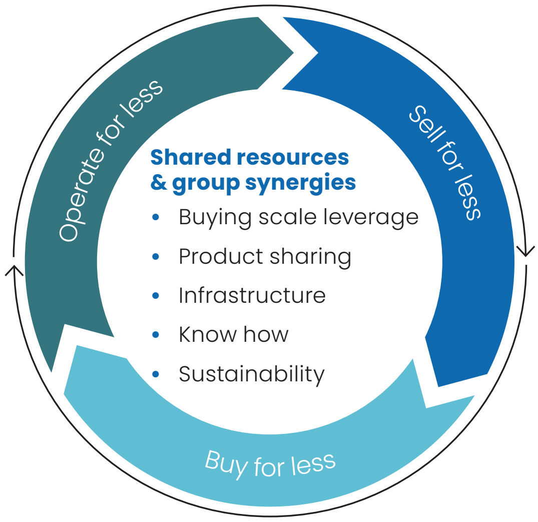
- Comprises Poundland in the UK and Dealz outside the UK
- Apparel, FMCG and GM. FMCG led with a price architecture anchored around a limited number of simple price points
- 744 Poundland stores across the UK and 307 Dealz stores in the Republic of Ireland, Spain and Poland

### PGS

#### Group global sourcing delivering competitive advantage

- Supply network of 375+ vendors utilising 700+ factories
- Sourcing footprint across five key territories (China, India, Bangladesh, Pakistan, Hong Kong)
- Sourced 84% of Pepco Group own label apparel and GM goods in FY22, consisting of 1.3bn shipped units
- 280 employees delivering end to end sourcing; merchandising, quality assurance and product inspection services

## Our proposition




Enhanced by growth

### Sell for less

- Price leadership
- Low risk inventory
- Simple price architecture

### Buy for Less

- $1.5bn sourcing scale
- Seasonal buying model
- Shared suppliers
- Consolidated volume

### Operate for Less

- Standardised store format
- Volume leverage on operating costs
- Discount mindset

## Our outputs

### Examples of how we create value for our stakeholders

**Shareholders**

- Strong return on invested capital of 25.0% in FY22

**Customers**

- >50m customer transactions per month across 18 countries

**Colleagues**

- 4,000 colleague promotions across the Group during FY22; Pepco was again recognised as one of Poland's best employers, coming second in Poland in Forbes' ranking

**Society**

- >100,000 people supported through our charitable activities

**Supply chain**

- $1.5bn of shipment value in FY22

**Governments**

- Significant economic contribution to our operating countries through our role as both taxpayer and tax collector, including payroll related taxes remitted in employing >43,000 colleagues

# Key performance indicators

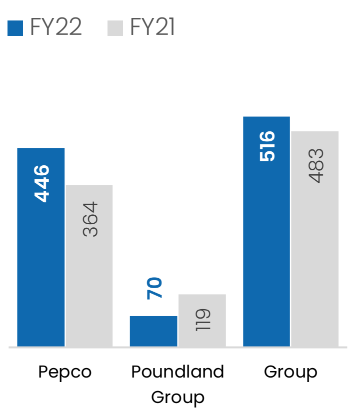
## Introduction

The following key performance indicators (KPIs) are used internally to monitor the performance, position and development of the Group.

The KPIs include Alternative Performance Measures (APMs). The Directors use APMs as they believe these measures provide additional useful information on the Group's 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. See note 27 for definitions of APMs.

### Growth

**Number of new stores [1,2]**




**Accelerating store growth remains the Group's single biggest driver of value creation.**

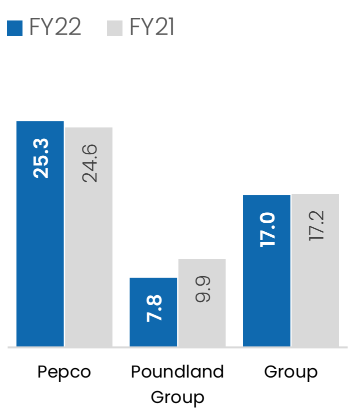
Continuing to execute the expansion strategy under the "bigger" pillar, the Group grew to 3,961 stores by the end of FY22, an increase of 457 (13%) year on year and 516 excluding the closure of 59 Fultons frozen food stores.

Pepco, the key driver of store growth, opened a record 446 stores in FY22 (+18%), including 163 in our Western European markets, including entry into the German market (three stores).

FY22 saw our Dealz Poland brand expand by over 60 new stores, whilst, following successful trials, the decision was made to convert our Dealz Spain stores into Pepco Plus stores.

### Revenue generation

**Total sales growth (%)**



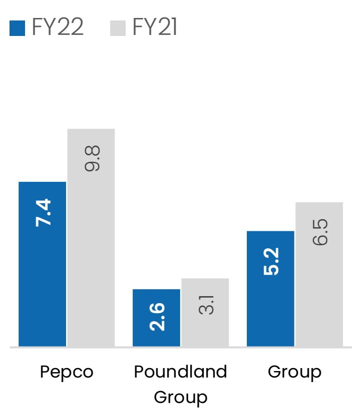

**Sales of €4.8bn represented an increase of 17% year on year underpinned by store growth and positive LFL sales growth.**

FY22 saw continued Covid-19 related disruption and a particularly challenging macro-economic and inflation environment.

Despite this challenging backdrop, the Group, which now operates in 18 countries across Europe, has delivered significant sales growth with Pepco demonstrating sales growth of 25% and the Poundland Group, driven by strong Dealz Poland growth, increasing by 8%.

### Like-for-like sales growth

**Like-for-like growth (%)**




**LFL sales growth returned closer to historical norms, although the first quarter of the year faced a continued Covid-19 related drag.**

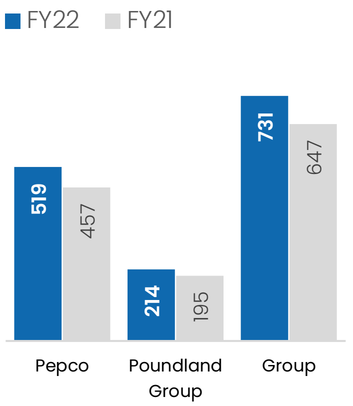
The Group continued to deliver strong LFL sales growth in both operating segments, which underpinned a large portion of the total sales revenue growth.

This was despite a Covid-19 impacted start to the year, particularly in Pepco territories, where restrictions remained in place in response to the "Omicron" strain of the virus.

1 FY22 Poundland Group, 11 inc. Fultons closures
2 FY22 Group, 457 inc. Fultons closures

## Profit

### Underlying EBITDA
(€m)



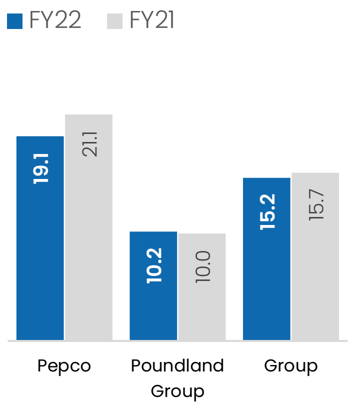

**Strong underlying EBITDA delivery of €731m in a challenging year, representing year on year growth of 13.0%.**

With a backdrop of ongoing Covid-19 drag, the Russian invasion of Ukraine and a high Inflation environment, we continued to execute our growth strategy which supported strong EBITDA growth of 13% through:

- "bigger": new store roll-out;
- "better": store proposition improvements; and
- continued cost savings and efficiencies through "cheaper and simpler".

## Profit

### Underlying EBITDA margin
(%)



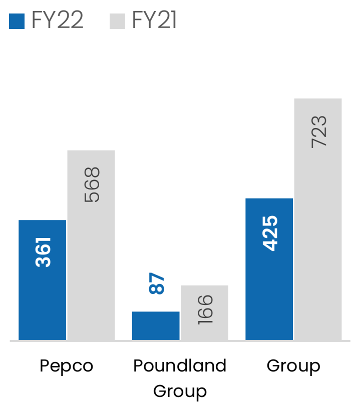

**EBITDA margins remained resilient despite an extremely challenging macro environment and the focus to retain price leadership.**

Group underlying EBITDA margin in FY22 reduced by 5pps year on year, which occurred against the backdrop of unprecedented inflationary increases from input costs and container costs to wage inflation, biased towards Pepco.

At a time when the customer needs our support more than ever, the Group has navigated these challenges to ensure price leadership was not compromised, whilst also maintaining EBITDA margin resilience.

## Cash generation

### Cash generated by operations
(€m)

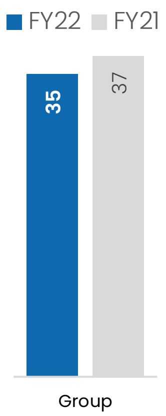



**The Group's cash generation remained strong despite a working capital rebalance following significant global supply chain disruption heading into the year.**

Cash generated by operations was underpinned by strong EBITDA delivery. However, FY22 saw a large working capital increase as our inventory levels were rebalanced to appropriate - more normalised - levels following the global supply chain disruption that occurred in FY21 and our overall stock levels increased reflecting our larger store estate.

## Customer satisfaction

### Net promoter score (NPS)




**Customer satisfaction remains broadly level year on year as we continue to keep the customer at the heart of everything we do.**

The Group achieved a Group-wide NPS of 35 (FY21: 37) which remains consistent with our peers in the retail sector. NPS is a 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.

With our key strategic initiatives of refreshing and developing our store portfolio now underway, we see this as an enabler to enhance the NPS score in future.

Customer feedback from two of our live initiatives has already been very positive. The new proposition and store branding trials we undertook in Wroclaw, Poland, improved store scores by 17 NPS. The conversion of Dealz stores in Spain to Pepco stores offering the full range of Pepco clothing and GM as well as Poundland Group FMCG has witnessed similar results, with store scores increasing by 15 NPS.

# Financial review

+13%

underlying EBITDA YoY

€425m

cash generated from operations

> In a year of continued Covid-19 disruption and volatility we have demonstrated sustained resilience and financial and operational strength.

**Mat Ankers**
Interim Chief Financial Officer

## Introduction

### Strategic focus

Against a backdrop of uncertainty and volatility, management has remained committed to the delivery of the "bigger, better, cheaper, simpler" strategy that underpins our business using our scale and financial strength to deliver for our customers across Europe.

Whilst advancing our strategy, we have also continued to deliver robust financial results and maintain a robust balance sheet position, utilising the strong cash generation to support investments in the businesses with compelling financial returns.

### Bigger

We have opened a record 516 net new stores[1] through our accelerated store opening programme, the Group's single biggest value creation driver. Pepco is the key driver with 446 openings, including 163 in our strategically important Western European markets. Coupled with solid LFL revenue growth of 5.2%, the Group grew overall revenue by 17%, with Pepco recording a c. 25% increase. Store growth has been underpinned by continued well managed capex investment with €128m spent in the year on new stores and judicious investments in working capital to support this growth.

I am particularly pleased that the initial positive trading response in our WEU Pepco stores has translated to sustained positive financial performance with our Italian stores – a proxy for WEU given their scale and relative maturity – on track to deliver an IRR of over 50%.

### Better

Our strong growth in FY22 was supported by investments into our store and product renewal programmes, with the completion of 727 store renewals in addition to the successful store conversion trial in Spain from Dealz to Pepco. In the year, investments in store refits represented €58m, with continued strong investment returns and short payback periods. FY22 also saw our first trials of the Pepco 'New Look' programme – an all-encompassing store and brand renewal. Across Warsaw and Wroclaw we invested into 63 stores at an average capex per store of €95,000 seeing an increase in LFL sales versus a control group of over 30 percentage points delivering over 50% IRR.

1. Excluding Fultons closures.

Alongside our significant investments in stores, we continued to deliver on proposition renewal in both Poundland and Pepco. Notably in Poundland, our move to a 'simple pricing' approach has resulted in 58% of products being sold outside of the historic £1 price point (both above and below) – a 19pps change versus FY21 – and supported the achievement of a gross margin of 37.6%, which was consistent with that attained in FY21 even against the challenging inflationary backdrop.

### Cheaper

In addition to creating a bigger and better business, we have continued to focus on delivering a "cheaper" business model through various cost saving initiatives and leveraging the scale of PGS, our unique integrated sourcing entity.

In the year a 1.6pps improvement in our cost of doing business (CODB) ratio, which has supported an EBITDA margin comparable to FY21 (only 0.5pps lower) in spite of the significant macro headwinds, represents an exceptional achievement which our colleagues should rightly be proud of. This sets the Group up well to be a more lean and efficient business into future financial years.

Notable examples included the ongoing labour efficiency programmes in both Poundland and Pepco – which have delivered an 8% reduction in labour hours required at a store level, and the significant efficiencies in Pepco DCs driven through system and process enhancements, which resulted in Pepco DC costs reducing by 0.1pps as a percentage of sales, with additional savings expected in FY23.

### Simpler

Our simpler strategy is underpinned by investments in digital and physical infrastructure alongside process improvements to enable a scalable and efficient business. We made significant steps in simplifying our business by optimising our supply chain, warehousing, reducing inventory and store staffing levels and optimising markdown management in FY22 driven through investments of €39m.

The year saw the launch of standard warehouse management systems (WMS) in Pepco, enabling a 'One Pepco Way' blueprint in all of our DCs. This mirrors the work undertaken in the Poundland business in FY21 alongside enhanced stock allocation systems and processes including the delivery of best-in-class stock allocation systems in Pepco. This contributes to a reduction in underlying inventory of 14 days.

## Trading environment

The trading environment in FY22 has been challenging, with the start of the year hindered by Covid-19 restrictions driven by the Omicron variant. These were not fully lifted in all geographies until March 2022. In addition, we continue to see inflationary pressures leading to a cost-of-living concerns across Europe, commodity price increases and continued macro-economic volatility.

Despite these challenges, we have remained resilient and agile as a business, maintaining the customer at the heart of what we do and ensuring that we uphold a price-leading position, offering fantastic value to our customers at a time when they need this most. We continue to use the strength of our balance sheet to deliver for customers in the year.

Whilst inflation tracks at recent historic highs, in clothing and footwear in some of our core markets, Poland, Hungary and Romania, it is running at approximately one third of the headline rate. Our bias towards more essential/functional clothing (versus fast fashion) leaves us better placed to serve the needs of our customers. The UK market in which Poundland operates remains challenging due to the impact of broad-based inflation. However, demand for our products has remained strong and, thanks to our value-led proposition, the Group is well positioned for the future as we continue to execute our store and market expansion, and store refit programmes across Europe.

More recently there have been positive signs of improvements in supply side conditions, with cotton prices and container costs falling from their peak. Whilst encouraging, we remain cautious given the continued global volatility, recognising supply chains are not yet fully recovered to the pre-pandemic norms.

### Presentation of financial information

Where appropriate the financial information has been quoted on an "underlying" basis, removing the impact of "non-underlying" items, defined as material and unusual in nature, in order to help the reader better understand the key drivers of business performance. Please refer to note 27 of the financial statements for detail on use of APMs for further information.

# Financial review continued

## FY22 financial performance

### Highlights

| Pepco Group | FY22 | FY21 (restated) | YoY |
|---|---|---|---|
| **Revenue (€m)**[1] | **4,823** | 4,122 | 17.0% |
| Like-for-like revenue (%) | **5.2%** | 6.5% | (1.3pps) |
| **Gross profit (€m)** | **1,968** | 1,769 | 11.2% |
| Gross profit margin (%) | **40.8%** | 42.9% | (2.1pps) |
| **Underlying EBITDA (€m)** | **731** | 647 | 13.0% |
| Underlying EBITDA margin (%) | **15.2%** | 15.7% | (0.5pps) |
| **Depreciation and amortisation (€m)** | **(378)** | (324) | (16.9%) |
| **Net financial expense (€m)** | **(52)** | (77) | 32.2% |
| **Underlying PBT (€m)** | **300** | 244 | 23.2% |
| **Non-underlying items (€m)** | **(75)** | (77) | 2.8% |
| **Reported PBT (€m)** | **226** | 167 | 35.1% |

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

Our growth strategy of new store roll-out and improving the customer proposition in our stores under the "bigger" and "better" pillars of our strategy has underpinned the 17% revenue growth to over €4.8bn. Gross profit margins have faced significant headwinds in FY22 (-2.1pps YoY) largely driven by increased freight costs and inflationary pressures on input prices as a result of a very challenging global environment. However, despite these challenges, we remain unwavering in our commitment to price leadership.

We remain focused on driving a "cheaper" and "simpler" business model and have controlled costs extremely well in FY22 to mitigate the majority of the gross margin downside. This has led to the delivery of an underlying EBITDA of €731m (+13% YoY) and an underlying EBITDA margin of 15.2%, which is 0.5pps lower than last year.

### FX

In FY22 we experienced some adverse FX movements which, on a transaction basis were mitigated through our hedging policy, but on a translation basis were impacted by the depreciation of the Polish zloty relative to the Euro. Whilst our reported currency underlying EBITDA of €731m grew +13% year-on-year, at a constant currency level this growth was +14.3% versus last year.

### Non-underlying items

The Group manages performance on an underlying basis after adjusting for non-underlying items. In FY22 non-underlying items totalled €75m (FY21: €77m) and were:

- €33m relating to Software-as-a-Service (SaaS) costs that, following the IFRS Interpretations Committee (IFRIC) pronouncement in April 2021, will be recognised as operating expenditure;
- €27m associated with restructure costs relating mainly to the retirement of the Dealz brand in Spain and conversion to Pepco Plus stores, and closure of Fultons branded stores;
- €14m of charges relating to a Value Creation Plan (VCP) scheme; and
- €1m of residual fees associated with the IPO, which concluded in May 2021, including legal, accounting and advisory fees.

### Covid-19 impact

Whilst we have passed the worst of the Covid-19 pandemic, continued disruption was evident in FY22, particularly in the first quarter as the Omicron variant became dominant across Europe. Whilst full lockdowns were limited when compared to FY21 (0.2% of trading weeks were lost to lockdowns in FY22 versus 8.9% in FY21), trading restrictions remained in place in many of our markets, with limits on customer numbers, or customers requiring vaccine passports, which impacted trade. The following table shows quarterly LFL sales delivery across FY22, clearly highlighting the Q1 impact, which recovered into Q2 as trading restrictions lifted, with like for like trending to more historical norms in H2.

| Quarter | Pepco | Poundland Group | **Total** |
|---|---|---|---|
| Q1 | (0.1%) | 1.5% | **0.7%** |
| Q2 | 18.5% | 5.9% | **12.1%** |
| Q3 | 7.3% | 2.0% | **4.9%** |
| Q4 | 8.0% | 1.7% | **5.2%** |

### Response to auditors opinion

Management note that for the external audit of the financial statements for the year ended 30th September 2022, Mazars have confirmed that the accounts give a true and fair view except for a qualification on a specific matter relating to inventory.

This qualification relates to the auditor being unable to obtain a full reconciliation between physical inventory held in warehouses and the inventory held in the company's accounting records, with the net unexplained difference being €7m.

Management notes that our two information technology systems for stock count and financials communicate but are not synchronised on a real-time basis and can create challenges for reconciliation on a standstill basis. We are therefore unable to provide total certainty on the balances that makeup the reconciling difference and this has made it difficult to support the auditors in completing this procedure. This system construct remains consistent with previous years.

In terms of the net unexplained reconciling difference of €7m, this represents approximately 0.7% of the company's €959m closing inventory balance and for context is slightly less than the value of stock we sell in one day.

Across Pepco and the Pepco Group stock is a significant asset which has rapid turnover in both distribution centres ("DC's") and stores. Management believes the Group operates a clear, well controlled and sophisticated environment for stock that leverages established systems to control the stock across the various locations including DC's and stores and to keep appropriate accounting records. The primary systems in operation to control stock include Oracle, Microsoft AX and Blue Yonder and contain live interfaces between the different systems.

The control environment is built on control points into, within, and out of our distribution centres and control points into, within, and out of our stores. In simple terms;

- Stock sent from suppliers is counted into our DC's to ensure accuracy
- Perpetual inventory counts are used throughout the year in the DC's with any differences to the system corrected in both operational and financial systems to ensure accuracy
- Stock picked in the DC's to be sent to stores is quality sampled to ensure accuracy
- Stock is actively booked into stores to ensure accuracy on delivery
- Stores are stock counted in full up to twice per year alongside store led reviews in between with any differences to the system corrected in both operational and financial systems for accuracy

These procedures result in Pepco being able to offer high availability of product in stores with class leading shrinkage and other operating metrics.

Given the volume of stock the business handles and the 24 hour nature of its operations, it leverages and relies on systems it has heavily invested in over the past 3 years to ensure accuracy between operational systems and financial balances.

The overall control environment the Group operates remains the same in the FY22 financial period to the FY21 financial period when an unqualified opinion was given.

Management of the Group believe that the control environment is robust and the stock values accurately reflect the stock the group holds. As we continue to grow, management will continue to improve the control environment and work with the auditors to ensure revised procedures for FY23 are agreed to adequately address this issue.

# Financial review continued

## Group performance summary

### 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 56% of total revenue and 71% of underlying EBITDA with the Poundland Group segment contributing 44% and 29% respectively.

| | Reported | | | Constant currency |
|---|---|---|---|---|
| Revenue | **FY22** | FY21 | % YoY | % YoY |
| Pepco (€m) | **2,714** | 2,166 | 25.3% | 28.7% |
| Like-for-like revenue (%) | **7.4%** | 9.8% | | (2.4pps) |
| Poundland Group (€m) | **2,109** | 1,956 | 7.8% | 5.0% |
| Like-for-like revenue (%) | **2.6%** | 3.1% | | (0.5pps) |
| **Total Group (€m)** | **4,823** | 4,122 | 17.0% | 17.4% |
| **Like-for-like revenue (%)** | **5.2%** | 6.5% | | (1.3pps) |

| | Reported | | | Constant currency |
|---|---|---|---|---|
| Gross profit margin % | **FY22** | FY21 | Variance | YoY |
| Pepco | **42.3%** | 46.7% | (4.4pps) | (4.4pps) |
| Poundland Group | **37.6%** | 37.7% | (0.1pps) | (0.1pps) |
| **Total Group** | **40.8%** | 42.9% | (2.1pps) | (2.1pps) |

| | Reported | | | Constant currency |
|---|---|---|---|---|
| Operating costs % | **FY22** | FY21 | Variance | YoY |
| Pepco | **23.1%** | 25.6% | (2.5pps) | (2.5pps) |
| Poundland Group | **27.5%** | 27.7% | (0.2pps) | (0.3pps) |
| **Total Group** | **25.6%** | 27.2% | (1.6pps) | (1.7pps) |

| | Reported | | | Constant currency |
|---|---|---|---|---|
| Underlying EBITDA | **FY22** | FY21 | % YoY | % YoY |
| Pepco (€m) | **519** | 457 | 13.7% | 16.9% |
| Poundland Group (€m) | **214** | 195 | 9.8% | 6.9% |
| Other (€m) | **(3)** | (5) | 48.9% | 40.8% |
| **Total Group (€m)** | **731** | 647 | 13.0% | 14.3% |

| | Reported | | | Constant currency |
|---|---|---|---|---|
| Underlying EBITDA margin % | **FY22** | FY21 | Variance | % YoY |
| Pepco | **19.1%** | 21.1% | (2.0pps) | (1.9pps) |
| Poundland Group | **10.2%** | 10.0% | 0.2pps | 0.2pps |
| **Total Group** | **15.2%** | 15.7% | (0.5pps) | (0.4pps) |

## Pepco performance

### Revenue growth

+25.3%

(FY21: +24.6%, FY20: +6.8%)

### Underlying EBITDA growth

+13.7%

(FY21: +52.8%, FY20: -26.9%)

Pepco delivered another solid performance in FY22 with revenue growth of 25.3% underpinned by the opening of 446 net new stores (+18.1% YoY) including continued expansion in our strategically important Western European markets, as well as opening our first three stores in Germany.

Whilst Q1 continued to be impacted by the effects of Covid-19, LFL sales remained strongly positive at +7.4%, illustrating the strength of our proposition, which continues to be improved and modernised through our store refit programmes and ongoing expansion of our ranges.

In the face of an uncertain macro-economic environment, Pepco faced challenges relating to input price inflation, such as cotton and freight cost increases. Whilst mitigated to some degree by strong and more focused markdown management, Pepco's gross margin has declined by 4.4pps in FY22. Nonetheless, Pepco retains its price-leading position, given the strategic importance of taking a customer-led approach.

Pepco's underlying operating costs have increased by 13.0% year on year in absolute terms, largely driven by the impact of the store expansion programme. However, this increase is well below the sales growth which has driven an operating cost percentage improvement of 2.5pps versus FY21, partially mitigating the gross margin downside, largely through operational efficiencies and favourable operating leverage.

Pepco's underlying EBITDA of €519m increased by 13.7% versus FY21, with an underlying EBITDA margin of 19.1%, declining 2.0pps year on year, following the challenges faced on gross margin.

## Poundland Group performance

**Revenue growth**

+7.8%

(FY21: +9.9%, FY20: -0.5%)

**Underlying EBITDA growth**

+9.8%

(FY21: +37.0%, FY20: -49.6%)

Whilst Covid-19 disruption continued in Q1 FY22, the Poundland Group pleasingly delivered another year of positive LFL revenue growth of +2.6%. This illustrates the benefits driven by the continued strengthening of our customer proposition through the "Diamond" refit programme, now rolled out to 342 stores, as part of our plan to build a "better" business. Poundland also continued to develop its online presence through the acquisition of Poundshop.com in February 2022, which is providing wider access to a new selling channel opportunity.

In addition, we expanded the Dealz brand in Poland through the opening of 65 new stores taking the total to 168, a clear sign that we are building a strong a significant presence in this core market.

Following the successful trial of store conversions in Spain from Dealz to Pepco, the Group has decided to retire the Dealz brand in Spain and pursue a growth strategy for the Pepco brand in this market. The conversion programme is well underway and continues to perform in line with expectations.

Despite the significant headwinds driven by escalating inflation that have been building across FY22, gross margin has held up at 37.6% versus 37.7% in FY21, benefiting from a close focus on stock and lower write-offs versus a Covid-19 impacted FY21. Similarly, operating costs have remained broadly level year on year at 27.5% (FY21: 27.7%) with a small benefit from operating leverage as Dealz Poland continues to build in scale.

Poundland Group's underlying EBITDA of €214m has grown 9.8% versus FY21, with an underlying EBITDA margin of 10.2% marginally up year on year.

## IFRS 16 vs IAS 17

Whilst we report on an IFRS 16 basis as a Group, we recognise that our business historically disclosed IAS 17 financial information. The table below provides a summary to help navigate the different profit metrics:

| €m | FY22 | FY21 | YoY (reported) |
|---|---|---|---|
| IFRS 16 underlying EBITDA | **731** | 647 | +13.0% |
| IAS 17 underlying EBITDA | **439** | 400 | +9.6% |
| Net debt (IAS 17) | **275** | 108 | +167 |
| Leverage (IAS 17) | **0.6x** | 0.3x | +0.3x |
| Net debt (IFRS 16) | **1,404** | 1,202 | +202 |
| Leverage (IFRS 16) | **1.9x** | 1.9x | - |

# **Financial review** continued

## Profit before tax

Group statutory profit before tax of €226m represents solid growth of 35% versus FY21. This reflects the revenue benefits of the store roll-out programme, alongside the positive LFL position buoyed by the continued store refits and improvements in customer proposition. Whilst gross margin, particularly in Pepco, has been impacted by significant cost inflation and freight pressures, operating costs have been well managed. Whilst depreciation has increased in line with store growth, interest costs benefit from better coupons achieved in the FY21 IPO-linked refinancing.

At an underlying level, FY22 underlying PBT of €300m represents growth of €56m versus the €244m underlying PBT recorded in FY21, a 23% increase.

## Taxation

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

The tax charge in the year was €52m (FY21: €36m), reflecting an effective tax rate of 23%. In FY23 we expect the tax rate to reflect the blended rate of tax in the countries in which we operate. The tax rate is currently 19% in the UK and Poland, with the UK rate scheduled to increase to 25% from 1 April 2023.

## Financing

No further financing activity was undertaken by the Group in FY22. The FY21 IPO-linked financing remains in place comprising €550m of external term debt and a €190m revolving credit facility (RCF), all of which replaced existing lending and ensured all outstanding loans with the Steinhoff Group were repaid.

As a consequence of this refinancing activity in FY21, the Group recognised an annualised benefit of lower interest charges with finance costs of €55m in FY22, being c. 37% lower than the €87m of finance costs in FY21. The Group's interest charges are linked to EURIBOR, which was until recently below zero but is now rising as a result of the wider macro-economic challenges. Whilst this poses no material risk to the Group at present, it is a factor that remains under observation.

## Investment activity

FY22 saw another year of significant expansion as we continued to roll out new stores, improve the proposition and invest in infrastructure to underpin growth. Additions to property, plant and equipment and intangible assets in FY22 of €225m were €73m higher than the previous year (FY21: €152m). The key drivers of our capital investment in FY22 include:

- As part of our ongoing investment in the "bigger" strategic pillar, €128m was invested in the opening of 516 net new stores (excluding Fultons closures), including a record 446 in Pepco, where we also entered the Greek market post year end, our 19th territory.
- As we continue to drive the "better" pillar of our strategy, €58m was invested in the store refit programmes across Pepco and Poundland.
- In addition €39m was invested in our supply chain, warehousing and IT infrastructure to support the continued growth of the Group and drive a "cheaper" and "simpler" business model.
- As communicated in our FY22 half year interim results, following the April 2021 IFRIC pronouncement which clarified the interpretation of the accounting standard IAS 38, our SaaS costs – historically classified as capital expenditure – are now largely being expensed. As a result of this change in accounting policy and because the costs relate to a material and unusual generational change ERP programme, these costs are being recognised as non-underlying and in FY22 amounted to €35.4m.

In late February 2022, Poundland Limited executed a Share Purchase Agreement for the purchase of the entire issued share capital of Online Poundshop Limited (Poundshop). Poundshop is an online discount retailer using the brand name Poundshop.com. The transaction falls within the scope of IFRS 3 “Business Combinations” and the accounting is discussed in more detail in note 22 of the financial statements.

## Cash and net debt

| Pepco Group (€m) | FY22 | FY21 | YoY |
|---|---|---|---|
| **Cash generated by operations (reported)** | **425** | 723 | (298) |
| Capex | **(225)** | (152) | (73) |
| Tax paid | **(61)** | (50) | (11) |
| Lease payments | **(292)** | (256) | (36) |
| Funding and investment activities | **(7)** | (161) | 154 |
| **Net cash flow** | **(161)** | 104 | (2564) |
| Effect of exchange rate fluctuations | **(3)** | 4 | (7) |
| Cash and cash equivalents at the beginning of the period | **508** | 400 | 108 |
| **Cash and cash equivalents at the end of the period** | **344** | 508 | (164) |
| Net debt | **1,404** | 1,202 | 202 |
| Net debt: underlying EBITDA multiple (leverage) | **1.9x** | 1.9x | - |
| Net debt (pre-IFRS 16) | **275** | 108 | 167 |
| Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage) | **0.6x** | 0.3x | 0.3x |
| Impact of IFRS 16 on leverage | **1.3x** | 1.6x | (0.3x) |
| Current ratio | **1.1x** | 1.1x | - |

The Group ended the year with net debt of €1,404m, an increase of €202m versus FY21. Approximately one-third of this was driven by the continued growth of the store footprint, with the remainder driven by a lower cash position as a result of higher working capital.

Working capital increases represent a planned increase in inventory in FY22 as we return to a higher, more normalised stock position following the significant supply chain disruption in FY21, which ultimately saw us close the prior year with lower inventory and higher cash. Q4 FY22 has seen us build up appropriate levels of stock holding to capitalise on the significantly important Q1 FY23 "peak" trading period, which will also include the sell-through of some FY21 Christmas stock that was held in distribution centres as a result of being delivered too late to sell in FY21.

Cash generated by operations, which reduced by €298m year on year, is primarily driven by the €362m inventory increase summarised above, partially offset by the benefits of our "supply chain financing" programme implemented in FY22 to support our strategic suppliers.

Capital expenditure of €225m represents an increase of €73m versus FY21 and reflects the continued investment in our accelerated growth strategy, with the opening a record 516 net new stores in the year. Consequently, lease payments of €292m reflect the expansion of the estate linked to these new store openings.

Our net debt to underlying EBITDA leverage ratios of 0.6x (IAS 17) and 1.9x (IFRS 16) remain well below the previously communicated targets and provide significant headroom against our external funding covenants.

## Dividends

Reflecting various factors, including the continued focus on deploying capital to enhance growth through our "bigger" and "better" strategic pillars and a focus on retaining greater liquidity in these volatile times, no dividends have been paid or are proposed. The initiation of a dividend remains under review by the Board whilst investment-led growth opportunities are fully explored.

**Mat Ankers**
**Interim Chief Financial Officer**

# Risk management

## Our approach to risk management

### Risk management and internal control framework

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

The Group's risk management approach addresses these risks in a conscious manner that increases the likelihood of achieving our strategy and business objectives. This proactive approach ensures risk management is part of our management conversations and is embedded in our processes which benefits our decision making and is essential to creating and preserving long-term value.

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

The Group Audit Committee is accountable, on behalf of the Group Board, for overseeing the adequacy and effectiveness of the Group's risk management processes and ensures the Group Board and management are appropriately discharging their risk responsibilities.

The Group Risk Management Team is responsible for defining the risk management framework and driving consistent application across the Group. The team constructively challenges and supports businesses and functions in following the risk methodology outlined in the Group risk management framework.

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. The framework is designed to be sufficiently agile to respond to changes in circumstances, such as the ongoing evolution of the Covid-19 pandemic, EU-UK border regulations and more recently the impact of Russia's invasion of Ukraine.

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.

### Risk identification and assessment

To ensure risks are consistently identified and managed, the Group's risk management process is structured as follows:

- identification, measurement and reporting of risks against consistently applied criteria, considering both the likelihood of occurrence and potential impact to the Group, with clear ownership sitting with relevant functional leaders;
- maintenance of detailed risk registers and mitigation plans by operating companies and functions, which are approved by their leadership teams and the operating company's Audit and Risk Committees, and are also incorporated into related governance processes, such as ESG or Safety Committees;
- monitoring of emerging risks where the full extent and implications may not be clear but need to be tracked;
- management action to evaluate changes to the risks created by new or unexpected events. Over the last three years this has included the rapid assessment and business response to Russia's invasion of Ukraine and the Covid-19 pandemic;
- continued assessment of risks to reflect changes in the business operating model, IT infrastructure, supply chain and reporting;
- half-yearly review of all risk registers by the Group Risk Management Team to provide independent challenge and support cross-business alignment; and
- internal audit reports on the effectiveness of internal control procedures, which are presented to the Audit Committee.

In practice the risk management process mirrors the Group's operating model, with each operating company and functional area contributing to the ongoing identification, assessment and management of their existing and emerging risks.

This "bottom-up" identification of risks is overlaid by those risks highlighted from the "top-down" review and challenge process by the Group Risk Management Team and Group Board. These assessments are aggregated, together with the consideration of risks existing at the Group level, to compile an overall Group-wide view of risk.

The output from the above process is subject to periodic review and challenge by the Executive Directors and, subsequently, the principal risks and uncertainties are submitted to the Audit Committee ahead of final review and approval by the Group Board.

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

## Risk appetite

The Group's risk appetite is the result of its wide geographical spread, careful financial management and commitment to long-term value creation and is an expression of the level and type of risk that the Group is willing and able to accept in pursuit of its strategic objectives.

Risks are taken consciously, assessing their impact on the Group's objectives, and risk appetite is typically expressed as a statement of intent by risk category.

The Group has defined seven risk appetite categories, informed by the Group's strategic objectives and Group-wide risks, ensuring alignment to strategic plans and risk language. The amount and type of risk that the Group is prepared to accept and tolerate, or be exposed to, have been articulated for each of these.

# Risk management continued

## 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 key risks are managed on an ongoing basis and the Group's activities are within the agreed Group risk appetite. Whilst the principal risks described below 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.

The impact of each risk across a number of dimensions, including financial and reputational, as well as likelihood, is considered both before (inherent risk) and after (residual risk) the mitigating actions being progressed by the Group.

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

#### Topical and emerging risks

Our principal risks have been assessed in accordance with the risk management methodology outlined on the previous pages.

At a primary level, three ongoing issues are having a large impact on the risks being faced – the continually evolving nature of Covid-19, further and escalating consequences of the Russian invasion of Ukraine, and the cost of living and inflation crisis rising in the countries and communities in which we operate.

The Covid-19 pandemic has had, and continues to have, wide-ranging consequences on our full list of principal risks and is not, therefore, presented as a single principal risk. This has not changed.

The same approach has also been taken in relation to the Russian invasion of Ukraine and the cost of living and inflation crisis, with the impact of each being captured in the relevant principal risk, rather than shown as standalone items.

### Principal risks

The Group offers price leadership and a differentiated proposition. This is facilitated by increasing economies of scale and Group-level buying and operating cost synergies made possible by our vertically integrated sourcing model and underpinned by our “bigger, better, cheaper, simpler” strategy.

The Group’s growth strategy has four core sources of revenue and earnings growth: the expansion of its physical store footprint; like-for-like growth driven by development of the customer proposition; earnings improvement through operating cost efficiencies, and ongoing investment in infrastructure.

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

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

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Customer and markets** | | |
| **Long-term expansion strategy**<br><br>**Link to strategy:**<br>Bigger, better<br><br>**Risk movement:**<br>Unchanged | **Failure to implement the Group's growth strategy:**<br>• **to strengthen market-leading proposition in existing markets; and**<br>• **implement long-term expansion into new markets.**<br><br>The Group's strategy to strengthen its market-leading proposition in existing markets is based on a focus on continued store roll-out and enhancement of our customer experience.<br><br>The Group's expansion strategy involves the continued expansion of its Pepco store networks across the whole of Europe and Dealz in Poland. This will necessarily include increasing the reach and density of the brands in the countries in which these business units currently operate, as well as identifying suitable new markets for entry. | In FY22 we delivered a record number of 516 net new stores under our accelerated store expansion programme, including 163 new stores in the strategically important Western European markets of Italy, Spain, Germany and Austria.<br><br>We are further accelerating our store expansion programme and are now targeting opening at least 550 net new stores in FY23, alongside entry into the new territories of Greece (launched in October 2022) and Portugal for the Pepco brand.<br><br>We continue to drive a better business through store and proposition renewals with 727 store renewals completed (598 Pepco brand, 129 Poundland) in the year. This completes the Pepco GM extension programme and continues the Poundland store refit programme. These proven returns give us confidence in our strategy to roll out the renewal programme to the rest of the Pepco estate over the next two to three years. |
| **Competition**<br><br>**Link to strategy:**<br>Bigger, better, cheaper<br><br>**Risk movement:**<br>Unchanged | **Given that competition is highly fragmented in many geographic markets, a failure to successfully anticipate and respond to competitive changes in a timely and cost-effective manner would have a detrimental impact on the Group.**<br><br>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. The Group's competitors include 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 homeware. | Competition is highly fragmented in many markets, limiting impact.<br><br>Pepco offers price leadership and a differentiated proposition. This is facilitated by increasing economies of scale and Group-level buying and operating cost synergies.<br><br>*Differentiated product*<br><br>We offer a diverse range of FMCG, homeware-led GM and apparel, providing our core shoppers, with their regular shopping replenishment needs.<br><br>*Direct sourcing operation*<br><br>Our in-house sourcing function, PGS, maximises buying scale and operating efficiencies, thereby lowering costs and improving margins.<br><br>*Local stores*<br><br>We own and operate a multi-format, Europe-wide variety discount retail business, through local and therefore convenient stores, located across 18 countries.<br><br>*Infrastructure and distribution network*<br><br>We continue to invest in the development of high-quality, scalable infrastructure, including information technology, automated warehouses and more efficient and resilient multi-point distribution. |

# Risk management continued

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Customer and markets continued** | | |
| **Consumer trends and behaviours**<br><br>Link to strategy:<br>Better, simpler<br><br>Risk movement:<br>Unchanged | **Inability to predict changes to consumer trends and behaviours given that the Group derives revenue from the sale of products that are seasonally/event related, and products that are subject to changing consumer preferences.**<br><br>This includes the ability of the Group to monitor and adapt to changing behaviours amongst its consumer base.<br><br>The Group's business is subject to trading peaks and seasonality risk, together with changing consumer trends and behaviours. 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 homeware and seasonal product categories.<br><br>Failure to respond to these trends may result in weak sales during the Group's peak trading period.<br><br>The Group must also be able to monitor and adapt to changing behaviours amongst its consumer base in relation to an increasing preference for buying online. Failure to deliver an online presence in line with changing consumer expectations and demands may result in an inability to maintain competitive position and market share. | Our revenue and profit concentration is strongest in the first quarter but does not represent the majority of annual performance.<br><br>There is no single trading event (Halloween, Easter, etc.) overly significant to performance on an annual basis.<br><br>Pepco is very strong in the established categories of kidswear and homeware whilst Poundland has FMCG as its main category, so the exposure of the Group to fashion-led product is limited.<br><br>Pepco has very high brand awareness and customer satisfaction, with timely responses to customer feedback and insights.<br><br>We continually adapt and expand our customer proposition in our existing categories whilst working closely with brand partners to broaden our customer offer and launching, growing and retaining strong proprietary brands.<br><br>The Pepco Group end-to-end sourcing model provides significant competitive advantage through supply chain optimisation.<br><br>We continue to invest in development of high-quality, scalable infrastructure, including automated warehouses and more efficient and resilient multi-point distribution and improved inventory planning capability. This enables better management of initial supply allocations and optimised markdown management. |

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Legal and regulatory** | | |
| **Legal and regulatory**<br>**Link to strategy:** Bigger, better<br>**Risk movement:** Unchanged | **Risk of significant breaches of legal and regulatory compliance, resulting in fines and penalties and potentially a decline in customer visitation due to the reputation of any or all of the Group's retail brands being severely damaged.**<br>The Group is subject to a wide range of laws and regulations (including those relating to health and safety, and intellectual property) across jurisdictions in which it operates, and compliance with these is an essential part of the Group's business operations. Any failure to comply with applicable laws, rules and regulations may result in fines and penalties, and adverse publicity, and reflect poorly on the Group's reputation or that of its retail brands.<br>The Group sources the majority of its own-brand product directly from China, India and Bangladesh where the Group's Supplier Code of Conduct can be significantly stricter than local practices.<br>Bribery and corruption practices create a barrier to the effective development of both the local private sector and the Group's sourcing factories, and the Group is aware of the risk in Bangladesh where there can be instances of bribery in the wider economy.<br>This significant business risk requires active management of both the Group's employees and our suppliers to ensure compliance with our Code. | We have clear corporate governance policies which set a culture of responsible business for all our operating companies and our colleagues, customers and suppliers. The Group has a Modern Slavery Act Statement and Anti-Bribery and Corruption policy in place. These policies are underpinned by our Speak Out Policy and an external independent reporting facility, the "SpeakOut Hotline", which allows colleagues to report in a safe and confidential way and encourages reporting of concerns to management.<br>We also have strong policies in place to protect the integrity of our supply chain, including a Group-wide Supplier Code of Conduct and ethical and social audit programme, managed by our Group Sourcing Compliance team (see page 52 for further details).<br>The Group has an established Global Quality Assurance and Quality Control policy with strict quality control measures to bring low prices and value to our customers while protecting our brand integrity.<br>Breaches of the Group's Supplier Code of Conduct and employee's terms of employment are dealt with quickly and fairly, but the Group recognises that it should continue to improve supplier onboarding checks, third party monitoring and continuing education around the ongoing requirements of the Group's Supplier Code of Conduct and the importance of the ethical and social audit programme.<br>The Group has legal teams at both Group and operating company levels, and has strong relationships with lawyers in all relevant jurisdictions to ensure access to professionally qualified legal advisors.<br>The Group operates in structured EU and other European markets with intellectual property protection in place and can rely on trademark and copyright laws and contractual arrangements. |

# **Risk management** continued

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Legal and regulatory continued** | | |
| **Compliance with local and international tax law**<br><br>**Link to strategy:**<br>Bigger, better<br><br>**Risk movement:**<br>Unchanged | **Risk of failure to comply with tax law, resulting in fines and penalties and potentially lengthy disputes with tax authorities.**<br><br>Though the Group has an established and mature presence in a number of territories, as we continue to enter new markets, unfamiliar tax environments present a risk, as the attitude and approach of tax authorities may vary by jurisdiction.<br><br>The international tax landscape is constantly evolving, in particular as a result of changes arising from the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting project. Governments in many countries, including those in which we operate, could seek to raise revenues to fund budget deficits and as a result tax law may change.<br><br>Additionally, tax law is often complex and subjective, and tax authorities may not agree with determinations that are made by the Group with respect to the application of tax law.<br><br>All of the above factors may lead to disputes with tax authorities which could potentially result in the payment of additional tax, together with fines and penalties. | The Group's core tax principles underpin our approach to tax and are set out in our tax strategy approved by the Group Board.<br><br>There is subsidiary-level management of tax risk as a component of the overall internal control framework applicable to relevant financial reporting systems. We maintain an infrastructure of systems, policies and reports in order to maintain oversight on all financial matters, including tax, for the Group as a whole.<br><br>We employ suitably qualified colleagues who monitor changes in legislation and their interpretation and maintain regular communication channels, including with the Group Audit Committee and subsidiary-level Audit and Risk Committees. We monitor proposed changes in tax law, assess the likely impact, and seek third-party advice as required.<br><br>We engage with reputable third-party advisors, with KPMG engaged as the Group's tax advisor. Advice is sought with respect to any material transactions, and when the Group enters new markets. |
| **Supply chain** | | |
| **Supply chain disruption – sourcing**<br><br>**Link to strategy:**<br>Bigger, better, cheaper<br><br>**Risk movement:**<br>Unchanged | **Failure to identify, develop or maintain relationships with a significant number of reputable consumer branded suppliers, or changes in price (due to inflation or commodity prices) or interruptions to the availability or flow of stock/shortages, may impact the Group's business, results and financial condition.**<br><br>The loss of, or a substantial decrease in, the availability of products from the Group's key vendors could lead to lost sales and reduced saliency of the customer offer. The Group sources the majority of its own-brand product directly from China, India and Bangladesh. | The Group's in-house sourcing operation, PGS, sources in excess of 80% of own label goods across apparel and general merchandise through its operations in mainland China, Hong Kong, Bangladesh and India.<br><br>We believe our in-house sourcing model makes us well placed to leverage the Group's growth plan in order to negotiate scale benefit on pricing and agree long-term partnerships with strategic vendors.<br><br>The Group is expanding its sourcing footprint to reduce the risk of overreliance on any single country and increase flexibility through near-shore sourcing in European countries and additional Asian countries. |

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Supply chain continued** | | |
| **Supply chain disruption – logistics**<br><br>Link to strategy:<br>Bigger, cheaper, simpler<br><br>Risk movement:<br>Reduced | **Disruption of the logistics and distribution network or failure to identify, develop or maintain relationships with a significant number of reputable consumer-branded suppliers.**<br><br>The Group sells branded FMCG products through its Poundland and Dealz brands that are sourced from a wide variety of domestic suppliers. Many of the Group's domestic suppliers also import their products or components of their products. | The Group has invested in an end-to-end supply chain redesign which has had a large-scale positive impact and improved efficiency of distribution centres.<br><br>The Pepco supply chain design is scalable and repeatable, with a standard blueprint for all elements of the supply chain which is being retrofitted to the existing supply chain and the future deployment models.<br><br>The successful trial of Pepco stores offering the full range of Pepco clothing and GM as well as FMCG products in Spain will lead to bigger and better relationships with FMCG suppliers. |
| **Inventory management**<br><br>Link to strategy:<br>Better, simpler<br><br>Risk movement:<br>Unchanged | **Inability to maintain sufficient inventory levels to meet growing customer demands without allowing levels to increase to an extent that causes excessive markdowns.**<br><br>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 lifecycle 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. | Pepco is very strong in the established markets of kidswear and homeware whilst Poundland has FMCG as its main category so the exposure of the Group to fashion-led product is limited.<br><br>The end-to-end supply chain redesign and the store renewal programmes have also had a large-scale positive impact on optimised markdown management and expansion of retail selling space. |

# **Risk management** continued

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **People** | | |
| **Talent acquisition and retention**<br><br>**Link to strategy:**<br>Better<br><br>**Risk movement:**<br>Unchanged | **Dependence on key personnel and inability to attract or retain the required knowledge and skills.**<br><br>The Group is dependent on key personnel at both the Group and operating company level who have extensive experience and knowledge of the discount retail industry in the markets in which the Group operates. There is a risk that failure to recruit or retain individuals with the required knowledge and skills, a lack of succession planning for key roles, or failure to successfully adapt to the expectations of a post-pandemic labour market could impact the Group's performance and achievement of its strategy. | Recognising the prominence of our people in delivering our overall Group strategy, talent retention and development are central to our success, and we aim to maintain the right pipeline of skills within the Group to facilitate the long-term success of our growth strategy (see pages 53 to 56).<br><br>At Group and operating company levels there are executive and senior management with significant experience and leadership in both retail and their own relevant functions.<br><br>We work hard to facilitate access to professional and personal development opportunities across the Group, including training our colleagues, offering learning and development opportunities, and supporting our colleagues to gain formal professional qualifications.<br><br>The Group has increased its focus on people strategy, leadership development and personal and professional development for all our colleagues in the year with an average of 11 hours of training per employee in FY22, covering areas such as compliance, operations and leadership development.<br><br>We have many talented and committed colleagues across our workforce and where possible we seek to promote internally. In FY22, we promoted over 4,000 people within our businesses. |

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Financial** | | |
| **Political and macro-economic environment**<br><br>**Link to strategy:**<br>Bigger, cheaper<br><br>**Risk movement:**<br>Unchanged/on watch | **The Group is exposed to short-term political and economic factors which reduce disposable income or increase the cost of doing business in countries where the Group operates.**<br><br>The Group's business is impacted by the prevailing political and economic climate in the countries in which it operates and globally including: political uncertainty; volatility in foreign exchange rates; rising interest rates, inflation rates, energy prices and availability; levels of employment; levels of disposable income; salaries and wage rates (including any increase as a result of payroll cost inflation or contributions to pension provisions); and lack of consumer confidence.<br><br>In relation to foreign exchange risk, the Group pays the majority of its overseas suppliers in US Dollars and Chinese Yuan and in certain countries in which the Group operates it is customary for a number of 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. | The Group's operations are spread over 18 countries in Western, Central, and Eastern Europe, reducing an over exposure to any single market and providing cyclical protection.<br><br>The diversified nature of the Group's operations creates a portfolio of currency exposures, which can create a natural hedge against currency fluctuations whilst the ongoing expansion into Western Europe increases the percentage of Group revenue in Euros.<br><br>The Group has established foreign exchange hedging policies and practices which provide near-term protection on both the purchase of stock from Asia and the sale of goods in Europe.<br><br>There is a strong focus on reducing the cost of operations, with FY22 lower than previous year on a percentage basis, with operating leverage driving efficiencies.<br><br>Whilst inflation remains at recent historic highs, clothing and food remain resilient categories in the Central and Eastern European retail sector. The Group's value-led proposition becomes even more relevant in these challenging times and continues to drive new customers to our stores, expanding our target market across Europe.<br><br>The Group's debt remains at historically low interest rates and interest rate risk is limited to movements in Euro Interbank Offered Rate (EURIBOR). |
| **Credit default/liquidity**<br><br>**Link to strategy:**<br>Cheaper<br><br>**Risk movement:**<br>Unchanged | **Inability to meet obligations under credit facilities and/or inability to access further external financing in the future.**<br><br>The Group's corporate borrowing entities do not have independent operations and are thus dependent on earnings and distributions of funds from operating companies in order to service interest and debt obligations.<br><br>Any failure to comply with the covenants or payment obligations contained in the Group's financing arrangements could result in a default thereunder.<br><br>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. | The Group remains cash generative including the self-funding of the accelerating store opening plans and new country expansion.<br><br>All of the external debt of the Group remains with a syndicate of strong and supportive relationship banks at competitive interest rates, and there is additional funding available under the Group's revolving credit facility if required.<br><br>The Group maintains a low leverage ratio with significant headroom on the two financial covenants.<br><br>The Group's and operating companies' currency deposits are maintained across a number of financial institutions to minimise counterparty risk.<br><br>There are no major structural blocks preventing the flow of cash within the Group. |

# **Risk management** continued

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| Sustainability | | |
| **Environmental, social and governance (ESG)**<br><br>**Link to strategy:**<br>Better, cheaper<br><br>**Risk movement:**<br>Unchanged | **Failure to meet our customers' and wider society's expectations in addressing ESG impacts can lead to public scrutiny and significant reputational damage to the Group and its brands.**<br><br>The Group recognises the impact that its rapidly growing business may have on the social and natural environment and has a clear strategy to address this (see our ESG section for further details of our ESG strategy and goals). There is a risk of failure to address the growing needs and expectations from society if the Group does not meet its ESG goals, resulting in reputational damage and reduced customer demand for our products and brand.<br><br>ESG risk also arises from any medium to long-term physical impact of climate change on the Group's business model and operations. This includes the potential for climate change-related disruption to the supply chain or an increase in raw material costs.<br><br>Climate change also increases the risk of extreme weather events, for example increased severity of flooding. While an extreme weather-related event could severely impact our distribution operations, given the location of our warehouses in Western and Central and Eastern Europe, we consider this risk to be low currently. | The Group has established a Group-wide ESG Strategic Framework and goals to set a vision for our ESG strategy (see our ESG section for further details). Our Group-wide ESG Internal Strategy Group (ISG) comprises representatives from each of the Group's operating companies and is supported by an external ESG specialist. The ISG meets regularly to drive forwards ESG initiatives and deliver progress against our strategy. Strategic progress is overseen by the Group CFO and the Board is actively engaged in strategy and updated regularly with progress.<br><br>We believe that our business model, including both the vertical integration of our sourcing operations through PGS and the work of our in-house Group Sourcing Compliance team, provides us with a high degree of visibility over our supply chain and constructive working relationships with our supply partners. This makes us well positioned to work collaboratively with suppliers in our strategy to deliver environmentally responsible products in an environmentally responsible manner at an affordable price. The PGS sourcing model has supported a strong and flexible supply chain through the pandemic, and is focused on managing any disruption to the Group's supply chain and raw material or commodity volatility.<br><br>As well as our strategy to grow the range of affordable, sustainable products we offer to customers, we also have initiatives in place to reduce the environmental impact of our operations. Many of these initiatives also present cost saving opportunities, for example in-store energy saving schemes. We continue to evaluate opportunities to minimise the impact of our operations on the environment. Driving efficiency improvements throughout the business is an integral element of the Group's strategy and we believe there is an important link between increasing cost efficiencies and enhancing the long-term sustainability of our operations. |

| Risk type, link to strategy and movement | Description and potential impact | Risk mitigation |
|---|---|---|
| **Applies to all risk categories** | | |
| **IT systems, cyber security, data protection and business continuity**<br><br>**Link to strategy:**<br>Better, simpler<br><br>**Risk movement:**<br>Unchanged | **Disruption/failure of the Group's IT systems, including failure to adequately prevent or respond to a data breach or cyber-attack.**<br><br>This includes the risk of unsuccessful or delayed go-live in the delivery/implementation of the Group's new ERP system.<br><br>The Group depends on its IT systems and infrastructure for the efficient functioning of its business. A failure or disruption in information technology systems (e.g. due to a deliberate or targeted cyber-attack) may result in a loss of business-critical data, compromise data integrity or result in an inability to manage operations, in turn leading to financial and regulatory penalties and reputational damage.<br><br>The Group is also subject to GDPR regulations regarding the collection, retention, use and processing of personal information. Failure to operate effective data collection controls to protect confidentiality and security of personal information could potentially lead to regulatory censure, fines, and reputational and financial costs. | The Group and its operating companies have an ongoing programme to replace legacy IT infrastructure with a new ERP system with a number of modules live in Poundland and Dealz and a well-advanced implementation project in Pepco.<br><br>There is an additional change management focus on implementing Tier 1 applications in specialist functions that are not covered by the ERP system.<br><br>The Group has information security and data protection policies in place with dedicated cyber security specialists and Data Protection Officers.<br><br>There is a strong internal project management focus across the Group for all change management projects with long change freeze periods implemented during the key trading months.<br><br>The Group's current limited transactional e-commerce reduces its recording of and exposure to customer data. |

# Going concern

The FY22 consolidated financial statements have been prepared on the basis that the Group will continue as a going concern for at least twelve months subsequent to the authorisation of the consolidated financial statements for the period under review.

The Group has continued to show resilience, as well as significant growth, in FY22 despite the challenging economic conditions. Underlying EBITDA growth of 13% to €731m illustrates strong continued profit delivery. In addition the Group has continued to execute its ambitious growth strategy through the opening of 516 net new stores (excluding Fultons closures).

Whilst cash is lower year on year at €344m (FY21: €508m) this is a function of the Group continuing to expand the estate as well as returning inventory to higher, more normalised, levels following the significant Covid-19-driven supply chain disruption in FY21. The Group's net debt to underlying EBITDA ratio of 1.9x on an IFRS 16 basis (0.6x on an IAS 17 basis) remains low, and well within the targeted range. The Group also remains well financed with expiry of term loans not until at least April 2024 and retains significant liquidity headroom, and covenant headroom, should any further unforeseen volatility arise.

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.

# Environmental, social and governance

## ESG context

**3,961**
**stores**

**18**
**countries with store operations**

**>43,000**
**colleagues**

**>50m**
**customers a month**

**>100,000**
**people supported through our charitable work**

**>1,500**
**supplier compliance audits**

### Business overview, value chain and regulatory context

With 3,961 stores in 18 countries across Europe and over 43,000 colleagues serving over 50 million shoppers each month, we are a large, growing business, which brings employment opportunities and operational best practices to the geographically, economically and culturally diverse markets in which we operate. We are acutely aware of the impact we have on the environment and our communities and have a clear strategy to address this (which is covered on page 44).

Stretching beyond Europe, our value chain encompasses products that are sourced from a wide variety of domestic and international suppliers and includes our vertically integrated sourcing operation, PGS, which works with over 375 suppliers, representing over 700 factories in South and East Asia. For further detail on our supply chain, see page 52. Our business model on page 14 includes additional information on the commercial and operational benefits of our direct sourcing model.

# Environmental, social and governance continued

### Regulatory context

The Group is subject to a number of non-financial disclosure requirements which incorporate ESG-related reporting, including:

**the European Union (EU) Non-Financial Reporting Directive (NFRD)** – in accordance with the NFRD, our Annual Report includes information on the performance, position and impact of our activity relating to environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters. This includes:

- a description of our business model – see page 14;
- a description of the policies implemented in relation to those matters, including due diligence processes implemented and the outcomes of these policies. Our approach to environmental, social and governance matters is explained in the following sub-section, "Our approach to ESG", which includes an explanation of our ESG management structures, our engagement with stakeholders and our strategy. Our approach to business ethics on page 42 provides an explanation of our approach to governance matters across the Group, while the following sections on environmental (page 46) and social (page 52) matters provide further information regarding the policies, practices and initiatives we have undertaken in each of these areas;
- the principal risks related to those matters – ESG-related risks are included as a risk category within our overall risk framework (see page 26 for further explanation of our approach to risk management and ESG risk description); and
- non-financial key performance indicators relevant to the particular business – our environmental and social goals and KPIs are presented on pages 46 and 52 respectively.

**the EU Green Taxonomy Regulation** – we report in line with the EU's Green Taxonomy classification system for environmentally sustainable activities - see page 50.

### Business, value chain and regulatory context

## Our approach to ESG

Our approach to ESG is embedded within our bigger, better, cheaper, simpler strategy (see pages 8 to 12) and decision-making processes. We are committed to delivering growth and long-term value for our stakeholders whilst also maintaining high standards of ethics, honesty and integrity, managing our impact on the environment, developing our colleagues, and enhancing the communities across our supply chain.

Following the introduction of our ESG Strategic Framework in last year's Annual Report, we have continued to develop our ESG strategy, building on the framework and increasing our disclosure (see page 44 for further details). We continue to apply a holistic approach in our assessment of risk and in the development of our ESG strategy, adapting our approach in response to the evolving regulatory landscape. We are integrating ESG factors into decision making, alongside further optimisations to our customer proposition. We are mindful of stakeholder expectations for us to operate in a sustainable and responsible manner and regularly engage with our stakeholders to better understand their views (see page 41).

Our vision is to democratise sustainability for our customers by demonstrating that price is not a barrier to sustainable and ethically produced products. Driving efficiency improvements throughout the business is an integral element of the Group's strategy and we believe there is an important link between increasing cost efficiencies and enhancing the long-term sustainability of our operations.

### ESG management

Recognising the importance of operating a robust governance framework, the Group's Audit Committee exercises oversight over the Group's approach to ESG, including ethical trading and responsible sourcing, and reports to the Board on topics as appropriate. The Board is actively engaged in the development of a clear and actionable ESG strategy and is provided with regular progress updates.

The Group CFO is responsible for setting the Group's ESG Strategic Framework and has overall responsibility for execution. The Group CFO is supported by senior management teams in the Group's operating companies which are responsible for day-to-day operational decision making with regards to ESG strategy execution. Each of the Group's operating companies also has ESG management and decision-making structures. For example, Poundland has a Sustainability Committee which is chaired by Poundland's Managing Director and is comprised of a team of cross-functional colleagues tasked with executing environmental strategy in the Poundland business.

In 2021 the Group established a Group-wide ESG Internal Strategy Group (ISG), which comprises representatives from each of the Group's operating companies and is supported by an external ESG specialist. This year the ISG met regularly and provided a forum for cross-Group decision making, information sharing and discussion to drive forward our ESG strategy.

Group operating companies are given freedom within the Group's ESG Strategic Framework to take their respective operating models, markets and regulatory context into account when implementing the strategy. As the Group continues to develop its ESG strategy and the ISG supports additional collaboration, an aligned Group-wide approach to ESG goals and targets will become more prevalent, while maintaining flexibility and freedom for the Group's operating companies to execute the most effective strategy for their business.

ESG risks are managed through the Group's risk register which is reviewed by the Group's Audit Committee (see page 26 for further details).

## Stakeholder engagement

Stakeholder engagement is fundamental in guiding our overall strategy and approach to ESG topics. We have identified the following key stakeholder groups and aim to engage with them on a regular basis and to ensure open and transparent lines of communication. We work with these key stakeholders at both Group and operating company level to develop our ESG approach and have included some examples of engagement below.

| | |
|---|---|
| Customers | We have undertaken a number of market research studies to understand our customers' approach and attitudes towards ESG. This has included undertaking a survey to understand the importance of green energy use to our Pepco customers across six mainland European countries. We have also conducted a series of ESG research studies on brand perception and customer behaviour in the UK market in relation to our Poundland operations. |
| Colleagues | We regularly seek feedback from employees through colleague engagement surveys carried out in our operating companies, with results being reviewed by management to agree focus areas for improvement and to plan learning and development activities. We regularly update our colleagues on our work on ESG matters through internal articles and newsletters. See page 54 for further details on employee engagement. |
| Suppliers | The Group's Sourcing Compliance team works with c. 375 suppliers, representing over 700 factories, to identify areas where the Group can provide additional training and support to suppliers to ensure compliance with the standards set out in the Group's Supplier Code of Conduct (see page 52 for further details). In addition, both our operating companies and in-house sourcing function, PGS, host supplier conferences and meet regularly with key suppliers to discuss supply chain topics including ESG matters. |
| Communities | Through our retail operating companies and our in-house sourcing function, PGS, we work with communities at a regional, national and local level in the territories in which we operate. We collaborate with international non-governmental organisations (NGOs) and support community projects to make a meaningful contribution to our local communities. This year our community support through our Pepco operating company included working with SOS Children's Villages and the Saint Nicholas Foundation, donating over €200k to each to support children fleeing the war in Ukraine. See further details on our community support on page 57. |
| Investors | We provide regular updates to investors through regulatory announcements and results. Open communication is facilitated through Group meetings (such as the Annual General Meeting which was held in January 2022 and the Capital Markets Day held post year end in October 2022) as well as one-on-one sessions with management. |

# Environmental, social and governance continued

## Corporate Governance and business ethics

We are committed to high standards of corporate governance, ethics, honesty and integrity. The Audit Committee exercises oversight over the Group's approach to ethical and responsible business practices and reports to the Board on topics as appropriate. The Group is committed to embedding ethical practices across its businesses.

We have clear corporate governance policies which set a culture of responsible business for all our operating companies and our colleagues, customers and suppliers. We are committed to human rights and our Modern Slavery Statement is published annually on our website.

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 and political donations, and the mechanisms through which our workforce can report concerns relating to misconduct, including confidential reporting. We will consider taking disciplinary action up to and including dismissal against anyone who fails to comply with the standards of behaviour set out in our Anti-Bribery and Corruption policy.

We also have strong policies in place to protect the integrity of our supply chain, including a Group-wide Supplier Code of Conduct, managed by our Group Sourcing Compliance team (see page 52 for further details). We have a zero-tolerance policy on dangerous working conditions, forced labour, child labour, bribery and corruption, minimum wages not being paid and unauthorised subcontracting within our supply chain.

We believe that our business model, which includes our in-house Group Sourcing Compliance team, supports a high level of transparency within our supply chain and also optimises the level of control and coordination we have with our sourcing and buying teams. Group Sourcing Compliance covers our own-label, non-branded goods within our in-house sourcing function, PGS, as well as compliance services for the Group's direct retailer sourcing outside of PGS. This system allows us to work closely with suppliers to improve their processes, promote best practices and improve behaviours.

Group policies are approved by the Board and reviewed regularly to ensure our governance approach keeps pace with our growth. Periodic training sessions on policies and procedures are provided to the Board and our employees, tailored to colleague roles and responsibilities.

In addition to our Group-wide policies, our operating companies embed responsible business practices in their operations through operating company-level policies appropriate to their operations and markets. Further details of key policies are provided throughout the remainder of this ESG section; for example page 55 provides a summary of our approach to diversity and inclusion. Colleagues in our operating companies receive training on policies and procedures through onboarding and induction processes as well as regular ongoing training, tailored by role and grade. All colleagues receive induction training upon joining which includes health and safety training and standard operating procedures training relevant to their role. Head office colleagues in Pepco receive monthly training updates and in Poundland are given access to an online portal where policies and procedures are housed.

Our policies are underpinned by our Speak Out Policy and an external independent reporting facility. The independent "SpeakOut Hotline" allows colleagues to report in a safe and confidential way and encourages reporting of concerns to management. The Group has selected an external provider with significant experience in investigation, resulting in high quality reports to facilitate the investigation and resolution of issues reported.

The Group operates policies and procedures at operating company level which cover the subject matter traditionally included in a Code of Conduct. The Company evaluates on an ongoing basis whether there is a need to establish a Group-wide formal Code of Conduct.

## Resilient business

The Group continues to demonstrate resilience and agility in response to global market uncertainty as detailed in the CEO's report on page 7. The Group's ability to respond to external challenges is underpinned by our approach to business resilience, business continuity and risk management which supports us in taking swift and decisive action.

### Operational and technological business resilience

The Group's technological business resilience and continuity strategy is centred on developing and rolling out the Oracle ERP system, which will transform how the business operates and enable simpler, more efficient and automated day-to-day operations at a larger scale (see page 12 for further details). Alongside the ERP system, the Group's operating companies have comprehensive data and cyber security policies in place to protect data and information infrastructure.

### Financial and tax business resilience

The Group's financial performance and position are summarised in the financial review on pages 18 to 25 and demonstrate our financial resilience to challenging market conditions. In addition to responsible financial management, the Group is committed to conducting its business in an ethical and professional manner, and we have a zero-tolerance approach to tax evasion and its facilitation. Our core tax principles are to manage our tax affairs responsibly, which means ensuring that we pay the right and fair amount of tax at the right time in the countries in which we operate, in compliance with local and international law. These core tax principles underpin our approach to tax and are set out in our Board approved tax strategy, in the context of our status as a UK headquartered group, which is available on our website.

Ultimate responsibility for tax governance and management of tax risk sits with the Board and the CFO, supported by the Director of Treasury, Tax and Risk and the Head of Group Tax, who engage with the Group Audit Committee. Day-to-day management of tax risk for our operating companies is delegated to the relevant CFO and operating company-level Audit and Risk Committee, who are supported by appropriately qualified colleagues in country. Regular communication channels ensure that the Group maintains oversight of key tax matters across its business, ensuring adherence to our core tax principles.

Tax risk can arise through changes in law, or due to the complexity of tax law resulting in differences in interpretation or an inadvertent failure to comply. As a multinational group operating in an increasingly complex and developing tax environment, some risk is unavoidable. In managing tax risk, the Group endeavours to uphold its core tax principles, having regard to the interests of all our stakeholders, including our investors, customers, colleagues, and Governments in the countries in which we operate as well as their citizens. We consider compliance with local and international tax law to be a principal risk. Further description of the risk and its potential impact as well as the steps we take to mitigate the risk are set out on page 32.

## Strategy update

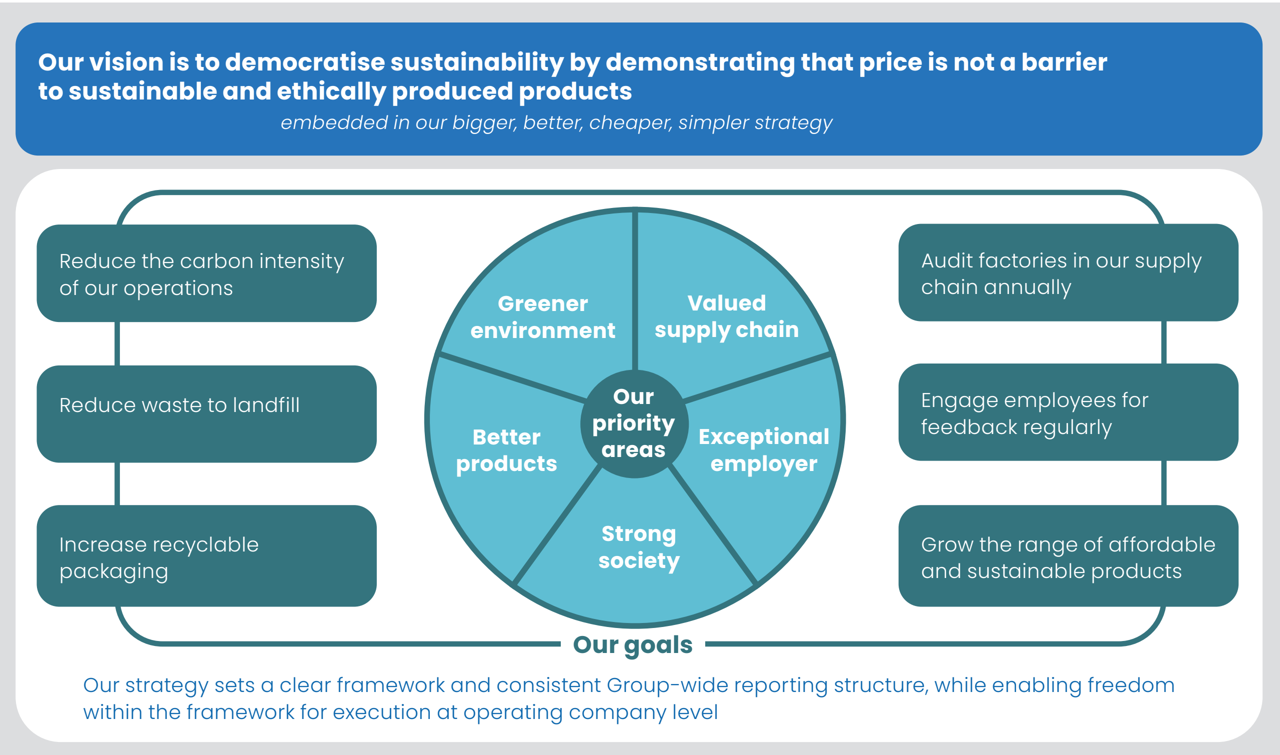
### We have continued to develop our ESG Strategic Framework in FY22, following its establishment in the previous financial year, focusing on the priority areas which reflect the most impactful activities within our value chain

In order to evolve our ESG strategy and monitor our progress, a set of Group-wide environmental and social goals and corresponding KPIs have been developed, each relating to a priority area for the Group. Our updated strategic framework is set out below. Our commitment to governance and ethics remains strong and is set out on pages 42 and 65 to 72 in the corporate governance report. We believe reporting of these areas is best suited to qualitative discussion and explanation rather than the data-based KPI reporting approach used to measure our progress on environmental and social matters.

As part of our development of ESG in the year, we conducted a comprehensive internal review with Board and management participation and various peer and industry benchmarking exercises. We have also reviewed the United Nations Sustainable Development Goals (UN SDGs) which aim to address some of the world's most pressing challenges and aligned our strategic activities to a number of these goals, as set out below.

We are mindful that the development of our ESG practices is an ongoing and constantly evolving process. There are areas where we are still developing our approach, including data collection, and it is our intention to further enhance our reporting practices going forward.

## Pepco Group ESG Strategic Framework




### Goals and KPIs

As our strategy has developed, we have formalised and standardised our Group-level ESG goals to ensure consistent and comparable ESG metrics. We have identified six Group-wide ESG KPIs which will help us and our stakeholders to track our progress against our stated goals. This year our Group-wide ESG KPI reporting covers three metrics (our operational carbon footprint, the percentage of our factories audited and the percentage of our colleagues surveyed on wellbeing). We will continue to develop our data collection with the aim to report three further Group-wide KPIs in the future (percentage of our packaging that is recyclable, percentage of operational waste going to landfill and percentage of our own brand-products that are sustainable). Our operating companies have retained numerous commitments and targets for their respective local priority areas in addition to the Group-level KPIs.

| Our goals | Link to SDGs | KPIs | FY22 performance | Notes |
|---|---|---|---|---|
| Reduce the carbon intensity of our operations | 9, 12, 13 | **Scope 1 and 2 emissions** | **Absolute: 106,214 $tCO_2e$**<br>+7.2% YoY<br>**Intensity: 22.0 $tCO_2e$/€m turnover**<br>-1.9 $tCO_2e$/€m (-7.8%) YoY | 1 |
| Increase recyclable packaging | | % of packaging that is recyclable | *Supplier and buying team guidelines updated to include sustainable packaging guidance – see page 48*<br>*Group KPI to be reported in the future* | |
| Reduce waste to landfill | | % of waste diverted from landfill | *Less than 1% of operational waste sent to landfill in Poundland in FY22 – see page 48*<br>*Group KPI to be reported in the future* | |
| Grow the range of affordable, sustainable product options | 12 | % of sustainable products offered | *"Pepco is Green" range launched in 2021, with 48 products in the range by the end of FY22.*<br>*40% of cotton sold in our Pep&Co clothing range in Poundland stores was sourced through BCI – see page 49*<br>*Group KPI to be reported in the future* | |
| Perform annual audit of our factories | 8,9 | **% of factories audited against our audit plan** | **100%** | 2 |
| Engage all colleagues regularly for feedback | 1 | **% of colleagues surveyed** | **79% participation rate** | 3 |

We comment further on our KPI performance for energy usage and emissions on page 47, factory audit on page 53 and colleagues surveyed on page 53. Further detail of our progress on packaging is provided on page 48, waste management on page 48 and sustainable product range on pages 48 to 49.

Reflecting our commitment to our ESG strategy, we intend to include ESG performance metrics within long-term incentive scheme structures for senior employees in the future.

**Notes**

1. Scope 1 GHG emissions and energy use have been calculated based upon the quantities of fuel purchased for our transport fleet and gas consumed when heating business premises. Scope 2 GHG emissions and energy use are calculated based upon the quantity of electricity purchased to power our sites. Emissions were calculated using recommended conversion factors for each of the countries we operate in.

   We express our intensity ratio as tonnes of $CO_2$ per €1m of turnover.

   This year we have continued to develop our approach to carbon emissions data collection. In order to provide comparability, year-on-year changes in absolute emissions and our intensity ratio have been calculated based on restated FY21 base year data, aligned to the FY22 scope and boundary. FY21 emissions data has been restated to 98,521 $tCO_2e$ and emissions ratio to 23.9 $tCO_2e$/€m turnover, reflecting a wider boundary of reporting to include our PGS operations and availability of more detailed emissions data in our Pepco and Poundland operating companies.

2. Our factory audit KPI is defined as the percentage of social and ethical audits completed by our Group Sourcing Compliance team against its annual audit plan. Page 53 provides further details.

3. Our colleague survey KPI is defined as the participation rate for employees offered the survey. In FY22 all employees in our Poundland operating unit and all "active" employees in our Pepco operating unit were offered the survey. Active employees are defined as employees not on long-term leave or holiday at the time of the survey issue and who have been employed for over three months.

# Environment

## Working across the Group and with our partners and stakeholders to drive efficiencies and minimise the environmental impacts of our business, our value chain and our products

### Goals

- Reduce the carbon intensity of our operations
- Increase recyclable packaging
- Reduce waste to landfill
- Grow the range of affordable, sustainable products

### FY22 KPI

- Scope 1 and 2 emissions of 106,214 $tCO_2e$, reflecting an absolute increase of 7.2% year on year and 7.8% improvement in intensity ratio

### Greener environment

We are committed to minimising the environmental impact involved in the manufacturing, transportation, storage and consumption of the products we sell with the most material impacts including energy use, carbon emissions, water use and waste generation.

The main direct sources of emissions within our value chain are electricity in our stores, warehouses and distribution centres (DCs) and fuels used in the transportation of goods.

The Group's activity generates waste through both products and product packaging. Efficient and effective stock management is the most important tool the Group uses to minimise product waste in our stores and distribution lines and reduce our impact on the environment while ensuring commercially efficient operations. We are also conscious of the fact that wasteful packaging can contribute to pollution in a variety of ways and customers increasingly seek more sustainable packaging.

The Group's main source of water usage is embedded water in our products, rather than water used in our store or distribution operations. Given the nature of embedded water usage, our primary approach to understanding, monitoring and improving water usage will be through our supplier environmental guideline and audit programme (see page 49 for further details).

#### Our approach

Our overarching intention is to minimise our negative environmental impacts and improve efficiency wherever possible to reduce the intensity of our impacts, whilst maintaining our strong growth profile and cost leadership for our customers.

We consider effective energy management not only to be a key priority in our environmental strategy, but also a contributor to cost control, given that energy usage accounts for 5% of operating costs across the Group. The energy management strategies in place at our retail operating companies aim to increase efficiency and sustainability of energy supply in our stores and distribution centres, thereby reducing the carbon intensity of our operations.

In addition to the preservation of natural resources and minimising waste to landfill, responsible waste management also plays a significant role in reducing carbon emissions generated. We are therefore focused on increasing our use of sustainable and recyclable packaging. By employing alternative solutions such as cardboard, we aim to minimise the use of plastic and, where plastic is used, we consider recycled options where possible.

Data collection is a vital element of our environmental strategies, enabling us to monitor progress and drive performance improvements. In the coming year we will focus on developing our data collection and reporting on recyclable packaging and waste disposal.

## Energy management and carbon emissions

### Energy reduction initiatives

We have several energy reduction initiatives in place across our retail operating companies which include the use of LED lighting (with lower negative environmental impacts than incandescent lighting), switching to renewable energy contracts and improving efficiency in refrigeration by updating infrastructure. All Pepco and 80% of Poundland stores use LED lighting, with all new stores automatically fitted with LED lights. Poundland continues to update in-store refrigeration infrastructure with full glass doors, which provide a 70% reduction in energy usage versus open-fronted chiller units. All Poundland refrigeration units are expected to be updated by the end of calendar year 2022.

### Sustainable energy

We are aiming to improve the sustainability of our energy supply wherever possible. Pepco plans to introduce green energy solutions in the coming years and is working on a longer-term decarbonisation strategy. From the beginning of FY23 Poundland sourced all energy through the UK's Renewable Energy Guarantees of Origin scheme.

### Efficient logistics

On the basis that a significant portion of our emissions are generated by logistics, ensuring efficient transportation is a key element of responsible energy and carbon management. Our distribution programme is centred on growing and enhancing our DC infrastructure (see page 12) which incorporates the most up-to-date technology and equipment available and enables improved route planning, fewer miles travelled and consequently a lower environmental impact and cost. In Pepco c. 700 stores are served directly by three DCs, reducing transfer costs and mileage.

Poundland continues to invest in double decker trailers which allow more goods to be moved with less trips, alongside targeting collections direct from suppliers on return legs from store deliveries, maximising vehicle utilisation and minimising miles travelled. While recognising emissions from business travel are not one of the most significant components of our overall emissions, we still believe this is an area where we can and should reduce our emissions. In Poundland, as well as reducing overall business travel and implementing hybrid working options, only fully electric car options are now available through the company car fleet.

### Energy usage and carbon emissions data

Our carbon emissions reporting this year focuses on scope 1 and 2 emissions across the Group. Group energy usage increased in FY22 to 106,214 $tCO_2e$, driven by growth in our retail estate of 457 new stores. While our number of stores increased by 13.0%, our increase in scope 1 and 2 carbon emissions was limited to 7.2%, reflecting the energy management and carbon reduction initiatives described in this section. Our emissions intensity ratio per €1m of turnover improved to 22.0 $tCO_2e$ in FY22, a 7.8% efficiency improvement.

As part of the further development of our carbon strategy, this year we have also undertaken initial analysis to measure scope 3 emissions related to our Pepco operating company. The analysis shows that the majority of Pepco's carbon emissions relate to the manufacturing of products for consumer use and the upstream transportation and distribution of these products. We have not yet undertaken a Group-wide review of scope 3 emissions, but expect that emissions related to product manufacture and upstream transportation and distribution will contribute the most significant component. We recognise the importance of tracking scope 3 emissions as the most significant portion of our total carbon footprint and intend to expand our scope 3 emissions data collection across the Group as part of the development of our carbon strategy in the future.

# Environmental, social and governance continued

### Responsible waste management

Efficient and effective stock management is an important tool in minimising waste generation. Our ongoing investment in distribution and warehouse infrastructure (see above) as well as programmes to optimise stock management have reduced markdown (see page 12 for further details) and lowered stock handling in stores and DCs.

In Poundland, overall operational waste reduced by 17% in FY22 and less than 1% was disposed via landfill in total across the year, with nil waste to landfill achieved by the year end, reflecting both greater minimisation and in-store segregation of waste. Reduction in waste to landfill has been achieved through initiatives including launching a waste management guide and clear in-store signage to enable store staff to better segregate waste and divert items like hangers from general waste to recycling. A new food markdown policy has also been implemented, reducing food at two intervals before its expiry and allowing colleagues to take any remaining food products home for free at the end of trading that day.

As part of the development of our Group-wide ESG Strategic Framework we have identified reduction of operational waste as a Group-wide goal (see page 45). In the coming year we will continue to develop our data collection and reporting of waste metrics, particularly in our Pepco and Dealz operating businesses, with the aim of presenting the percentage of operational waste sent to landfill as one of our core Group KPIs in the future.

We are also mindful of the reuse and recycling potential of our products in reducing waste. We have undertaken an early-stage trial for the collection of used clothing in three of our Pepco stores in Italy. Through our partner, Humana People to People, the clothing collected is sorted and sent for resale in communities in Europe and Africa, both reducing waste and saving resources through reuse and providing second-hand affordable clothing. Initial results of the trial were encouraging with over 70% of clothing collected suitable for reuse and we continue to explore options to expand the trial in FY23.

### Product packaging

We work with our suppliers to minimise packaging waste and to reuse and recycle suitable customer packaging. In Pepco suppliers are provided with manuals including packaging quality and sustainability policies. Sustainable packaging strategy in Pepco is currently focused on limiting the use of plastic in primary packaging and, where plastic is used, increasing the component of recycled raw materials.

Poundland continues to increase the use of On-Pack Recycling Labels (OPRL) on its product packaging, a scheme which provides customers with simple and consistent labelling on packaging for recycling at home. All seasonal product ranges and a number of further categories now include OPRL. A Packaging Handbook was also introduced for buying teams during the year, providing guidance on sustainable packaging options.

We continue to invest in initiatives which support the reduction of plastic bag usage. Plastic carrier bags sold in Pepco stores are “EcoLoop” bags made from waste film packaging with at least 85% recycled material. These bags can be reused many times and are certified with the “Blue Angel” eco label, meaning that they contribute to a 40% reduction in $CO_2$ emissions during manufacture when compared to virgin plastic carrier bags. Pepco also offers a woven plastic bag alternative, which is made from 100% recycled reusable polypropylene and is Global Recycled Standard-certified, as well as reusable OEKOTEX-certified cotton bags, further encouraging customer reuse. In a number of our western-European markets we offer paper bags as an alternative to our Ecoloop bags.

In Poundland, Pep&Co branded “bags for life” are made with 80% recycled materials. A trial of bags made from 100% recycled materials that are 100% recyclable will take place in FY23. “EcoLoop” bags sold at 30p are made from 100% recycled materials and are 100% recyclable.

## Better products

Pepco Group products range from clothing to homeware to frozen food, with over 80% of non-branded apparel and GM goods being sourced through PGS in FY22. Through the depletion of natural resources, apparel, GM and FMCG products carry potentially negative environmental impacts. The societies in which we sell our goods are becoming progressively more interested in product sustainability and, whilst affordability continues to be a key concern amongst our customers, our customer research indicates an increasing focus on environmentally and ethically sound products and practices.

### Our approach

Our aim is to remove the myth that price is a barrier to sustainable and ethically produced products. One of the most impactful ways we can positively contribute to our customers and communities is through growing the range of affordable and sustainable products available in our stores. We have therefore introduced a clear Group-wide goal to do so and have made progress in the year by growing our sustainable ranges, for example our "Pepco is Green" range (see our case study on page 50). In order to monitor our progress against this goal, we are continuing to develop our data collection and reporting on sustainable options. We intend to report the percentage of our own-brand products that are sustainable (as a percentage of our overall products) in the future.

In addition, we are committed to working with partners across our supply chain to monitor and improve environmentally responsible production methods (see below).

### Environmentally responsible production

As part of our Supplier Code of Conduct for our suppliers and factories (covered in more detail in "Valued supply chain" on page 52), we require all suppliers to carry out their activities in accordance with the applicable environmental laws and regulations in the countries in which they operate.

The work of our in-house Group Sourcing Compliance team has focused on social and ethical compliance to date (see page 52 for further details). However, we are in the process of extending this to include a more detailed supplier environmental guideline and audit programme. Through this programme we will work with our suppliers, providing training and support, to ensure our supply chain meets the environmental standards that our customers and society expect, covering areas including greenhouse gas emissions, waste management, water usage, chemical management, safeguarding natural resources and biodiversity and use of sustainable raw products and packaging.

We believe that both the vertical integration of our sourcing operations through PGS and the work of our in-house Group Sourcing Compliance team provide us with a high degree of visibility over our supply chain and constructive working relationships with our supply partners. This makes us well positioned to work collaboratively with suppliers in our strategy to deliver environmentally responsible products in an environmentally responsible way.

### Sustainable raw materials

We are continuing to increase the use of sustainable sources of raw materials in our products, with a specific focus on sustainably sourced cotton achieved through Better Cotton Initiative (BCI) accreditation. Our Pep&Co clothing brand, which is sold in Poundland stores, has had BCI accreditation since 2019. In FY22 40% of cotton sold through our Pep&Co brand was sourced under BCI, an increase from 35% in FY21. Pepco applied for membership of BCI in October 2022 and has set increasing year-on-year targets for the percentage of cotton sourced under BCI. Pepco's clothing range also includes organic cotton items sourced under the Global Organic Textile Standard (GOTS) and the Organic Content Standard (OCS).

In addition to responsibly sourced cotton, we provide our customers with a range of affordable, sustainable product options across our clothing, general merchandise and FMCG lines including Oeko-Tex and Forest Stewardship Council (FSC) eco-certified products, recycled polyester clothing and vegan and vegetarian ranges. In FY22, Pepco signed a promotional licence agreement with FSC enabling the use of FSC trademarks to show our commitment to sustainable forestry.

# Environmental, social and governance continued

## Case study

### Better products – the "Pepco is Green" and Poundland Christmas 2021 range

In 2021 we launched our "Pepco is Green" range, which comprises our most environmentally friendly product options. These are either biodegradable, contain a minimum of 50% recycled materials or are made entirely from natural materials, for example palm leaves, recycled glass, bamboo, seagrass, rush, paper and cellulose. Where plastic is used in the range, it is Global Recycled Standard certified. By the end of FY22 we offered 48 product options in the range.

Poundland also continues to introduce more sustainable product and packaging options into its ranges. Poundland's 2021 Christmas range provided customers with 100% recyclable packaging and included OPRL labelling on all items (in the previous year the range had 45% recyclable packaging). We achieved this through working with our suppliers and sourcing teams to remove as much plastic as possible from products and assessed sustainable packaging options using our Packaging Handbook and the OPRL guideline.

## EU Taxonomy reporting

### Introduction

The EU Taxonomy Regulation[1], adopted by the European Commission on 4 June 2021, is a classification system establishing a list of environmentally sustainable economic activities.

Under the Taxonomy, economic activities that qualify as environmentally sustainable are those that: (i) contribute substantially to any one of six environmental objectives using science-based criteria[2]; (ii) cause no significant harm to any of the other environmental objectives; and (iii) ensure compliance with minimum social safeguards.

Economic activities considered as contributing to the EU's environmental objectives are called "Taxonomy eligible". Technical screening criteria have been specified for an activity to meet in order for it to make "a substantial contribution" to the relevant objective. Activities that meet these criteria are called "Taxonomy aligned". Companies must disclose specific KPIs – turnover, capital expenditure (capex) and operating expenditure (opex) – which indicate the portion of their economic activities which are Taxonomy eligible.

For the period under review, economic activities which contribute to two of the six environmental objectives are in scope for reporting: (i) climate change mitigation; and (ii) climate change adaptation.

Companies should report which part of the eligible activities are "Taxonomy-aligned" in subsequent years. Separate regulation on the other four environmental objectives is expected to be published later in 2022.

1. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088. Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplemented Regulation (EU) 2020/852 by establishing technical screening criteria for determining the conditions under which economic activity qualifies as contributing substantially to climate mitigation and climate adaptation. Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 further supplemented Regulation (EU) 2020/852 by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU and the methodology to comply with that disclosure obligation.

2. The six environmentally sustainable objectives: (i) climate change mitigation; (ii) climate change adaptation; (iii) the sustainable use and protection of water and marine resources; (iv) the transition to a circular economy; (v) pollution prevention and control; and (vi) the protection and restoration of biodiversity and ecosystems.

### Eligible activities for climate change mitigation and climate change adaptation

Following a review of activities listed in the Taxonomy, it was concluded that the main revenue-generating activity of the Pepco Group – retail of FMCG, GM and apparel goods – is not included in the current regulation and therefore 0% eligible turnover is reported. As a result, eligible capex and opex related to this activity is also 0%.

However, capex spend on activities related to the purchase of output from taxonomy-aligned economic activities that support our core activity was identified. It was determined that these activities should be allocated to the climate change mitigation objective, as the contribution to climate change adaptation objective is of lesser importance and the Taxonomy does not allow for double counting.

This capex spend relates to the following categories:

- 7.3 Installation, maintenance and repair of energy efficiency equipment – installation and replacement of energy efficient air conditioning units in Poundland stores and installation of energy efficient LED lighting in Pepco and Poundland stores
- 7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) - installation of electric vehicle charging points at our Poundland head office and warehouse sites

The percentage of eligible capex is calculated by dividing the taxonomy-eligible capex as described above, by total capex, as defined in International Financial Reporting Standards.

A summary of the KPIs required to be reported under the Taxonomy is set out in the following table.

### KPIs

| | Share of eligible activities | Share of non-eligible activities |
|---|---|---|
| Turnover | 0% | 100% |
| Capex | 3% | 97% |
| Opex | 0% | 100% |

In this first reporting year under the new regulation, market practice and additional guidance are still developing, which may lead to changes in interpretations and disclosures.

### Our contribution

Whilst we have concluded that our main activity is not in the activities listed in the Taxonomy, and consequently our taxonomy-eligible turnover and opex is nil and taxonomy-eligible capex is 3%, we believe our commitment to conducting business in an environmentally sustainable way, as described on pages 46 to 49, enables the Group to make a broader contribution to the EU's environmentally sustainable objectives.

### Outlook for 2023

In order to ensure compliance with Taxonomy reporting requirements in the future, we will continue to monitor updates to the existing regulation and inclusion of new economic activities, as well as review economic activities listed for the remaining four objectives. The "Transition to a circular economy" objective is expected to be particularly relevant to the Group.

To prepare for the inclusion of additional economic activities and reporting against all six environmental objectives, we will continue to review the way in which information is classified and organised in FY23 by Group companies in our finance and IT systems. We will also endeavour to identify opportunities for improvement in collecting and managing information.

# Social

## Valuing our people, contributing to a strong society and placing the Pepco Group at the heart of a responsible and efficient supply chain

### Goals

- Perform annual audit of all factories
- Engage all colleagues regularly for feedback
- Grow the range of affordable, sustainable products

### FY22 KPIs

- 100% of factories audited in line with our audit plan
- 79% participation in our colleague survey

### Valued supply chain

Our sourcing business, PGS, manages a supply chain comprising 375+ vendors using 700+ factory production sites and was responsible for sourcing 84% of the non-branded GM and apparel items in our stores in FY22. Having a vertically integrated sourcing model provides the Group with enhanced visibility across the overall supply chain and optimises the level of control and coordination we have with our sourcing and buying teams, enabling better oversight and influence over the environmental management practices of our partners and improved risk mitigation. We work with our suppliers to develop sustainable product options which meet our customers' preferences at an affordable price point, which is made possible through the commercial advantage provided by PGS (see page 11).

Our FMCG products are sourced directly from both domestic and international suppliers including some of the world's biggest brands such as Nestlé, Unilever and Proctor & Gamble.

#### Our approach

We strive to act responsibly within our communities and expect the same from our associates and business partners. We have strong policies in place to protect the integrity of our supply chain, including a Pepco Group Supplier Code of Conduct which applies to all suppliers and contractors. The Code of Conduct is aligned with the Ethical Trading Initiative (ETI) Base Code, an internationally recognised code of labour practice founded on the conventions of the International Labour Organisation (ILO). It includes expectations concerning human rights (with specific reference to child labour), ensures colleagues in factories are treated fairly, and lays out our position on bribery, transparency and unauthorised subcontracting as well as environmental provisions.

When PGS begins to work with a new supplier, a technical audit is completed to assess the suitability of the production site to produce goods for the Group and to ensure that the supplier's premises meet safety standards. An ethical audit is also carried out to ensure that the supplier meets our Supplier Code of Conduct and suppliers are required to complete an acknowledgement form to confirm adherence to the Code of Conduct.

We continue to work closely with our suppliers to improve the sustainability and responsible business practices within our value chain and look to provide a positive influence through regular engagement and auditing. Factories actively producing goods for the Group are audited at least once per year by the Group's Sourcing Compliance team in accordance with the Supplier Code of Conduct. We also perform additional announced and unannounced factory audits during the course of the year, to further strengthen our review procedures.

During each audit, an auditor from the Group Sourcing Compliance team visits the factory in person, working with the on-site supplier team to evaluate each aspect of the audit criteria. This includes the auditor checking payroll and bookkeeping records and interviewing workers to ascertain that minimum wages are met and the prevention of forced labour. The auditor also inspects the production site to ensure working conditions are safe and that no child labour is being used. If a supplier is operating in a region that is inaccessible to the Group Sourcing Compliance team, a recognised third party will be used to complete the audit.

If a factory fails an audit, it is given a corrective action plan (CAP) and no new orders are placed with the factory. Our teams work with factories and suppliers as part of the CAP, providing training and support to improve practices. When the factory provides sufficient evidence that the CAP has been delivered, the Group Sourcing Compliance team then performs a re-audit. Should a factory fail audits consecutively three times it is removed from our supply chain.

### Working with our supply chain

Through PGS, we work hand in hand with key suppliers and aim to develop long-term, trusted relationships throughout the value chain. We have a support programme with selected strategic suppliers to share skills and expertise on factory efficiency and end-to-end sourcing initiatives. Our supply chain finance programme is available to strategic suppliers, enabling quicker payment, which in turn supports reinvestment in the supply chain.

In FY22, we conducted 1,563 factory audits in line with our Group Sourcing Compliance audit policy to audit all active factories, including the onboarding of over 200 new factories to the supplier base.

Although the majority of apparel and GM is sourced through PGS, both our Pepco and Poundland brands also maintain direct sourcing relationships with some suppliers. Pepco works with key strategic suppliers to build long-term partnerships through which the supplier enters a joint business plan, providing the supplier with a secure foundation to grow with it. Both our Pepco and Poundland brands meet with suppliers at least once a year in a structured forum in which senior management presents its growth plans and gives feedback on supplier performance.

## Exceptional employer

The Group has over 43,000 employees across 18 European countries as well as our sourcing operations in Asia. The markets in which we operate, both through our stores and our sourcing operations, are geographically diverse and have a broad range of social and economic contexts. We recognise our duty to provide employment and opportunities in the diverse markets in which we operate and to share best practice and training to help our colleagues be the best they can be.

### Our approach

Recognising the prominence of our people in delivering our overall Group strategy (see page 12), we work hard to ensure that each of our businesses is a great place to work, where employees feel valued and receive fair remuneration. Talent retention and development is central to our success, and we aim to maintain the right pipeline of skills within the Group to facilitate the long-term success of our growth strategy.

We work hard to facilitate access to professional and personal development opportunities across the Group. This involves training our colleagues, offering learning and development opportunities, and supporting our colleagues to gain formal professional qualifications.

We prioritise workplace engagement in our businesses and seek to provide a positive and supportive workplace experience, with open and honest feedback. Formal employee feedback is gathered through surveys conducted at operating company level, with 79% of eligible colleagues participating in the survey in FY22.

In Pepco our "Difficult Case" programme ensures that all employees are aware of the company's values and embed them in their daily work, as well as providing a process for employees to report any violations of company values, unfair treatment, discrimination, harassment of any nature or bullying. Poundland's grievance policy and whistleblowing policies similarly provide information for colleagues should they wish to raise a matter in one of these areas. Operating company policies are underpinned by our Group-wide "SpeakOut Hotline" (see page 42 for further details).

We are committed to cultivating a workforce that reflects the diversity of the communities and customers that we serve. We do not tolerate discrimination based on ethnicity, religion, disability, gender or sexual orientation. Reflecting our commitment to diversity and the expectations of our colleagues and customers, we have placed increased focus on strengthening our support to colleagues on these matters with actions including introducing a Diversity and Inclusion Policy in Pepco and launching additional diversity, inclusion and wellbeing policies in Poundland.

# Environmental, social and governance continued

## Our culture

Our operating companies have clear values, aligned with the individual brands of Pepco and Poundland, which guide how we do business and interact with our customers and colleagues. These include a fundamental focus on our customers, with emphasis also placed on respect, simplicity, teamwork, growth and success. Pepco launched its "Pepcoolture" and accompanying values (team spirit, love the customer, growth, respect and simplicity) during the year which embeds a culture for how colleagues work with our customers, each other and our business partners. "Pepcoolture Influencers" (employees) were selected to help communicate the "Pepcoolture" values to colleagues as part of the launch programme, with a focus on a different value each month using a range of interactive media and competitions to build employee engagement.

## Developing our colleagues

We have many talented and committed colleagues across our workforce and where possible we seek to promote internally. In FY22, we promoted over 4,000 people within our businesses.

In Poundland our "Retail Career Pathway" helps colleagues to plan their development within our retail stores and distribution centres and is a key enabler in helping us to achieve our internal promotion targets and ensure a pipeline of talent. In FY22 this programme was extended including introducing a career pathway programme for colleagues in central functions. The "Retail Emerging Leader" senior leadership programme continues and in FY22 achieved an 86% success rate of colleagues achieving internal progression. We also continue to invest in apprenticeship programmes and at the end of FY22 174 apprenticeship learners represented just over 1% of the Poundland workforce.

In Pepco we have increased our focus on people strategy, leadership development and personal and professional development for all our colleagues in the year. This includes our Pepco leadership programme which began in 2021 with the launch of a new leadership framework and training delivered to the leadership team. This year we have extended the programme to senior managers in Pepco, providing leadership training, supporting talent and creating development opportunities. The programme will be cascaded to head office, distribution and store managers across the Pepco business in the coming years. In addition, the Pepco company-wide performance and development process has also recently been refreshed, ensuring all employees have personal goals aligned to company strategy and opportunity for development, training and feedback.

An average of 11 hours of training per employee were carried out in FY22 covering areas such as compliance, operations and leadership development.

## Employee engagement

We have various internal communications channels to facilitate open and honest engagement, which include communication boards, emails, online newsletters, social media platforms and team meetings. For example, in Pepco our "Pepco Voice" quarterly newsletter communication is sent to all Pepco colleagues and includes information on our environmental, employee and charitable work. This year Pepco also launched a quarterly "ESG newsletter" which provides updates on recent sustainability and social initiatives.

Formal employee feedback is gathered through surveys conducted at operating company level in Poundland and Pepco, focusing on colleague experience, wellbeing and development and engagement. Results of the surveys are reviewed by management and people teams to agree focus areas for improvement and plan learning and development. In FY22, 79% of eligible colleagues in Pepco and Poundland participated in the survey.

The Group works cooperatively with a number of trade unions as relevant to the markets in which it operates; for example, Poundland recognises and partners with the Union of Shop, Distributive and Allied Workers in the UK and Pepco works with the Polish Solidarity trade union. Representatives from our operating companies meet regularly with these unions to share business updates and potential change and discuss working conditions for our employees. This also provides another forum for colleagues to share any concerns back to the business on a range of topics including operational challenges, safety and colleague welfare.

In 2022, Pepco was again recognised as one of Poland's best employers, coming second in Poland in Forbes' ranking which assessed factors such as culture, internal engagement, working conditions and Covid-19 response. We were also awarded the "Top Company Seal" by employee assessment platform Kununu.

### Dignity and respect

We have a Group Board diversity policy which commits to at least 30% female representation on the Board.

In FY23 Pepco will introduce a new Diversity and Inclusion Policy which is focused on ensuring a workplace free from discrimination, bullying and harassment, equity in treatment regardless of an individual's age, gender, gender identity, ethnicity, race, nationality, disability or health condition, belief, religion or personal views and equal opportunities for disadvantaged individuals and groups. As part of the launch of the policy, training and support will be provided on the policy and expectations for Pepco staff alongside employee campaigns and events to raise awareness on diversity, inclusion and discrimination matters.

In Poundland, 'wellbeing, inclusion and community' is one of three pillars of the people strategy (along with developing our colleagues and recognising our colleagues) with current areas of focus being on reducing the stigma surrounding mental health, raising awareness and providing resources to colleagues. Poundland's existing Diversity and Inclusion Policy has recently been reviewed and updated with supplementary policies launched in October 2022 including Equality, Diversity and Dignity at Work, Gender Identification and Expression, Menopause in the Workplace, Mental Health and Domestic Abuse.

Poundland measures its gender pay gap annually and publishes the results on its website. In its most recent report (2021[3]) the median gender pay gap decreased by 3.9 percentage points from the previous year to 3.7%, significantly lower than the UK retail average of 7.5% and UK overall average of 15.4%[4]. The mean pay gap reduced by 4.9 percentage points from the previous year to 11.9%. Through its diversity policy, Poundland is committed to encouraging more women to progress their careers at Poundland and is taking action to continue to reduce its gender pay gap through its Board sponsored "Gender Working Group" as well as partnering with the Diversity in Retail group on a range of gender diversity initiates.

This year we have undertaken work in our Pepco operating company to understand the extent of the gender pay gap and present the Gender Pay Gap Ratio (GPGR) for the first time for our operations in Poland. GPGR is calculated as the absolute value from the difference between, the ratio of the average pay of one gender to the other, and the value of 100%.

The GPGR for all employees in Poland is 53%. This gap is driven by the proportion of women represented at different grade groups and in different departments. Within our store employee group, which comprises 87% of our employees in Poland, GPGR for store managers is 2% and for all other operational roles is 5%.

We are working towards expanding our gender pay gap reporting in our other smaller operating companies and reviewing the actions needed to reduce pay gaps identified.

### Promoting wellbeing

It is important to us that we protect and promote the wellbeing of our colleagues. We have various programmes aimed at promoting healthy lifestyles and improving the wellbeing of colleagues, which include the Pepco Better Move campaign (see our case study below). We have initiatives to assist colleagues with personal, legal and financial issues, such as an anonymous, 24/7 support helpline at Pepco and the Employee Assistance Programme introduced in 2022, which offers an anonymous and free expert counselling service to all Pepco colleagues and their families. During the year we also introduced a "welcome pack", including items from the Pepco baby range, for colleagues expecting new-born babies in our Polish operations; this will be rolled out to other markets next year.

Poundland continues to work with Mental Health UK and through this partnership is developing a "Manager Wellbeing Handbook", offering training opportunities to create awareness and ensure colleagues across all departments have access to mental health support. Poundland also provides colleagues with access to discounted gym memberships, leisure activities and learning and development opportunities through its colleague reward portal.

[3] Poundland's gender pay gap reports are published on Poundland's website and on the UK Government gender pay gap service website, in line with UK Government requirements gender-pay-gap.service.gov.uk

[4] Source: UK Office for National Statistics 2021

# Environmental, social and governance continued

### Health and safety

We are committed to providing safe and clean working environments at our stores, distribution centres and head offices for all our colleagues and customers. We have Health and Safety Policies in place at our operating companies and provide mandatory health and safety training for colleagues as part of their induction and ongoing regular training updates. During the Covid-19 pandemic we introduced a number of measures to safeguard our colleagues and customers such as introducing protective masks, increased hand sanitisation stations and social distancing markers for colleagues and customers.

## Case study

### Running, walking and cycling as a team to support Save the Children

Pepco's Better Move campaign tasked colleagues in Pepco's head offices across 16 countries to actively spend their free time walking, running and cycling during May and June 2022 to support the Save the Children Fund.

Our team covered nearly 46,000 kilometres, equivalent to approximately 11,500 kg of $CO_2$. In exchange for kilometres covered by colleagues, Pepco donated €10,000 to a project run by the Save the Children Fund to support young Ukrainian refugees.

232 Pepco employees and their family members participated in the project. Our colleagues told us they really appreciated the opportunity to use exercise as a way to support a cause of great importance to them.

"I like to ride a bike, but I don't do it regularly. Better Move and the good cause behind it motivated me to take regular rides, not only during the challenge but for it to become my daily habit."

"As an avid runner I appreciate the possibility of combining sports with helping those in need. Taking part in the Better Move campaign meant that my training took on a new meaning and made me push harder. It was also great fun to follow my kilometre rankings against colleagues from other markets, knowing that we are all training with a common goal."

## Strong society

Our customers and the communities living locally to our stores are fundamental to the long-term success of the Group. We are committed to supporting them through meeting their needs from a product perspective, but also engaging in community support and charitable work, which is not only the right thing to do but is also shown through research as an important factor for customers. Reflecting that within the Pepco brand baby and childrenswear is one of our strongest sub-categories and we operate in markets with high child demographics, our charitable activities are focused on supporting families, children and young people. We are also committed to supporting local communities in our sourcing supply chain in Asia, with the support and supervision of PGS.

### Our approach

A focus on our customers and their needs sits at the very heart of our strategy as we aim to provide value for money to help our customers' budgets go further. We have various tools across our stores to enhance customer satisfaction and experience, which include regular customer service training for our colleagues as well as frequent reviews of our product offerings and store environments. Customer satisfaction is monitored on an ongoing basis via brand research, customer surveys and a mystery shopper programme in Poundland. We also monitor customer satisfaction through our Net Promoter Score (see page 17 for further details).

Store location, convenience and accessibility are all important to maintaining our customer base and we consider these factors when selecting new locations. By growing the range of sustainable products available in our stores, we believe we can positively influence our local communities and play our role in democratising sustainability (read more on our approach to sustainable products on page 48).

By adopting a structured, strategic approach to charitable support, we seek to maximise our impact in the regions and communities in which we operate, working with charity organisations across Europe and using outreach programmes. We also encourage our store colleagues to apply for grants and drive fundraising initiatives through the "Pepcolandia" programme and Poundland Foundation (see page 58 for further details of these platforms).

### Valued customer

Valuing our customer is at the heart of our retail operations and we provide a range of training to our employees to help us provide excellent customer service. As well as customer service training for in-store colleagues, buying teams in Poundland are also offered "Customer First" training which helps colleagues understand our customer segments and how and why we buy products to provide amazing value for our customers.

To help us understand and monitor how our customers view us, areas they value and where we can improve, we regularly seek feedback from customers and conduct customer surveys. In Pepco our in-house customer shopping study and brand perception research tell us that our customers love our stores and value the quality of customer service we provide. When we launched our updated Pepco brand, we used customer feedback and store trials to ensure our new-look stores were designed to best meet our customer preferences. In Poundland we conduct customer surveys, mystery shopper exercises and provide customers with a link to a customer service feedback form on the back of receipts, allowing us to monitor our performance and understand how we can improve customer service.

Pepco regularly receives customer service and brand recognition awards; for example, in 2022 and 2021 Pepco received the "Superbrand" award in both Poland and Hungary for its brand strength with customers. At the 2022 UK Corporate Engagement Awards, Poundland was awarded gold for best alignment of brand values during a CSR programme, bronze for best charity foundation and was highly commended in the most innovative collaboration category.

### Local communities and charitable support

In FY22, we supported over 100,000 people through our charitable activities and donated over €4m to charitable causes, including over €3m through our Pepco operating company (including the "Pepcolandia" grant scheme) and €1m through our Poundland Foundation.

In the year we did not make any payments to trade unions or to political organisations.

# **Environmental, social and governance** continued

## Pepco support

Through our Pepco brand, we support community projects through initiatives like our "Pepcolandia" grant programme, which gives colleagues in Poland and Romania the opportunity to assist local organisations which support children and young people. Employees can apply for grants for an organisation of their choice. This year, over 120 organisations received in excess of €160k through the "Pepcolandia" programme, supporting over 7,000 children in Poland and Romania. Pepco employees say that they are inspired to take part in the "Pepcolandia" programme because it gives them the opportunity to support positive changes in their immediate environment and strengthens ties in their local communities. In Poland, the programme was acknowledged by the Responsible Business Forum as an example of good practice in its "Responsible Business in Poland 2021. Good Practices" report.

Pepco provides additional corporate charitable support to a range of larger national and international organisations, with a focus on children, families and local communities. Pepco is an international partner of SOS Children's Villages, which supports children through increasing their competencies, developing skills and stimulating a love of art, culture and sport (see the case study below for further details).

In FY22 we also sold charity bears in our Pepco shops in seven countries with proceeds of over €350k donated to charities which support children. Due to the success of the scheme and popularity of the charity bears with customers, in FY23 we plan to extend this initiative to offer bears in a further three countries. In a number of our territories, the autumn-winter 2022 charity bear collection will be dedicated to projects which support Ukrainian child refugees to integrate into new communities and provide mental health and other support.

We directed additional resources and donations this year to supporting children and families affected by the war in Ukraine. This included working with the Saint Nicholas Foundation and the SOS Children's Villages Association, donating over €200k to each to support in their work with children fleeing the war in Ukraine, as well as those who have remained there. SOS Children's Villages has been helping children and their families in Ukraine and abroad since the beginning of the conflict. The financial support of Pepco contributed to supporting foster families, children from care and educational institutions and displaced families. Through our donations to both the Saint Nicholas Foundation and SOS Children's Villages, we have supported Ukrainian children and families affected by the war, providing accommodation and maintenance, mental health support, medical care, legal and formal assistance and education.

## Poundland support

Charity support within the Poundland brand is structured through the Poundland Foundation, a grant making charity which amalgamates customer donations, colleague fundraising and supplier support. The Foundation supports Poundland's national charity partners as well as smaller organisations and projects across the UK. The three national charity partners are Tommy's, Make a Wish and Whizz Kidz, through which we provide charitable support to families and children. Since our partnerships began, we have raised almost €6m and supported 17,000 families, including people in each of the local communities served by our 744 Poundland stores. As well as our national charity partners, the Foundation also has a grant scheme which is currently focused on the "Kits 4 Kids" initiative, a programme which facilitates grants for children's sport team kits.

## PGS support

Through our sourcing operations in Asia, we sponsor the School of Hope in Bangladesh and India. The School of Hope is an organisation operated by Hope Worldwide through which we support the "Pepco Group School of Hope" primary schools and vocational training centres. 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. In addition to supporting the Group's sponsor of the School of Hope, PGS sponsors the Heart to Heart Foundation in China as well the Shanghai and Huangpu District Charity Foundations.

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## Case study

### Supporting children's activities and wellbeing in our local communities

Pepco began working with SOS Children's Villages in Poland in 2018 and today we work with the organisation on projects to support children in local communities across 13 European countries (Poland, Romania, Bulgaria, Czechia, Estonia, Latvia, Lithuania, Croatia, Slovenia, Germany, Hungary, Spain and Greece).

The projects we support focus on providing meaningful leisure time activities for children and young people beyond traditional classroom learning, for example camps, excursions, art courses and sports, providing development opportunities which boost wellbeing and development. We also support the renovation of facilities such as playgrounds and sports equipment. This year our donations purchased a car for use in community work, for example taking children to classes or medical appointments.

In FY22, we continued our support of the "Happy Bus Project", run by the Happy Kids Foundation in Poland, which we have been sponsoring since 2019. The Happy Bus Project gives children from small rural towns and villages in Poland access to leisure facilities during their holidays. The bus provides a "mobile playground" run by international volunteers offering interactive games, English lessons, art workshops and sports activities. This year's bus was organised under the "We are all laughing in the same language!" motto and reached over 25,000 children in 42 locations, providing 800 hours of fun to children in rural locations.

## Governance


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# Introduction

This report provides an outline of the corporate governance structure of the Company and covers corporate governance matters relevant to the Company during the reporting period.

Pepco Group N.V. (the Company) is a public limited liability company incorporated under the laws of the Netherlands on 14 May 2021, having been converted from Pepco Group B.V, incorporated on 17 February 2021. Its shares are listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie) (WSE).

The Company is registered in the commercial register of the Chamber of Commerce and Industry for Amsterdam under number 81928491. The corporate seat of the Company is in Amsterdam and the registered office is 14th Floor, Capital House, 25 Chapel Street, London, NW1 5DH, United Kingdom.

The Company is organised in a one-tier structure under which managing and supervisory duties are performed by the Board of Directors of the Company (the Board). The Board is accountable to the Annual General Meeting of shareholders (AGM). The Company's corporate governance structure is based on the Articles of Association, the Board of Directors Rules of Procedure (Board Rules) and the terms of reference of the Board's Committees, as well as applicable laws and regulations. The Articles of Association, Board Rules and terms of reference of the Board's Committees can be viewed on the Company's website at www.pepcogroup.eu.

As the Company is incorporated under the laws of the Netherlands and listed on the Warsaw Stock Exchange, the Company complies with the Code of Best Practice for GPW Listed Companies 2021 (the Warsaw Code) and with the Dutch Corporate Governance Code (Dutch Code).

The full text of the WSE Code is available at www.gpw.pl/best-practice2021 and the full text of the Dutch Code can be viewed at www.mccg.nl. Deviations from the Dutch Code are explained in this report in accordance with the "comply or explain" principle.

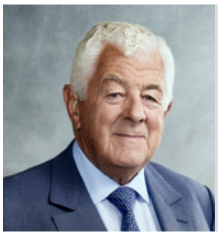
# Board of Directors

Committee Chair

A Audit Committee

R Remuneration Committee

N Nomination Committee



## Richard Burrows

**Independent Chair**

Irish, Male, 76

Appointed 24 May 2021

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Richard's executive career was principally in the drinks industry where he was, successively, chief executive of Irish Distillers, from 1978 to 2000, and co-chief executive of Pernod Ricard, from 2000 to 2006. He has had wide experience of the branded consumer goods sector and was deeply involved in establishing Jameson as one of the world's leading whiskeys. He also gained wide experience of mergers, acquisitions and disposals in the course of his career. By profession he is a Chartered Accountant. He was governor of the Bank of Ireland, chairman of the Scotch Whisky Association and president of IBEC. Most recently he was chairman of BAT plc, a global tobacco company, from 2009 to 2021. He currently serves on the board of Carlsberg and is chairman of its remuneration committee. He also serves on its audit and nomination committees.

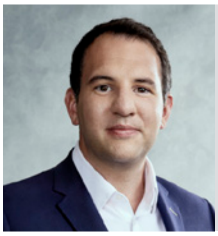
## Trevor Masters

**Chief Executive Officer***

British, Male, 59

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 a number of board positions within Tesco's international businesses, including various joint ventures and investment vehicles.

* Trevor Masters will be nominated for appointment to the Board of Directors at the AGM. The appointment date in this report refers to appointment into the role of Chief Executive Officer. He was appointed as a Temporary Executive Director on 28 July 2022.



## Mat Ankers

**Interim Chief Financial Officer***

British, Male, 36

Mat joined the business as Group Financial Controller for Pepkor Europe in 2015 prior to the rebranding to Pepco Group. Over the past seven years he has held a variety of finance, transformation and strategy roles across the business including Transformation Director at Poundland Dealz, Finance Director at PEP&CO and Investor Relations and Strategy Director of Pepco Group. Mat is a qualified Chartered Accountant and prior to Pepco held roles within finance with Telefonica and French Connection PLC.

* Mat Ankers is not a statutory Director of the Company, due to the interim status of his role as Chief Financial Officer.

## Pierre Bouchut

**Independent Non-Executive Director**
French, Male, 67
Appointed 24 May 2021

A R

Pierre is the former chief executive officer of Casino, the French multi-national grocery group, and the former CFO of the Schneider Electric and Carrefour groups. Pierre has extensive international experience in both senior executive and non-executive roles within finance, European retail, logistics and property businesses. Pierre's experience of managing large, listed companies gives him a deep insight into how strategic changes may affect the retail and property sectors. He is currently non-executive director and chairman of the audit committee at Firmenich; independent director and chairman of the audit committee of Entain (formerly GVC Holdings) and non-executive director of GeoPost/DPD.

## María Fernanda Mejía

**Independent Non-Executive Director**
American, Female, 59
Appointed 24 May 2021

N A

María Fernanda has broad and deep experience and expertise in general management including strategy development, operations, supply chain and talent development. She is CEO, International, at Newell Brands, having joined in February 2022. Until February 2020, she served for more than eight years as corporate officer and executive committee member at the Kellogg Company, with her final roles being senior vice president and president of Kellogg Latin America. Prior to this, María Fernanda spent 23 years at the Colgate-Palmolive Company in global marketing and senior management roles within developed and emerging markets. Until February 2022, María Fernanda was a non-executive director of Bunzl, where she was a member of the audit, remuneration and nomination committees; and a non-executive director and member of the audit and risk committee at Grocery Outlet, a US discount detailer. Prior to this, she served as a non-executive director of International Consolidated Airlines Group from 2014 to 2020, including as a member of the audit and compliance and remuneration committees.

## Brendan Connolly

**Independent Non-Executive Director**
British, Male, 66
Appointed 24 May 2021

R A

With extensive executive and non-executive experience, Brendan brings extensive operational, commercial and strategic expertise and insights to Pepco Group. He is a non-executive director at Victrex and Synthomer, where he is also senior independent director and chair of the remuneration committee, respectively. Brendan has more than 30 years' experience in the oil and gas and the testing and inspection industries. He was a senior executive at Intertek Group, having been chief executive officer of Moody International, which was acquired by Intertek in 2011. Brendan was managing director of Atos in the UK after spending more than 25 years with Schlumberger in senior international roles.

# **Board of Directors** continued

### Grazyna Piotrowska-Oliwa

**Independent Non-Executive Director**
Polish, Female, 53
Appointed 24 May 2021

R

Grazyna has strong experience across government and business both in Poland and Central and Eastern Europe. At the start of her career, Grazyna spent four years at the Polish Ministry of the State Treasury, where she headed two different divisions. With a proven track record in some of Poland's WIG20 companies, Grazyna brings 20 years' experience working on C-level for Telekomunikacja Polska and PTK Centertel (now Orange Polska), PZU (on the supervisory board), PKN Orlen and PGNiG, as well as chief executive officer and president of the management board of Virgin Mobile Poland/CEE, following a period advising private companies and private equity funds. Grazyna is co-owner and CEO/chairman of renowned e-commerce platforms Grupa Modne Zakupy and RentPlanet.

### Neil Brown

**Non-Executive Director**
British, Male, 63
Appointed 17 February 2021

A R

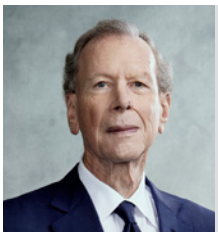
Neil has extensive global experience in corporate restructurings, private equity and dispute resolution and wide international commercial board experience. He has held a number of chairman, director and committee positions in international organisations including Magma Fincorp India, gategroup, Iceland 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.

### H. Helen Lee Bouygues

**Non-Executive Director**
American, Female, 50
Appointed 4 May 2021

N A

Helen 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**
American, Male, 73
Appointed 4 May 2021

R

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 the audit, remuneration, governance and nomination committees for a number of companies for which he is a board member. Paul previously was a partner and member of the management committee of AEA Investors LP in AEA's London office.

# Corporate governance statement

## Board of Directors

The role of the Board is to supervise and manage the general affairs of the Company and its affiliated enterprises (the Group). The Board is collectively responsible for supervising the strategy and long-term success of the Company in achieving its objectives, and for ensuring that there is an effective system of internal controls within the Group for the assessment and management of key risks. In discharging its role, the Board ensures that the Group acts ethically and takes into account relevant interests of the Company's stakeholders.

In supervising the strategy of the Company, the Directors also take into account the following matters:

- the implementation and feasibility of the strategy;
- the appropriateness of the Company's business model and the markets in which the Group operates;
- the opportunities and risks for the Company;
- the Company's operational and financial goals and their impact on the Group's future operations in its markets;
- compliance with the Company's legal and regulatory obligations; and
- environmental, social and employee-related matters, the Group's supply chain and respect for human rights.

The tasks, responsibilities and internal procedure matters for the Board are addressed in the Articles of Association and Board Rules.

### Roles and responsibilities

The Board is collectively responsible for the business strategy and general affairs of the Company and its affiliated enterprises and the Executive Directors are responsible for the day-to-day management of the Company. The Non-Executive Directors are responsible for supervising and advising the Executive Directors.

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

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

The Chief Executive Officer is responsible for the day-to-day management of the Group and implementation of the strategy and other Board decisions.

### Appointment and composition of the Board

Following the resignation of Andy Bond, Chief Executive Officer, with effect from 31 March 2022, and Nick Wharton, Chief Financial Officer, with effect from 30 April 2022, the Non-Executive Directors were entrusted with the management of the Company pursuant to Article 19.1 of the Articles of Association. The Non-Executive Directors subsequently used their authority under Article 19.1 of the Articles of Association to temporarily entrust the management of the Company to Trevor Masters, Chief Executive Officer (a temporary Executive Director).

In accordance with Article 15.5 of the Company's Articles of Association, the Board appointed Neil Brown to act as Vice Chair during the meeting of the Board held on 28 July 2022.

At the next AGM, Trevor Masters and Neil Galloway will be nominated for appointment as Executive Directors and Andy Bond will be nominated for appointment as Non-Executive Director and Chair of the Board, replacing Richard Burrows, who will step down as Non-Executive Director and Chair of the Board at the end of the AGM.

Five of the Non-Executive Directors, including the Chair, are considered to be independent in accordance with best practice provisions of the Warsaw Code and the Dutch Code. Three of the Non-Executive Directors, being Neil Brown, Helen Lee Bouygues and Paul Soldatos, are not considered to be independent within the best practice provisions of the applicable Codes due to their position as directors of the Company's principal shareholder.

# Corporate governance statement continued

If the nominations of Trevor Masters and Neil Galloway as Executive Directors and Andy Bond as Non-Executive Director and Chair of the Board are approved by shareholders at the Company's next AGM, the Board will comprise of ten members. Four of the Non-Executive Directors will be considered to be independent in accordance with best practice provisions of the Warsaw Code and the Dutch Code. Four of the Non-Executive Directors, including the Chair, will not be considered to be independent. The new Chair will not be considered to be independent due to his previous role as an Executive Director of the Company.

All current members of the Board were appointed during the previous reporting period and are serving their initial terms on the Board. Board members are appointed for an initial period of three years and may then be reappointed for two subsequent three-year terms.

Where Board members have external appointments, the Board is satisfied that such appointments do not impact on the individual Board member's ability to devote adequate time and sufficient attention to the concerns of the Company.

Members of the Board are appointed by the general meeting of shareholders from a binding nomination of the Board. It is the intention of the Board to nominate Trevor Masters to be appointed as an Executive Director of the Company at the Annual General Meeting (AGM). The general meeting of shareholders may reject a binding nomination of the Board by a resolution passed by two-thirds of the votes cast representing more than half of the Company's issued share capital.

The general meeting of shareholders can dismiss and suspend members of the Board other than on the proposal of the Board upon a majority of two-thirds of the votes cast representing more than half of the Company's issued share capital. If the proposal is made by the Board, a simple majority of the votes cast is sufficient.

The Chair of the Board and the Board itself are supported by the Company Secretary, who is appointed by the Board and available for advice and assistance to all Board members. The Company Secretary is responsible for ensuring that proper procedures are followed and that the Board acts in accordance with its statutory obligations as well as its obligations under the Articles of Association.

## Diversity

In accordance with the Dutch Act on Management and Supervision (Wet bestuur en toezicht), and the Dutch Act on Gender Diversity in Boards (Wet diversiteit bestuur en raad van commissarissen), the Board has adopted a diversity policy committed to achieving at least 30% female representation. The Board currently consists of eight Non-Executive Directors, among whom five are male (62.5%) and three are female (37.5%). The policy is considered in the operation of the Nomination Committee and has continued to be met throughout the financial year.

When considering nominations of new Board members, the Board considers the elements of a diverse composition in terms of nationality, gender, age and background, including expertise and experience.

## Induction and training

When appointed to the Board, all members participated in an induction programme prepared by the Company in consultation with the Chair of the Board.

The programme included information in respect of the Company and its corporate governance, the operations of the businesses within the Pepco Group and meetings with members of the Company's leadership team and other senior managers.

The Executive Directors (and currently the temporary Executive Director) provide regular updates to the Board on the Company's operations, financial and legal matters, corporate governance, accounting, compliance and engagement with the Company's stakeholders.

## Board Committees

The Board operates the following principal Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The function of these Committees is to prepare the decision making of the Board.

Each Committee of the Board has established terms of reference which prescribe the role and responsibility of the relevant Committee, its composition and the process through which the Committee discharges its duties. These terms of reference are available on the Company's website, www.pepcogroup.eu.

During the reporting period, more than half of the members of the Audit Committee (including its Chair) and the Remuneration Committee were independent within the meaning of the applicable best practice provisions of the Warsaw Code and Dutch Code with due observance to the Decree on Implementation Audit Committee.

### Board and Committee attendance

Attendance at Board and Committee meetings was as follows:

| Directors | Board (16) | Audit Committee (6) | Remuneration Committee (5) | Nomination Committee (7) |
|---|---|---|---|---|
| Richard Burrows (Chair) | 16 | n/a | n/a | 7 |
| Neil Brown (Vice Chair) | 15 | 6 | 5 | n/a |
| Andy Bond | 7 | n/a | n/a | n/a |
| Nick Wharton | 9 | n/a | n/a | n/a |
| Helen Lee Bouygues | 16 | 6 | n/a | 7 |
| Paul Soldatos | 15 | n/a | 3 | n/a |
| Pierre Bouchut | 16 | 6 | 5 | n/a |
| Brendan Connolly | 16 | 4 | 5 | n/a |
| María Fernanda Mejía | 13 | 6 | n/a | 7 |
| Grazyna Piotrowska-Oliwa | 16 | n/a | 5 | n/a |
| Trevor Masters* | 3 | n/a | n/a | n/a |

Andy Bond retired from the Board with effect from 31 March 2022. Nick Wharton retired from the Board with effect from 30 April 2022. As of 28 July 2022, Trevor Masters was appointed as Temporary Executive Director by the Board in accordance with 19.1 of the Articles of Association.

* Trevor Masters will be nominated for appointment to the Board of Directors at the AGM. The attendance in this report refers to attendance in the role of Chief Executive Officer.

## Board meetings, attendance and decision-making

According to the Board Rules, the Board meets in principle once every two months and at least once each financial quarter. Each Director is entitled to cast one vote. In the event of a tie, the Chair has the casting vote. During FY22, meetings of the Board were held both in person and virtually via Microsoft Teams, as permitted by Article 16.6 of the Articles of Association.

Most decisions of the Board require a simple majority of the votes cast. For Board decisions on matters which cannot be resolved upon by the Non-Executive Directors due to a direct or indirect conflict of interest and for Board decisions to approve a related party transaction, such decisions require the majority of the votes cast to include a majority of the votes of the independent Non-Executive Directors.

When determining how many votes are cast by members of the Board, no account shall be taken of Board members who are not permitted to take part in the discussions or decision making due to a conflict of interest.

Decisions of the Board may be taken in writing, provided that all Board members (in respect of whom no conflict exists) have consented in writing.

# Corporate governance statement continued

## Areas of focus in FY22

The Board focused on the below areas during the reporting period.

### Strategy and operational

- Scrutinised operational and business performance in the context of the Company's business plan and long-term strategy, including the status of key projects
- Reviewed the Group's strategy and approved the five-year business plan for FY23 to FY27
- Monitored the implementation of the Enterprise Resource Planning system within the Pepco Group
- Considered the new store programme, new store design concept and results of the e-commerce trial and franchise model trial
- Approved the additional procedures to measure value under the Value Creation Plan (VCP) and approved the 2021 VCP awards on the recommendation of the Remuneration Committee
- Approved the bonus payout level for FY21 for colleagues
- Approved the framework for the new Group Long Term Incentive Plan
- Reviewed the agenda for the Capital Markets Day
- Considered the commercial aspects of the principal shareholder creditor arrangements
- Reviewed the content of the Company's external announcements

### Financial performance

- Reviewed financial performance and forecasts
- Evaluated and approved the FY23 budget
- Approved the Company's Annual Report and Consolidated Financial Statements for FY21, together with the letter of representation in connection with the Annual Report 2021

### Governance

- Approved the amendments to the shareholders' lock-up arrangements in connection with the IPO
- Approved the heads of agreement between the Company and ex-CEO, Andy Bond, and the associated settlement agreement
- Approved the terms of the reference of the Audit Committee
- Approved the appointment of the new CEO, Trevor Masters
- Approved the appointment of the Vice Chair, Neil Brown
- Approved the updated insider trading policy and UK tax strategy
- Considered the Directors' travel and expense guidelines
- Approved ESG Strategy Framework
- Approved the Board profile as required by the Dutch Corporate Governance Code
- Approved the Board diversity policy
- Approved the Group Risk Management Framework
- Approved the FY22 Internal Audit Plan
- Recommended to the shareholders the appointment of Mazars as the Company's external auditors for FY22
- Approval of the Senior Internal Auditor, Alan Chitty
- Approved the policy on bilateral contacts with shareholders
- Approved the AGM Agenda and Convocation Notice
- Approved a policy on approval of Directors' expenses

## Remuneration

In line with the Remuneration Policy of the Company, the remuneration of the Executive members of the Board is determined by the Non-Executive members of the Board, upon recommendation of the Remuneration Committee. The Non-Executive Directors who are not considered to be independent (being Neil Brown, Helen Lee Bouygues and Paul Soldatos) do not receive remuneration from the Company or its affiliated enterprises. The general meeting decides on the Remuneration Policy applicable to the other Non-Executive Directors.

The Remuneration Policy and the elements of the remuneration of Board members are set out in the Remuneration report and note 8 to the financial statements.

## Conflicts of interest

The Articles of Association and Board Rules prescribe how conflicts of interest between the Company and Board members must be managed.

Transactions between the Company and a Board member who has a conflict of interest must be entered into on arm's length terms. A Board member who has a conflict of interest cannot participate in deliberations and decision making relating to the subject matter of the conflict of interest.

In FY22, £87,670.12 (inc VAT) of payments were made from Pepco Group Services Limited to Woodcliffe Associates Limited, a company that Andy Bond has a related party interest in. Costs relate to the services of Andy Bond's personal assistant and temporary investor relations support.

Any decision to enter into a transaction under which a member of the Board has a conflict of interest that is of material significance to the Company and/or the relevant Board member requires the approval of the Board.

There were no material transactions which gave rise to conflicts of interest with any Board members reported during the reporting period. Reference is made to note 25 (Related party transactions) of the consolidated financial statements for a description of any related party transactions.

## 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 FY22, the Group continued working with EY to maintain the Group Risk Management Framework, presenting updated risk registers to the Group Audit Committee and delivering targeted internal audits to support Group assurance activities.

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 Group 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 Committee as appropriate.
- **Monitoring of controls:** The Audit 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 polices to facilitate the reporting of any suspected wrongdoing or malpractice.

Information on the key risks and uncertainties of the Group is set out on pages 26 to 37.

# Corporate governance statement continued

## General meetings

The Articles require that the AGM be held in the Netherlands within six months of the end of the financial year. Additional general meetings may be convened at other times by the Board as necessary. The first AGM was held virtually (in accordance with the Dutch Temporary Act Covid-19 Justice and Safety (Tijdelijke wet Covid-19 Justitie en Veiligheid)) by the Company on 27 January 2022. Due to associated health risks and governmental restrictions related to the Covid-19 pandemic, shareholders were invited to attend the AGM via webcast. The right to vote at the AGM could only be exercised by a written proxy with voting instructions to the Company Secretary. Shareholders were entitled to submit questions about agenda items prior to the AGM. There was a live webcast, available in full via www.pepcogroup.eu.

A subsequent AGM will be held prior to 31 March 2023. The Articles provide that the agenda for the AGM shall at least be as follows:

- advisory vote in respect of the Remuneration report;
- discussion of the Annual Report;
- discussion and adoption of the annual accounts;
- (if put on the agenda) discharge of the Board members from their liability;
- (if put on the agenda) designation of the Board as competent to issue shares;
- (if put on the agenda) appointment of external auditors; and
- (if required) authorisation of the Board to permit the Company to acquire its own shares.

### Convocation

The AGM is convened by publication of a notice on the Company's website at least 42 days prior to the AGM. Shareholders are entitled to propose items for the agenda of the AGM provided that, alone or jointly, they hold at least 3% of the issued share capital of the Company. Proposals for agenda items must be submitted at least 60 days prior to the date of the meeting. A request of a shareholder for an item to be included on the agenda of the AGM must be explained in writing. The principles of reasonableness and fairness may permit the Board to refuse the request.

### Voting rights

The authorised share capital of the Company is €17,250,000 and is divided into 1,725,000,000 shares with a nominal value of €0.01 each. The issued share capital is €5,750,000 divided into 575,000,000 shares. Each share carries one vote. The shares are listed on the Warsaw Stock Exchange.

All shares carry equal rights and are freely transferable.

Shareholders who hold shares on a statutory record date (i.e. the 28th day prior to the AGM) are entitled to attend and vote at the AGM.

Shareholders may exercise their rights if they are the shareholders of the Company on the record date and they or their proxy have notified the Company of their intention to attend the AGM in writing or by any other electronic means that can be reproduced on paper ultimately at a date set for that purpose by the Board of Directors, which date may not be earlier than the seventh day prior to the AGM.

Each share in the issued share capital of the Company confers the right to cast one vote at the AGM.

### Adoption of resolutions

Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the AGM are adopted by a simple majority of the votes cast at the meeting.

Shareholder votes can be cast either in writing or electronically.

### Amendment of Articles of Association

The Articles of Association can be amended by resolution of the AGM. A resolution to amend the Articles of Association can only be adopted at the proposal of the Board.

### Appointment and dismissal of Directors

The Company has a one-tier system of management that means that managing and supervisory duties are joined in the Board of Directors. Appointment and/or dismissal and/or suspension of the members of the Board of Directors is the prerogative power of the general meeting of the shareholders. Each Executive Director may also, at any time, be suspended by the Board. Pursuant to the Articles of Association, the number of Directors shall be determined by the Board. Following a binding nomination by the Board, with due observation of the provisions under the Articles of Association, the Directors are appointed by the general meeting. If and when selecting and nominating candidates for the Board, the diversity policy is taken into consideration.

## Substantial shareholdings

Pursuant to the Financial Supervision Act (Wet op het financieel toezicht) and the Decree on Disclosure of Major Holdings and Capital Interests in Issuing Institutions, the Company has been notified of the following substantial shareholdings regarding the Company as at 30 September 2022:

| | Shares | Percentage |
|---|---|---|
| **Total free float on WSE, of which:** | | |
| Substantial shareholding: Silver Point Capital, L.P. | 25,341,098 | 4.41 |
| Non substantial shareholdings | 92,078,372 | 16.01 |
| **Andy Bond*** | 3,745,301 | 0.65 |
| **Independent Non-Executive Directors** | 240,613 | 0.04 |
| **IBEX Retail Investments (Europe) Limited** | 453,594,616 | 78.89 |
| **Total** | 575,000,000 | 100 |

* Including shares held via Kent Road Investments 2019 Limited and Kent Road Investments 2020 Limited.

78.89% of the Company's issued share capital is ultimately owned by Steinhoff International Holdings N.V. (SIHNV), with 0.04% owned by the independent Non-Executive Directors, 0.65% owned by the previous CEO, who retired during FY22, and the remaining 20.42% traded on the WSE. Of the shares traded on the WSE, no shareholder owns more than 5%.

At the time of the Company's initial listing on the WSE, the Company entered into a relationship agreement with certain affiliate enterprises of SIHNV (the SIHNV Affiliates) to regulate the relationship between the Company and the Steinhoff group of companies (the Relationship Agreement). The terms of the Relationship Agreement comply with the requirements of principle 2.7.5 of the Dutch Code.

The Relationship Agreement provides that:

a) for so long as the SIHNV Affiliates hold, in aggregate, more than 30% of the voting rights of the Company, the SIHNV Affiliates will jointly be entitled to nominate three Non-Executive Directors to the Board. This nomination right is reduced to two Non-Executive Directors when the SIHNV Affiliates hold, in aggregate, less than 30% of the voting rights of the Company. This nomination right is further reduced when the SIHNV Affiliates hold, in aggregate, less than 20% of the voting rights of the Company. If the SIHNV Affiliates hold, in aggregate, less than 10% of the voting rights of the Company, they will no longer have the entitlement to nominate any members of the Board;

b) subject to compliance with applicable laws and regulations, including the Market Abuse Regulation, the Company will:

i. provide certain information to the SIHNV Affiliates to enable the Steinhoff group of companies to fulfil its regulatory and legal obligations and to facilitate the preparation of the accounts of the SIHNV Affiliates and connected enterprises for so long as such provision is reasonably required by generally applicable accounting principles; and

ii. provide reasonable assistance and access to Company management in connection with any planned disposal of shares in the Company that are held by the SIHNV Affiliates;

c) transactions and arrangements between the SIHNV group of companies and the Pepco Group will be conducted at arm's length and on normal commercial terms; and

d) no member of the SIHNV group of companies will propose or procure the proposal of a member resolution which would prevent the Company from complying with its legal and regulatory obligations.

# Corporate governance statement continued

## Issuance of shares, acquisition of own shares and disapplication of pre-emption rights

The Articles of Association provide that the general meeting may issue shares (or delegate that authority to the Board). Any delegation to the Board to issue shares must specify the maximum number of shares that can be issued under the delegation and the duration of the delegation cannot exceed five years. The designation can be extended for periods not exceeding five years.

A resolution by the general meeting to issue shares or to designate such authority to the Board can only be taken at the proposal of the Board.

The Articles of Association permit the general meeting to restrict or exclude the pre-emption rights or shareholders at the proposal of the Board. A resolution to exclude shareholders' pre-emption rights requires a majority vote of at least two-thirds of votes cast if less than half of the Company's issued and outstanding share capital is present at the general meeting.

Under the Articles of Association, the Company may acquire its own shares if the general meeting authorises the Board to do so. An authorisation for the Board to acquire shares in the Company is limited to 18 months. Such authorisation was obtained at the general meeting in January 2022, and will be requested at the general meeting in 2023.

No authorisation of the general meeting is required for the Company to acquire its own shares for the purpose of transferring such shares to employees of the Pepco Group under an applicable share plan.

## Lock-up arrangements

### Management Selling Shareholder lock-up

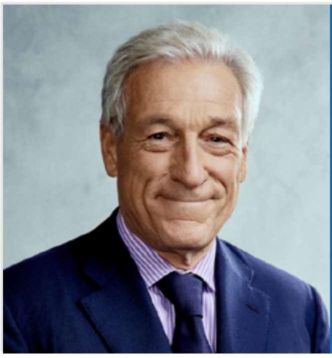
Andy Bond, Mark Elliott and Sean Cardinaal (the Management Selling Shareholders) previously held management positions within the Group and held founder shares that were converted into shares of Pepco Group N.V. in May 2021. Each of the Management Selling Shareholders agreed that from 5 May 2021 until 1 January 2024, they will not, without the prior written consent of the Company and (in respect of the 365-day period from 26 May 2021 only) the joint global co-ordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any shares held by them immediately following the IPO (Locked-up Shares) (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, the Locked-up Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, such lock-up restrictions being subject to certain customary exceptions. The lock-up undertaking described above will on 1 January 2023 cease to apply in respect of two-thirds of the Locked-up Shares held by a Management Selling Shareholder at such date, and from 1 January 2023 apply to one-third of the remaining Locked-up Shares held at such date until 1 January 2024 (unless waived with the prior written consent of the Company). During the October 2021 Board meeting, the Company agreed to allow Sean Cardinaal to sell up to one-third of his Locked-up Shares from 1 January 2022, and his remaining Locked-up Shares from 1 January 2023.

### Independent Non-Executive Director lock-up

In respect of work undertaken by them in relation to and in preparation for roles as Board members, in the period prior to the Company's listing on the WSE one-off fees were paid to Richard Burrows, Brendan Connolly, María Fernanda Mejía, Grazyna Piotrowska-Oliwa and Pierre Bouchut which were used by these individuals to subscribe for shares in the Company on admission to the WSE (at the admission offer price).

Shares acquired by these Board members on admission must be held until the later of (i) 26 May 2024; or (ii) the first anniversary of the date on which the relevant Board member ceases his or her directorship of the Company.

# Audit Committee report



**Committee members**

- Pierre Bouchut (C)
- María Fernanda Mejía
- Brendan Connolly
- Helen Lee Bouygues
- Neil Brown

**Pierre Bouchut**
**Audit Committee Chair**

## Dear Shareholders,

### Introduction

I am pleased to present the report of the Audit Committee for the year ended 30 September 2022, setting out the ongoing responsibilities and objectives of the Committee and the work that has been carried out during this year.

### Committee composition

The Committee comprises five members, each of whom is a Non-Executive Director of the Company. Three members constitutes a quorum. I am the Chair of the Committee and María Fernanda Mejía and Brendan Connolly are members of the Committee who are considered to be independent Non-Executive Directors within the meaning of the Dutch Code and Warsaw Code. Helen Lee Bouygues and Neil Brown are Non-Executive Directors who are not considered to be independent.

The Committee must have at least one member with recent and relevant financial experience and with competence in accounting and/or auditing. The Chair of the Board may not be a member of the Committee. The Company Secretary acts as secretary to the Committee. The Group CFO and external auditors attend all meetings and other individuals including the Group General Counsel, the Group Financial Director and the Group Director of Treasury, Tax and Risk, who is the Senior Internal Auditor, may also attend and are available to meet on a one-to-one basis as and when required to support the Chair in fulfilling his role.

The Audit Committee meets as often as is required for its proper functioning and the timing of meetings is agreed in advance and set to accommodate the dates of release of financial information. In addition to scheduled meetings, the Chair regularly liaises with the Group CFO. The Committee has a schedule of regular, structured meetings and consults with external auditors, advisors and Company management where appropriate. At least once a year the Committee meets separately with the external auditors without management being present.

The governance structure of internal audit is currently being reviewed to increase its independence by having a direct management reporting line to the Audit Committee. The new structure is expected to be implemented by the end of calendar year 2022.

# Audit Committee report continued

## Responsibilities

The responsibilities of the Audit Committee, as delegated by the Board, are set out in its terms of reference and 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 relevant 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 and Senior Internal Auditor;
- 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 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.

To reflect the growing importance of ESG matters and to provide greater focus and oversight, the Audit Committee terms of reference have been updated to better reflect its remit.

Further details with regard to the membership and terms of reference of the Committee can be found on page 67. The Committee structure allows for greater depth of engagement and clear focus in driving forward our ESG agenda; a quarterly report on ESG initiatives and deliverables by the Director of Group Treasury, Tax and Risk and Group Head of Risk and ESG Reporting to the Committee, assures a clear reporting line on all ESG matters to me. In 2022, we have put in place measures to both reflect Pepco Group's ESG priorities and meet increased reporting and compliance obligations in this area.

More detail on the role and duties of the Committee can be found in the terms of reference on the Company's website.

## Committee activities in FY22

The Committee considered the following matters during the year:

- considered internal audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions;
- reviewed the internal audit plan and approach for 2022;
- reviewed the Group's risk management framework, including processes and control environment, prior to making a recommendation to the Board;
- approved the engagement of a co-source partner to conduct an internal cyber security audit;
- considered the appointment of the Group's Senior Internal Auditor and recommended the same to the Board for approval;
- considered the effectiveness of the external auditors and recommended to the Board the reappointment of Mazars as the Company's external auditors (subject to shareholder approval at the Annual General Meeting);
- considered the status of and financial provisions for material disputes across the Group;
- considered the Group internal audit structure;
- reviewed the status of the Group supply chain finance project;
- considered the approach taken by the Group in implementing the IFRIC interpretation of IAS 38;
- monitored legislative and regulatory changes in relevant jurisdictions, including considering the implications of the new Polish tax regime;
- considered the Group compliance framework;
- reviewed the status of the FY22 internal audit programme;

- considered the impact of the war in Ukraine on the Group's foreign exchange hedging programme;
- considered the going concern assessment and key accounting judgements in connection with the FY22 audit review;
- reviewed the FY22 H1 and H2 draft announcements before recommending the same to the Board;
- monitored fraud reporting and investigation;
- reviewed the status of the Dutch Authority for the Financial Markets (AFM) review of the FY21 Annual Report; and
- reviewed and discussed reports from finance directors and internal auditors of the Group's operating companies.

In considering the accounting matters referred to above, the Committee was provided with 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.

## 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, investors and other stakeholders.

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.

## 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 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 that framework.

The Group is proactive in ensuring that Group and operational risks are consistently identified and managed within each operating company. In addition, the Group risk appetite and risk register are maintained which detail:

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

A description of the key risks is set out on pages 28 to 37.

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

The Board considers that the processes undertaken by the Committee are appropriately robust and effective.

During the year, the Board has not been advised by the Committee of 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 including internal audit reporting to the Audit Committee.

# Audit Committee report continued

## Reviewing the Annual Report and Consolidated Financial Statements

Prior to publication, the Committee reviewed this Annual Report and Consolidated Financial Statements, the Interim Financial Statements and the Independent auditors' report. In particular, it considered 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 this Annual Report and the financial statements was fair, balanced, comprehensive, clear and understandable 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 judgemental items including but not limited to goodwill and IFRS 16 impairment reviews, the application of IAS 38 in respect of Software-as-a-Service costs, and the identification and classification of non-underlying items. For each of these subjects the relevant member of management attended the section of the meeting to discuss these items and answer questions and challenges posed by the Committee. The Committee considered the key facts and challenged relevant members of management on whether these items are non-underlying in accordance with guidelines on Alternative Performance Measures and, after consultation with the auditors, concurred with this judgement. Where relevant the Committee also discussed with the external auditors how management's judgements were considered and challenged during the audit process. The Committee is satisfied that there are accounting policies in place with respect to these judgemental areas and management has correctly applied these policies.

The Audit Committee notes the qualification from the external auditors in regard to the unexplained difference and the potential control deficiencies on the warehouse reconciliation process of €7m. Whilst control environments are regularly reviewed a detailed investigation of this matter with local IT and Finance teams in Poland is planned in the audit committee workplan in Q1 of 2023 to ensure that certainty can be given in future periods.

### Going concern

The Committee reviewed the appropriateness of adopting the going concern basis of accounting in preparing the Annual Report and Consolidated Financial Statements. The assessment included review of the liquidity impact of a severe, but plausible, management downside scenario and a series of reverse stress tests.

### True and fair view

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, are fair, balanced and understandable and whether they provide the necessary information to shareholders to assess the Group's position, performance, business model and strategy.

The Committee considered the Company 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 Consolidated Financial Statements is fair, balanced and understandable.

## External auditors

Mazars Accountants NV were appointed as the independent auditors of the Company and its subsidiaries for the financial year ended 30 September 2022. The partner responsible for the Group audit opinion is Nathalie Habers.

### Supervision 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 Group's policy prevents the external auditors providing any services designated as prohibited within the Dutch Code or the Warsaw 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.

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 2022 for non-audit services.

### Auditors' reappointment

On recommendation of the Committee, the Directors will be proposing the reappointment of Mazars at the Annual General Meeting in 2023.

I would like to thank the management team and all Committee members for their valuable contribution and support during the year.

**Pierre Bouchut**
**Audit Committee Chair**

# Remuneration Committee report

## Committee members

- Brendan Connolly (C)
- Pierre Bouchut
- Grazyna Piotrowska-Oliwa
- Paul Soldatos
- Neil Brown

**Brendan Connolly**
**Remuneration Committee Chair**

## Dear Shareholders,

I would like to thank our shareholders for their support in 2022, during our first full financial year post IPO. Our existing Remuneration Policy was originally approved just prior to the Company's listing on the WSE and is still current. We have decided there are various matters which we feel warrant amending this year to align with our strategy and have therefore made the decision to put a new Remuneration Policy to a shareholder vote this year, for approval at the 2022 AGM (to be held in 2023).

The key changes include:

- extending the VCP by two years, re-basing the annual valuation hurdle against which the VCP is measured and permitting the Chair to participate;
- adding in clarity over the performance metrics to be used in the long-term incentive plan (LTIP);
- increasing the annual bonus plan maximum for the Executive Directors to 150% of base salary to better align to market; and
- providing for the periodic review of Non-Executive Director fee levels, including an increase for the 2023 financial year of 5%.

As a Dutch company listed on the WSE we have various reporting requirements and as we did last year, we have chosen to supplement these with additional information in the interests of transparency. This letter and the Remuneration report on pages 86 to 98 will also be presented for approval by an advisory vote at our AGM. We would like to thank our shareholders for supporting our remuneration report at our AGM in January 2022.

### Introduction

The Remuneration Committee's purpose is to develop a reward package for Executive Directors and senior managers that supports the Company's vision and strategy, and to ensure that rewards are performance based, encourage long-term shareholder value creation and take into account the remuneration of the whole workforce. More detail on the role and duties of the Committee can be found in the terms of reference on the Company's website.

### Committee composition

The Committee comprises five members, each of whom is a Non-Executive Director of the Company. Three members constitutes a quorum. I, Brendan Connolly, am the Chair of the Committee, and Pierre Bouchut and Grazyna Piotrowska-Oliwa are members of the Committee who are independent Non-Executive Directors within the meaning of the Dutch Code and Warsaw Code. Paul Soldatos and Neil Brown are members of the Committee who are not considered to be independent. The Chair of the Board may not be a member of the Remuneration Committee. The Company Secretary acts as secretary to the Committee. Other individuals, including senior executives and external professional advisors to the Committee, may be invited to attend when appropriate and necessary. No individual will be present when their own remuneration is discussed.

The Remuneration Committee meets at least three times each year and is responsible for preparing the decision making of the Board on the remuneration of members of the Board and the Company Secretary.

The Committee is also responsible for reporting to the Board on the implementation of the Remuneration Policy in each year in the context of the achievement of the Company's long-term strategy and objectives.

## Responsibilities

The main duties of the Remuneration Committee are as follows:

- to recommend to the Board the Remuneration Policy of the Company;
- to advise on and recommend to the Board the remuneration framework for the Chair, the Executive Directors and the Company Secretary and to advise the AGM on the remuneration of the Non-Executive Directors;
- to advise on the structure of and target setting for performance-based incentive plans of the Company, including monitoring performance against any targets;
- to review all share incentive plans for approval by the Board and shareholders; and
- to prepare the remuneration report.

## Committee activities in FY22

During the reporting period, the Board focused on the areas as set out below:

- reviewed remuneration for the Executive Directors and Company Secretary;
- reviewed and approved the remuneration packages for our new CEO and interim CFO and outgoing remuneration for our previous CEO and CFO;
- reviewed performance against FY22 bonus targets for the Executive Directors, our new CEO, Interim CFO and Company Secretary;
- approved performance targets for 2023 bonus plan for our new CEO, Interim CFO and Company Secretary;
- reviewed the terms of reference to ensure alignment with the Dutch Code and Warsaw Code;
- considered appropriate metrics for the Group LTIP;
- reviewed Non-Executive Director fees for 2023;
- reviewed Executive Directors' shareholdings against shareholding requirements;
- considered alignment of executive pay with Company culture;
- reviewed the remuneration report; and
- considered the mechanism to be used to calculate the value of participation rates for 2022 under the VCP and potential amendments to the plan.

## Remuneration outcomes in FY22

### Base salaries

Our Executive Directors, being the previous CEO and CFO, were based in the UK and were awarded an increase in their salaries for 2022 of 2.5%, in line with the average increase awarded to our UK employee population.

The new CEO and CFO will be nominated for appointment to the Board at the 2022 AGM. The Interim CFO does not sit on the Board.

The new CEO's salary was set at a higher level than the salary of the previous CEO but only at a small percentage increase to his former salary before being appointed as the CEO. This is below the mid-market level for a company of our size, reflecting the opportunity that we place on variable pay that is aligned to shareholders' interests. The Interim CFO's current base salary remains below the lower quartile compared to his peers due to the interim nature of the role. It should also be noted that any pension contributions made to the Executive Directors were included in their base salaries. In future the new CEO and CFO will receive a pension allowance of 13% of salary.

# **Remuneration Committee report** continued

## Bonus plan

The bonus plan for FY22 for the Executive Directors consisted of two performance goals: a financial goal of €742m of underlying EBITDA (on an IFRS 16 basis, prior to translation for FX adjustments and excluding Dealz Spain) with a maximum opportunity of 80% of base salary, and a personal goal with a maximum opportunity of 20% of base salary. The maximum bonus of 100% of salary was earned by the new CEO reflecting the Committee's assessment of his overall performance in his roles, both before he became the CEO and afterwards. For the previous CEO and CFO, 57.6% of the financial goal was achieved and 100% of the personal goal was achieved. The previous CEO and CFO participated in the bonus plan for FY22 only for the period prior to their respective retirements. On a pro-rata basis, the previous CEO was awarded 66% of base salary. The previous CFO was awarded 66% of base salary.

The retirement of our previous CEO and CFO, who received VCP and Equity Award Plan (EAP) long-term incentive awards granted whilst the business was privately owned, has required us to consider a more market relevant salary and bonus structure for the new CEO. For 2023 the bonus opportunity for the new CEO and CFO will therefore be set at 150% of salary, subject to shareholder approval of the new policy. For the period of FY23 prior to Neil Galloway commencing in the CFO role, the opportunity for the Interim Group CFO will be 100% of salary. The bonus opportunity will be divided into 80% for underlying EBITDA and 20% for strategic goals. This financial performance metric is aligned with senior management's bonus plan.

## Value Creation Plan

Participation rights were awarded under the VCP to the previous CEO and CFO in March 2020 and fully disclosed in the Listing Prospectus.

In March 2022, the new CEO Trevor Masters, was granted an additional 0.15% VCP participation related to his former role as Chief Operating Officer. In May 2022, Trevor Masters was appointed as CEO and was granted a total participation of 2% of the VCP, effective from his appointment. For 2022 his participation rights will be pro-rated to reflect the above. Further details on how the VCP operates are included on page 95. The number of shares to be awarded to participants in the VCP (in the form of nil cost options) was determined during the reporting period and further details can be found on page 88. The amount of nil-cost options awarded must be held for three years prior to vesting and the new CEO's and any other executive directors award is subject to a cap post vesting period of €20m and €10m respectively.

During the year we have reviewed the effectiveness of the VCP. We have operated the VCP since before the Company's shares were admitted to the WSE and have been pleased with the focus on shareholder value it has created amongst the most senior team. We now have a new CEO, with our new CFO joining in FY23 (who will also be granted participation in the VCP) and we need to ensure that the VCP remains appropriate for the years ahead under their leadership.

The growth in the business anticipated when it was launched has been delayed by the Covid-19 pandemic and the current impact of the uncertainties created by the Russia-Ukraine war. As such, the growth has been delayed and the current market valuation multiples are below where we expected them to be at this stage in our development for reasons outside the control of the management team. With a new CEO and CFO, and the development of a new strategy, the Remuneration Committee believes it is appropriate to review the current VCP terms on the basis that it is concerned that current and potential future participants will be materially adversely impacted by the 10% annual compounding valuation hurdle that is a key feature of the VCP. Due to the two years of delays caused by the Covid-19 pandemic it was also deemed appropriate to reconsider the end date of the plan.

We have considered the full range of options for the VCP, including discontinuing it, and decided that it is still entirely suitable for the medium term. Our conclusion is that the appropriate approach is to extend the plan for two years whilst rebasing the valuation for the year commencing 1 October 2022. This will not benefit any individual who has already left the Company and will require shareholder approval at the next AGM. In conjunction with this change, we propose to reduce the size of the pool that can be earned by participants from 6.9% to 6.5% of the increase in value created above the valuation hurdle. A cap on the value of nil cost options which can be granted in any one year will be set at €52 million across the total plan irrespective of whether the plan is fully allocated or not. Individual participants will be capped at their allocated percentage.

### Long Term Incentive Plan

At the AGM held in January 2022 we received your support for the introduction of a new LTIP. Until the VCP concludes, the new long term incentive plan is intended to be used alongside the VCP for senior executives not participating in the VCP. At the time of our AGM In January 2022, we had not decided what performance metrics would be most suitable for the LTIP.

Since the last AGM we have been considering what performance criteria would best align to our corporate strategy. After careful consideration we feel that the performance KPIs that are the most appropriate for our business are earnings per share growth, an Enterprise Value growth metric, and ESG objectives. The exact weightings will be disclosed retrospectively when awards have been granted under the plan. Relative TSR was considered but it was felt that due to the low free-float of the Company's shares, it would not be a true reflection of the Company's performance at the present time.

### Chair and Non-Executive Director Fees

In 2023 the Non-Executive Director fees will be increased by 5%, subject to shareholder approval. This fee increase will not apply to the fee paid to the designate Chair of the Board. The new Chair's fee will initially be set at £400,000 and subject to shareholder approval at the next AGM he will receive a 1% participation right in the VCP. His existing nil cost options that were granted whilst he was in the role of CEO will then lapse. The Board has determined that, subject to approval at the next AGM, the new Chair should participate in the VCP to align his interests with those of shareholders. Whilst this is not in line with Dutch governance principles, it is felt that this is appropriate at this stage of the Group's development. The new Chair's award under the VCP will be subject to a cap post vesting period of €14m.

### Alignment to Group strategy

Growth is the main strategic driver and is well aligned to the remuneration structure where both value creation and delivering yearly targets are incorporated into the VCP and annual bonus plan respectively.

## Conclusion

After due consideration and debate, we believe the remuneration outcomes to be fair in terms of alignment to the stakeholder experience and other than in relation to determining the level of bonus for the new CEO, no discretion was applied. I would like to thank the Committee for its work, debate and input during the year and look forward to interacting with our stakeholders during 2023.

**Brendan Connolly**
**Remuneration Committee Chair**

# Nomination Committee report

**Committee members**

- Richard Burrows (C)
- María Fernanda Mejía
- Helen Lee Bouygues

**Richard Burrows**
**Nomination Committee Chair**

## Dear Shareholders,

Nomination Committee report for the year 2022.

### Committee composition

The Committee comprises three members, each of whom is a Non-Executive Director of the Company. Two members constitutes a quorum. I am the Chair of the Committee and María Fernanda Mejía and Helen Lee Bouygues are current members of the Committee. María Fernanda Mejía and I are independent Non-Executive Directors within the meaning of the Dutch Code and Warsaw Code. Helen Lee Bouygues is a Non-Executive Director who is not considered to be independent. All members of the Nomination Committee were appointed during FY21. The Company Secretary acts as secretary to the Committee.

The timing of Committee meetings is agreed in advance and the Committee makes recommendations to the Board which it deems to be appropriate on any area within its remit where action or improvement is needed.

### Responsibilities

The Committee meets at least twice each year and its main duties are:

- to assist the Board with the selection criteria and appointment procedures for Board members;
- to review the structure, size and composition of the Board;
- to make recommendations to the Board on the Board profile;
- to manage succession planning for the Board and senior executives of the Company; and
- to review the Board evaluation process.

### Committee activities in FY22

The Committee considered the following matters during the year:

- reviewed the Board diversity policy before recommending that the 2021 policy be applied also in 2022;
- oversaw the internally facilitated evaluation of the effectiveness of the Board and its Committees and discussed the feedback, observations and recommendations from the evaluation;
- upon the retirement of the previous Group CEO, Andy Bond, and previous Group CFO, Nick Wharton, recommended to the Board the appointment of the interim Group CEO and interim Group CFO;
- appointed executive search firm Russell Reynolds to conduct the search process for the new Group CEO and new Group CFO;
- reviewed the role specifications for the new Group CEO and new Group CFO;
- oversaw the recruitment process for the new Group CEO and new Group CFO;

- recommended to the Board the appointment of Trevor Masters as Group CEO and his nomination as an executive director of the Company at the AGM;
- recommended to the Board the appointment of Neil Galloway as the new Group CEO and his nomination as executive director of the Company at the AGM;
- recommended to the Board the nomination of Andy Bond as designate Chair of the Board for approval at the next AGM; and
- recommended to the Board an amendment to the Board Rules to delete the rule preventing a former executive director from being Chair of the Board.

## Board profile

The Board has prepared a profile of its size and composition, taking into account the nature of the business, relevant activities and the preferred expertise and background of Board members.

The combined experience, expertise, background and independence of the Board members enables the Board to effectively carry out its duties and responsibilities in relation to the Company and its stakeholders.

The nomination of Pierre Bouchut, Brendan Connolly, María Fernanda Mejía, Grazyna Piotrowska-Oliwa and me ensures that the composition of the Board complies with the independence requirements of the Dutch Code and the Warsaw Code, and the nomination of Neil Brown, Helen Lee Bouygues and Paul Soldatos to the Board ensures that the composition of the Board complies with the terms of the Relationship Agreement.

## Board diversity

In December 2021, the Board and the Nomination Committee approved a Board diversity policy. The Board is committed to promoting equality, diversity and inclusion in the boardroom and to ensuring that all members of the Board are able to contribute to discussion.

In FY22, 37.5% of the Board were female.

For further information on the Company's approach to diversity across its businesses, please see page 55 of this report.

As well as stepping down as Chair of the Board at the AGM, I will also step down as Chair of the Nomination Committee at the AGM.

**Richard Burrows**
**Nomination Committee Chair**

# Deviation from the Dutch Corporate Governance Code and WSE Code

As the Company is incorporated under the laws of the Netherlands and listed on the WSE, the Company applies the Code of Best Practice for WSE Listed Companies (the Warsaw Code) and complies with the Dutch Corporate Governance Code (Dutch Code) by applying principles and best practice provisions that are applicable or explaining why the Company deviates from them.

As the principles set out in the Warsaw Code are similar to the principles of the Dutch Code, the Company complies with a majority of the principles and best practice provisions of the Dutch Code.

The Company currently does not apply the following provisions of the Dutch Code:

| | |
|---|---|
| **2.1.7 Independence of the supervisory board** | The Company operates a one-tier Board which complies with principles 2.1.7(i) and (ii).<br><br>With regard to principle 2.1.7(iii), three Non-Executive Directors are appointed to the Board pursuant to arrangements between the Company's majority shareholder (which holds more than 10% of the shares of the Company) and certain of its creditors. This arrangement was entered into before the Company listed on the WSE.<br><br>The conditions of appointment of the shareholder-nominated Non-Executive Directors are set out in a Relationship Agreement between the Company and certain affiliates of the Company's majority shareholder. A summary of the key terms of the Relationship Agreement is available on the Company's website.<br><br>Given the nature of the Relationship Agreement, the independence of the supervisory board is not expected to change in the short term. |
| **2.2.2 Appointment and reappointment periods – supervisory board members** | Members of the Board are appointed for a period of three years and may then be reappointed twice for three-year periods. These appointment arrangements are common in the UK, and permitted under the Warsaw Code to which the Company is subject to. For these reasons, the status of compliance with 2.2.2 is not expected to change. |
| **2.2.4 Succession** | Due to the recent establishment of the Company and its Board, with all members of the Board having been appointed during the prior year, following evaluation it is, again, deemed too early to determine the retirement schedule for the Board. The term of appointment for the creditor-appointed Non-Executive Directors is determined by the Relationship Agreement, and the independent Non-Executive Directors have been appointed for a term of three years, capable of extension for a further two three-year terms. This subject will be evaluated again next year. |
| **2.5.2 Code of Conduct** | The Company does not currently have a Group-wide Code of Conduct. Most of the subject matter which is traditionally included in a Code of Conduct is included in established policies and procedures in place across the Group. However, the Company intends to consider the introduction of a group-wide Code of Conduct in the new fiscal year. |
| **2.5.4 Accountability regarding culture** | The Company does not currently have a Group-wide Code of Conduct. Most of the subject matter which is traditionally included in a Code of Conduct is included in established policies and procedures in place across the Group. However, the Company intends to consider the introduction of a group-wide Code of Conduct in the new fiscal year. |
| **3.3.2 Remuneration of supervisory board members** | In respect of work undertaken by them in relation to and in preparation for roles as Board members, in the period prior to the Company's listing on the WSE one-off fees were paid to Richard Burrows, Brendan Connolly, María Fernanda Mejía, Grazyna Piotrowska-Oliwa and Pierre Bouchut which were used by these individuals to subscribe for shares in the Company on admission to the WSE (at the admission offer price).<br><br>Shares acquired by these Board members on admission must be held until the later of (i) 26 May 2024; or (ii) the first anniversary of the date on which the relevant Board member ceases his or her directorship of the Company. |

The Company currently does not apply the following provisions of the WSE:

| | |
|---|---|
| **1.4.2 Presentation of equal pay index for employees** | The Company has a number of ongoing initiatives to understand the extent of any gender pay gap across its individual businesses. Once the analysis has been completed, the Company will report the equal pay index for employees across the Group and the actions which will be taken to eliminate any pay gaps. For further information please see page 55 of the FY22 Annual Report. |
| **2.11.5 Disclose amounts expensed by the group in support of culture, sports, charities, media, social organisations, trade unions, etc.** | The Company's businesses are empowered to partner with local charities to provide direct support to their local communities. The expenses have been reported for the first time this year, and will be developed during the next financial year to include information on rationality. |
| **3.4 Basis of remuneration for those responsible for risk, compliance and internal audit** | Risk and compliance are managed by the Group General Counsel and the Senior Internal Auditor. The remuneration of these individuals is primarily dependent on the performance of delegated tasks. However, consistent with all employees of the Company, a proportion of these individuals' respective annual bonuses is dependent on the Company achieving specific financial targets for the relevant financial year. The financial targets for the Company's annual bonus scheme are set by the Company's Remuneration Committee. |
| **3.5 Reporting line for those responsible for risk and compliance management** | The roles described in 3.4 above report to the CFO. However, following the resignation of Nick Wharton in April 2022, Mat Ankers was appointed as interim CFO. Due to the current interim nature of the position, Mat Ankers has not been appointed as a statutory Director of Pepco Group N.V. |
| **3.6 Reporting line for Head of Internal Audit** | The Senior Internal Auditor reports organisationally to the Group CFO. As described in 3.5 above, this role is currently not undertaken by a statutory Director of Pepco Group N.V. The Senior Internal Auditor attends the meetings of the Company's Audit Committee. |
| **3.7 Group remuneration for risk, compliance and internal audit roles** | The remuneration of employees who work in risk and compliance roles and internal audit roles across the Group comprises a salary and eligibility to receive an annual bonus. A proportion of the annual bonus is dependent on the Company achieving specific financial targets. The financial targets for the relevant company's annual bonus scheme are set by the relevant company's remuneration committee and are aligned with the financial targets set by the Company's Remuneration Committee.<br><br>The risk, compliance and internal audit functions of businesses within the Group report organisationally to the CFO of the relevant business, who is a member of the local board for the relevant business. Managers within the risk, compliance and internal audit functions of the Group's businesses attend the meetings of the local board's audit committee. |
| **6.3 Company incentive schemes** | The Company established an incentive scheme (the Value Creation Plan) for senior management of the Group in March 2020, which was twelve months prior to the Company's admission to the WSE.<br><br>The Value Creation Plan incentive scheme complies with the majority of the requirements of principle 6.3 except that the incentive scheme does not include non-financial targets and share options will be issued to participants at nil cost.<br><br>The Value Creation Plan is a one-off share incentive scheme which, subject to any extension approved at the AGM, is scheduled to end in FY24. |

# Remuneration report

The following section provides details of how Board members were paid during the financial year to 30 September 2022.

The Remuneration Committee members, activities and meetings during the year are set out on pages 78 and 79, along with the Committee's purpose, roles and responsibilities, and are thereby included in this part of the report by reference.

The Remuneration Committee took scenario analyses into account when initially setting the Remuneration Policy and continues to take them into account when operating the Remuneration Policy. None of the Directors received any remuneration from entities within the Group other than as disclosed in this report. The Committee did not deviate from the Remuneration Policy in the year.

The Remuneration Committee has considered the advisory vote of the AGM when deciding on matters of remuneration for the year.

## Advisors

Korn Ferry is a signatory to the UK Remuneration Consultants Group Code of Conduct (the Code of Conduct) and was appointed by the Remuneration Committee in 2021 having submitted a proposal which demonstrated its skills and experience in executive remuneration both in the UK and across Europe. Korn Ferry provides advice to the Committee on matters relating to executive remuneration.

The Committee was satisfied that the advice provided by Korn Ferry remains objective and independent, having noted its commitment to the Code of Conduct.

## Single total figure of remuneration table

| | Salary/fees € | | Taxable benefits € | | Pension € | | Bonus € | | LTIP € | | Other € | | Total remuneration € | | Total fixed remuneration € | | Total variable remuneration € | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 | **FY22** | FY21 |
| **Executive Directors (pre-retirement)** | | | | | | | | | | | | | | | | | | |
| Trevor Masters | **319,638** | - | **7,562** | - | **-** | - | **319,638** | - | **-** | - | **-** | - | **646,838** | - | **327,200** | - | **319,638** | - |
| Andy Bond | **241,941** | 457,836 | **17,475** | 18,856 | **-** | - | **159,854** | 325,278 | **-** | - | **37,222** | - | **456,492** | 801,970 | **259,416** | 476,692 | **197,076** | 325,278 |
| Nick Wharton | **345,774** | 560,849 | **11,522** | 5,127 | **-** | - | **228,459** | 398,466 | **-** | - | **124,250** | - | **710,005** | 964,442 | **357,296** | 565,976 | **352,709** | 398,466 |
| **Executive Directors (post-retirement)** | | | | | | | | | | | | | | | | | | |
| Andy Bond | **283,248** | - | **-** | - | **-** | - | **-** | | **-** | - | **-** | - | **283,248** | - | **283,248** | - | **-** | - |
| Nick Wharton | **246,981** | - | **-** | - | **-** | - | **163,185** | - | **-** | - | **-** | - | **410,166** | - | **246,981** | - | **163,185** | - |
| **Non-Executive Directors** | | | | | | | | | | | | | | | | | | |
| Richard Burrows (Chair) | **472,080** | 173,743 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **472,080** | 173,743 | **472,080** | 173,743 | **-** | - |
| Pierre Bouchut* | **88,515** | 32,577 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **88,515** | 32,577 | **88,515** | 32,577 | **-** | - |
| Helen Lee Bouygues | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Neil Brown | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Brendan Connolly* | **88,515** | 32,577 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **88,515** | 32,577 | **88,515** | 32,577 | **-** | - |
| María Fernanda Mejía | **70,812** | 26,061 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **70,812** | 26,061 | **70,812** | 26,061 | **-** | - |
| Grazyna Piotrowska-Oliwa | **70,812** | 26,061 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **70,812** | 26,061 | **70,812** | 26,061 | **-** | - |
| Paul Soldatos | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | - | - | - | - |

* Committee Chair.

**Notes to the table**

1 Trevor Masters is not currently an Executive Director; his interests have been included here for completeness and transparency ahead of his proposed nomination to the Board at the 2023 AGM. Trevor was appointed as permanent CEO with effect from 1 May 2022 and his remuneration in the table is pro-rated for the proportion of the year in which he performed the role.

2 Andy Bond retired as CEO with effect from 1 April 2022 and his remuneration in the table is pro-rated for the proportion of the year in which he performed the role of CEO. Separately, his post-retirement fees have been shown where he remained to the end of the financial year in an advisory capacity.

3 Nick Wharton retired as CFO with effect from 1 May 2022 and his remuneration in the table is pro-rated for the proportion of the year in which he performed the role of CFO. Separately, his post-retirement fees have been shown where he remained to the end of the financial year in an advisory capacity.

4 Andy Bond's and Nick Wharton's pension provisions are included in their base salary. No separate pension payments are made. Trevor Master's pension is in the form of a cash equivalent payment.

5 Salary/fees, taxable benefits and bonus are all short-term employee benefits.

6 The Company has not revised or clawed back the remuneration of any Directors in the year.

7 No loans, advances or guarantees have been provided to any Director.

9 Neil Brown, Helen Lee Bouygues and Paul Soldatos did not receive payment from the Company for the financial year 2022.

10 No long-term incentives vested during the year, so there was no impact from share price appreciation.

## FY22 annual bonus performance against targets

The targets set for the FY22 annual bonus and performance against them are set out below. As discussed above, the bonus is based on a maximum payout of 100% of base salary, with 80% of the maximum payout conditional upon the Group's EBITDA and 20% of the maximum payout conditional upon strategic KPIs. The Committee considered the formulaic outcome and determined that it was appropriate to apply its discretion to adjust the overall bonus payment made to the new CEO, awarding him 100% of his maximum payout. The formulaic outcome was applied to the overall bonus payments awarded to the previous CEO and CFO. The measures and payments earned by the previous CEO and CFO are as follows:

| | Threshold | Target | Maximum | Actual performance | Payment | | | |
|---|---|---|---|---|---|---|---|---|
| Measure and weighting | (0% vests) | (50% vests) | (100% vests) | - | % of maximum | Actual bonus paid - Andy Bond (CEO) | Actual bonus paid - Trevor Masters (CEO) | Actual bonus paid - Nick Wharton (CFO) |
| Original EBITDA Target | €710m | €747m | €784m | €748m | n/a | n/a | n/a | n/a |
| Adjusted EBITDA Target | €705m | €742m | €779m | €748m | 57.6% | €159,854 | €319,638 | €391,644 |

1 EBITDA for Short-Term Incentive Plan (STIP) purposes is on an underlying basis, pre-IFRS 16 and on budgeted FX rates.

2 Bonus will be paid in the December 2022 payroll.

3 Andy Bond and Nick Wharton received a pro-rata proportion of their bonus based on their time in role. Andy Bond received 6/12 of the full year bonus and Nick Wharton received 7/12. Under his post-retirement fixed term contract, Nick Wharton also participated pro-rata in the annual bonus plan (5/12).

Adjusted EBITDA reflects the re-based EBITDA target stripping out the Dealz Spain budgeted EBITDA following the decision by the business to retire the Dealz brand in Spain and replace with the Pepco brand following successful trials.

Non-Executive Directors are not eligible for bonuses.

# Remuneration report continued

## Directors' interests in Pepco Group

The table below details outstanding share awards previously granted to the previous CEO & CFO and the current CEO. No share awards have been granted to the Non-Executive Directors.

| | Scheme | Award Date | Exercise price | Share price used (PLN) | Share awards held at 30 Sept 2021 | Awarded during the year | Vested during the year | Share awards lapsed during the year | Share awards held at 30 Sept 2022 | Total share value at award (EUR) | Vesting date | Exercise period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Andy Bond | VCP | 14/2/22 | nil | 46.3510 | nil | 2,389,162 | nil | nil | 2,389,162 | 24,119,000 | See notes | 2/3/32 |
| Trevor Masters | VCP | 14/2/22 | nil | 46.3510 | nil | 668,965 | nil | nil | 668,965 | 6,753,000 | See notes | 2/3/32 |
| Nick Wharton | VCP | 14/2/22 | nil | 46.3510 | nil | 573,399 | nil | nil | 573,399 | 5,789,000 | See notes | 2/3/32 |
| Nick Wharton | Equity Award Plan | 3/3/20 | nil | nil | 359,209 | nil | nil | nil | 359,209 | 2,500,000 | See notes | Until 2/3/30 |

1 Once vested, the EAP does not have any further conditions connected to its exercise. The vesting of the award is subject to achievement of a cumulative profit before tax target over two years ended 30 September 2022. The vesting date for the EAP is 30 days after the announcement of the Company's results for FY22. There is also normally a two-year post-vesting holding period that applies to any shares received, net of sales to meet taxation and social security liabilities.

2 The VCP award to Andy Bond will be offset at vesting against founder shares.

3 The nil cost options are capable of being granted under the VCP over various years, subject to annual hurdles (further details are included in the remuneration policy) up to 30 September 2024. Vesting is determined following the year end. Where the annual hurdle has been reached, awards may continue to vest until the eighth vesting date.

4 VCP awards are also subject to a holding period which ends two years from the first vesting date.

## Granted during the financial year to 30 September 2022

In the financial year to 30 September 2022, Trevor Masters was granted additional participation rights in the VCP of 0.15%. This takes Trevor Masters' aggregate participation in the VCP in the year to a holding of 0.85%. In the financial year to 30 September 2023 Trevor will receive an additional grant of participation rights in the VCP of 1.15%, taking his aggregate participation in the VCP to a holding of 2.0%, with effect from the date of his appointment as CEO.

The first tranche of nil-cost options was granted in the year to participants in the VCP, details of which have been included below. No new awards have been granted under the Equity Award Plan (EAP) during the financial year to 30 September 2022, nor were there any rights exercised during this period. No loans, advances or guarantees have been provided by the Company.

## Statement of Directors' shareholding and share interests

Under the share ownership guidelines set out in the Remuneration Policy, the CEO and CFO are normally required to build and maintain a shareholding equivalent to at least 300% and 200% of their base salaries respectively. Shares are valued using the Company's closing middle market share price on 30 September 2022 of 29.9 PLN, the PLN/EUR exchange rate of 0.2147 and the GBP/EUR exchange rate of 1.1802.

The following table shows how each Executive Director complies with the shareholding guidelines at 30 September 2022 and the current holdings by the Non-Executive Directors:

| | Shares held at 30 September 2022 | Shares held by connected persons | Unvested and subject to a service and performance requirement | Shareholding requirement | Current shareholding % of salary | Requirement met |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Trevor Masters* | - | - | 668,965 | | 0% | No |
| Andy Bond | 3,745,301 | - | 2,389,162 | 300% of salary | 4578% | Yes |
| Nick Wharton | - | - | 691,817 | 200% of salary | 0% | No |
| **Non-Executive Directors** | | | | | | |
| Richard Burrows | 138,698 | | | | | |
| María Fernanda Mejía | 18,067 | | | | | |
| Grazyna Piotrowska-Oliwa | 20,651 | | | | | |
| Pierre Bouchut | 37,497 | | | | | |
| Brendan Connolly | 25,700 | | | | | |
| Neil Brown | - | | | | | |
| Helen Lee Bouygues | - | | | | | |
| Paul Soldatos | - | | | | | |

* Trevor Masters is not currently an Executive Director; his interests have been included here for completeness and transparency ahead of his proposed nomination to the Board at the 2023 AGM.

1. Shares held by Andy Bond include shares held by investment vehicles.
2. Andy Bond and Nick Wharton are not required to maintain shareholdings post cessation of employment; the figures included above therefore relate to their holdings on the date they stepped down from the Board.
3. As part of their retirement arrangements, the service requirements attaching to the nil-cost options held by Andy Bond and Nick Wharton under the VCP and EAP were waived by the Board of Directors.
4. The nil-cost options issued to Andy Bond under the VCP in February 2022 when he was CEO will be offset against his founder shares.

There were no changes in the Directors' shareholdings and share interests between 30 September 2022 and the date of this report.

## Directors' and employees' remuneration table

The information below is in respect of the financial year ended 30 September 2022 against the prior year comparison.

| | Remuneration pre-retirement | Remuneration post-retirement | **Total remuneration 2022 €** | Total remuneration 2021 € |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Trevor Masters (CEO)* | n/a | n/a | **646,838** | - |
| Andy Bond (prev. CEO) | 456,492 | 283,248 | **739,740** | 801,970 |
| Nick Wharton (prev. CFO) | 710,005 | 410,166 | **1,120,171** | 964,442 |
| **Non-Executive Directors** | | | | |
| Richard Burrows (Chair) | n/a | n/a | **472,080** | 2,920,759 |
| María Fernanda Mejía (NED) | n/a | n/a | **70,812** | 438,113 |
| Grazyna Piotrowska-Oliwa (NED) | n/a | n/a | **70,812** | 369,348 |
| Pierre Bouchut (Committee Chair) | n/a | n/a | **88,515** | 461,798 |
| Brendan Connolly (Committee Chair) | n/a | n/a | **88,515** | 461,798 |
| Neil Brown (NED) | n/a | n/a | **-** | - |
| Helen Lee Bouygues (NED) | n/a | n/a | **-** | - |
| Paul Soldatos (NED) | n/a | n/a | **-** | - |

* Trevor Masters is not currently an Executive Director; his interests have been included here for completeness and transparency ahead of his proposed nomination to the Board at the 2023 AGM. Trevor was appointed as permanent CEO with effect from 1 May 2022 and his remuneration in the table is pro-rated for the proportion of the year in which he performed the role.

# **Remuneration report** continued

## Change in Director and employee remuneration

The following table outlines the percentage change from one year to the next for Director and employee remuneration, reported in line with the regulations.

## Executive pay ratio

The Dutch Civil Code requires the executive pay ratio and the trend to be disclosed in the annual Remuneration report. The basis of the pay ratio comparison uses the Dutch methodology of average employee remuneration.

The chart below summarises the five-year history of total remuneration for the Executive Directors, being the CEO and Group CFO, alongside the average remuneration per FTE (excluding Executive Directors). Also shown is the remuneration ratio of the CEO versus the average employee remuneration.

Note, that whilst the table has been shown in Euros to reflect the reporting currency of the Group, the previous CEO and CFO were paid in GBP (their base salaries being £410,000 and £502,250 respectively) and remained at that level across the five-year history shown below, with no salary increases in that period. The newly appointed CEO receives a salary of £650,000, which has been pro-rated in the table below to reflect the portion of the year in which he was in the role.

| | FY18<br>€ | FY19<br>€ | FY20<br>€ | FY21<br>€ | **FY22**<br>**€** |
|---|---|---|---|---|---|
| CEO[1,4] total remuneration (A) | 562,179 | 775,484 | 584,918 | 801,970 | **1,103,330** |
| YoY % | -36% | 38% | -25% | 37% | **38%** |
| CFO[1,3] total remuneration | n/a | 388,767 | 697,906 | 964,442 | **710,005** |
| YoY % | n/a | n/a | 80% | 38% | **-26%** |
| Average employee (FTE) total remuneration costs[2] (B) | 19,411 | 18,094 | 17,986 | 20,640 | **21,309** |
| YoY % | 3% | -7% | -1% | 15% | **3%** |
| Ratio (A) versus ratio (B) | 29:1 | 43:1 | 33:1 | 39:1 | **52:1** |

1 Remuneration of the CEO and CFO reflects the total remuneration by year including base salary, taxable benefits, Company pension contributions, short-term incentive plans and long-term incentive plans. The GBP amounts have been converted to Euros based on FX rates used for consolidating the Group's results.

2 Average employee remuneration is based on the total employee costs across the Group divided by average number of employees on a "full time equivalent" basis by year.

3 The CFO joined the Group in May 2019; therefore, the 2019 figure reflects a partial year only. The CFO retired with effect from 1st May 2022 so the 2022 figure reflects the pre-retirement remuneration.

4 The new CEO was appointed to the role in May 2022; therefore, the 2022 figure reflects an aggregated figure for the retired CEO up to his retirement in March 2022 and the new CEO from his appointment in May 2022.

## Relative importance of spend on pay

The table below shows the Company's expenditure on employee pay compared to distributions to shareholders from admission to 30 September 2022.

| | FY22 €m | FY21 €m |
|---|---|---|
| Distributions to shareholders | – | – |
| Total employee pay | 678.3 | 624.3 |

## Payments to past Directors

The table below shows the payments made to past Directors in the financial year to 30 September 2022.

| | FY22 € |
|---|---|
| Andy Bond[1] (previous CEO) | 283,248 |
| Nick Wharton[2] (previous CFO) | 410,166 |

1 Following his retirement as an Executive Director on 31 March 2022, Andy Bond provided consultancy services to the Company until the end of the financial year on 30 September 2022.

2 Following his retirement as an Executive Director on 30 April 2022, Nick Wharton provided consultancy services to the Company until the end of the financial year on 30 September 2022.

## Payments for loss of office

No payments were made to any Director in respect of loss of office in the financial year to 30 September 2022.

## Implementation of Policy from 1 October 2022 to 30 September 2023

| Policy element | Trevor Masters (CEO) |
|---|---|
| **Base salary** | £682,500 |
| Benefits | Pension of 13% of base salary, private medical insurance, life assurance, income protection insurance and company car |
| **Annual bonus** (payable in cash following completion of the annual audit and the level of 150% of salary for the CEO is subject to confirmation at the AGM) | Maximum entitlement of £1,023,750 |
| **VCP** | Participation percentage is 0.85% and will increase to 2.0% in FY23 (with effect from the date of his appointment as CEO). |
| **LTIP** | No participation |
| **Malus and clawback** (provisions apply) | |
| **Shareholding requirement** whilst employed | 300% of salary |

As announced on 25 November 2022, Andy Bond will be nominated for appointment as Chair of the Board from the date of the AGM upon the retirement of Richard Burrows from the role. Andy Bond's annual fee will be £400,000 and, subject to the approval of shareholders at the AGM, he will be granted 1% participation in the VCP. Neil Galloway will join the Group as CFO on 1 April 2023 and will be nominated at the AGM for appointment as an executive director of the Company. He will be paid in line with the Directors' Remuneration Policy.

## Directors' Remuneration Policy

This Remuneration Policy remains unchanged from the Policy adopted by the Board at the general meeting on 20 May 2021, other than the points raised below. Subject to approval at the 2023 AGM, the Committee's intention is that this Policy will operate for the three-year period to the AGM for the financial year ending on 30 September 2025, unless approval for a new Policy is sought sooner. This section contains a summary of the key aspects of the Policy.

The key changes are:

- extending the VCP by a further two years, re-basing the annual valuation hurdle against which the VCP is measured and enabling the participation of the Chair of the Board;
- adding in clarity over the performance metrics to be used in the LTIP;
- increasing the annual bonus plan maximum for the Executive Directors to 150% of base salary to better align to market; and
- providing for the periodic review of Non-Executive Director fee levels, including an increase from 1 October 2022 of 5%.

### Introduction

The Policy is designed to incentivise and reward long-term, sustainable growth of the Company.

The Policy contributes to the business strategy, the long-term interests, and the sustainability of the Company by:

- providing remuneration opportunities that are intended to attract and retain qualified executive directors;
- including performance measures and targets that are aligned with the business strategy;
- enabling the Remuneration Committee to recover payments made in circumstances that did not warrant the payment;
- balancing the levels of fixed and variable pay in a manner suitable to the Company's circumstances;
- delivering the long-term incentive element in shares and requiring demanding levels of shareholding to be built and maintained by Executive Directors; and
    - being satisfactorily tested against the following six factors:
    - Clarity – the Policy will be as clear as possible and the implementation will be described in straightforward concise terms to stakeholders, including shareholders and the workforce, annually in the Remuneration report.
    - Simplicity – remuneration structures are as simple as possible and market typical, whilst at the same time incorporating the necessary structural features to ensure a strong alignment to performance and strategy and minimising the risk of rewarding failure.
    - Risk – the Policy has been shaped to discourage inappropriate risk taking and enhance sustainability through a weighting of incentive pay towards long-term incentives, a balance between financial and non-financial measures in the annual bonus, and a minimum five-year period between the grant of any long-term incentives and the date Executive Directors are freely able to dispose of their shares.
    - Predictability – elements of the Policy are subject to caps and dilution limits. The Remuneration Committee may exercise its discretion to adjust the outturn if a formula-driven incentive payout is inappropriate in the circumstances. However, all payments made to Directors will be made in line with the Policy in force at the time, unless it is necessary to deviate from applying the Policy to ensure the long-term interests and stability of the Company or for its profitability, in which case the Company may temporarily deviate from applying the Policy in relation to the relevant individual. In all other cases specific shareholder approval will be sought prior to any payments or awards being made outside of the Policy.

- Proportionality – there will be a sensible balance between fixed pay and variable pay and incentive pay will be weighted to sustainable long-term performance. Incentive plans will be subject to performance conditions that consider both financial and non-financial performance linked to strategy and long-term value creation and stability. Outcomes will not reward poor performance.
- Alignment to culture and values – the Remuneration Committee considers Company culture and wider workforce policies and pay levels when shaping and developing executive remuneration policies to ensure there is coherence across the organisation whilst avoiding discrimination. There is an emphasis on fairness of remuneration outcomes across the workforce and in the context of wider society. The discretions afforded to the Remuneration Committee enable it to amend the formulaic outcomes from incentives or Executive Directors in several circumstances and they will enable it to take these issues into account.

The Remuneration Committee considers the way that employees in the Group are remunerated in applying the Policy.

The Remuneration Committee is also conscious of the Group's identity, mission, values, customer viewpoint and culture in making its decisions in relation to the implementation of the Policy each year. It receives periodic updates on these factors from within the Group and seeks external advice when it is felt to be relevant.

The values of **simplicity**, **integrity** and **teamwork** are themes running through how the Policy operates, with shareholder alignment through equity-based incentives and shareholder value creation emphasising the fourth value of **enterprise** for the talented entrepreneurs leading the Group's businesses.

The Policy will apply to all remuneration arrangements for Directors unless it is necessary, for the long-term interests and stability of the Company or for its profitability, to temporarily deviate from applying the Policy in relation to the individual covered by the Policy.

## Internal pay ratios

When determining the total remuneration of the Executive Directors, the Remuneration Committee considers the internal pay ratio of the appropriate external benchmark and the Company's position within the external benchmark. In addition, increases provided to other employees are considered.

## Remuneration components for the Executive Directors

The following elements of the Policy have been designed to be related to relevant market levels and complement one another. Each element of remuneration has a specific role to play and does not duplicate another as described below.

### Base salary

Base salaries will be determined considering several factors including the Director's role, experience and skills, and market data.

Increases will generally be in line with the increase for the rest of the workforce but the Remuneration Committee retains the discretion to increase salaries above this rate where appropriate (for example a material change to the scope of the role), or where the salary is materially out of line with market levels.

Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted Policy level until they become established in role. In such cases, subsequent increases in salary may be higher than the average until the target positioning is achieved.

### Pension and benefits

The previous Executive Directors received a consolidated salary payment that includes a cash alternative for certain benefits, including pension benefit at rates consistent with the wider applicable workforce. Trevor Masters and Neil Galloway will receive a separate pension entitlement either in the form of participation in a defined contribution pension scheme with 5% employee and 8% employer contribution or cash in lieu of pension at a rate of 13% of base salary, consistent with that of the wider workforce. Any changes in the workforce pension arrangements may be reflected in Executive Director remuneration. In addition, the Executive Directors received benefits which included family private health cover, life assurance cover and car allowance. Executive Directors will be eligible for the same benefits offered to the general workforce.

# **Remuneration report** continued

### Variable remuneration

The Executive Directors are eligible to receive short-term and long-term variable remuneration. Payment of the remuneration is dependent on the achievement of pre-established financial and non-financial targets. Both the short and long-term incentives are linked to predetermined, measurable objectives which may be key performance indicators and correlate with the business strategy. Performance targets are set at a level to maintain good financial health enabling the Company to perform well, deliver shareholder returns and invest sustainably to achieve the strategic goals.

Scenario analyses are carried out annually to examine the relationship between the performance criteria chosen and the possible outcomes for the variable remuneration of the Executive Directors to ensure a link between remuneration and performance. The outcome is used to verify whether chosen performance criteria sufficiently support the Company's strategic objectives and are appropriate under both the short-term and long-term incentive components of total remuneration.

### Annual bonus plan

The objectives of the annual bonus plan are to align the interests of Executive Directors to those of the Company and deliver reward only where performance warrants it. This is achieved through the performance measures selected and the targets that determine how much of the annual bonus will be earned in any year. Performance measures are aligned to the business strategy and stretching target ranges are set in the context of the business' challenges for the year.

The maximum bonus payable to any Executive Director will be 150% of salary. The annual bonus will be paid entirely in cash following the determination of the performance targets being met.

Bonus payouts will be determined on the satisfaction of a range of key financial and personal/strategic objectives set annually by the Remuneration Committee. No more than 20% of the overall bonus opportunity can be payable by reference to performance against personal and strategic targets.

In future years, any combination of EBITDA, return on investment, cash flow and other corporate financial measures may make up the financial element of the bonus, which will be at least 80% of the overall opportunity. Bonus targets used will be disclosed in the relevant Directors' remuneration report in the following year, subject to issues of commercial sensitivity.

The Remuneration Committee relies on the financial results from the audited accounts and assesses any non-corporate financial performance targets using the expertise of independent advisors or recommendations from the Company's Non-Executive Directors. It may also rely on calculations performed by the internal audit function.

Discretion to adjust the provisional bonus outturn may be exercised in cases where the Remuneration Committee believes that it would be appropriate to ensure that the amount of any bonus is reflective of the underlying business performance of the Group and/or wider circumstances.

### Long-term incentive plans

The Group implemented and has made grants under an equity plan called the Value Creation Plan (VCP) to the Executive Directors and selected senior executives and under the Equity Award Plan (EAP) to the previous CFO. Under the VCP, participation rights have been granted to participants which will convert into nil-cost options over the Company's shares to the extent the required hurdles are reached over each of the financial years up to and including 2026.

Under the EAP nil-cost options have been granted which will, if the associated performance target has been met, enable the award holder to acquire for nil payment shares in the Company. No new grants will be made under the EAP.

Under the LTIP, awards will not be made to the current Executive Directors until 1 April 2024 at the earliest. Any awards made under the LTIP will be linked to the Company's long-term business and financial goals and the period between allocation and the ability to receive shares will be no less than three years.

The likely performance metrics to be used will be a combination of adjusted earnings per share, shareholder value and an ESG metric.

## Operation of the VCP

The Value Creation Plan (VCP) is a share plan that was offered to select senior members of staff with the intention of incentivising the successful delivery of the Group's strategic and financial objectives with a goal of promoting a sustained growth strategy for the Group. The VCP gives the participants a participation right in the plan which is then converted to a nil-cost option over shares in the Company to the extent the relevant performance hurdles are achieved.

The VCP rewards performance over the five-year period, 1 October 2019 until 30 September 2024. For current participants (that are still employed by the Group) and new participants, the plan will be extended for a further two years to 30 September 2026 and the base year valuation for 1 October 2022 will be reset using the share price from mid-November to mid-December 2022.

### Offset of existing awards

Where participants have received founder shares or participated in the Pepco LTIP (a cash plan operated at subsidiary company level for a limited number of senior executives in that business) previously, the amount that may pay out under the VCP will be reduced to offset the value received under those plans. The participation of Andy Bond in the VCP following his appointment as Chair of the Board will not be subject to offset against his founder shares.

### How does it operate?

Participants share in a set percentage of growth above a fixed hurdle of a 10% pa increase in value of the shares from 1 October 2019 (or 1 October 2022 if approved by shareholders at the 2023 AGM). Each participant has been allocated their own share of the upside above the hurdle out of the total pool of 6.90% (reduced to 6.5% if shareholders approve the changes at the 2023 AGM). The previous CEO is in receipt of 2.5% and the previous CFO of 0.6%. The current CEO has been awarded an allocation of 0.85% which will increase to 2.0% during the financial year ending 30 September 2023, with effect from the date of his appointment as CEO. The new Group CFO will receive an allocation of 0.6% and, if approved by shareholders, the new Chair of the Board will receive an allocation of 1.0%. His existing nil cost options that were granted whilst he was in the role of CEO will then lapse. When the VCP value is calculated participants receive their share in the value of the whole Company.

The value created above the hurdle is measured annually and "banked" as nil-cost option grants for the initial five-year period (extended by two years if approved at the 2023 AGM). However, payouts can occur over a period of up to ten years where there has been exceptional performance.

To the extent the hurdles are achieved at the end of years three and four any award of nil-cost options will vest based on their original terms (as disclosed last year); I.e. they will vest as follows:

- at the end of year three, 50% of the banked awards of nil-cost options from years one, two and three will vest (Tranche one);
- at the end of year four, 50% of the unvested awards of nil-cost options from years one to four will vest (Tranche two);
- all remaining parts of the awards of nil-cost options will vest at the end of year five (Tranche three);
- to the extent the hurdle at year five is not met, any unvested awards of nil-cost options will lapse but the vested awards are retained.

To the extent the hurdles are achieved at the end of year 5, 6, and 7 any award of nil cost options will vest according to the amended rules, as follows:

- At the end of year 5, 50% of the unvested awards of nil cost options from years 1 to 5 will vest (Tranche 4);
- At the end of year 6, 50% of the unvested awards of nil cost options from years 1 to 6 will vest (Tranche 5);
- All remaining parts of the award of nil cost options will vest at the end of year 7 (Tranche 6);
- To the extent that the hurdle in year 7 is not met, any unvested awards of nil cost options will lapse, however the vested awards are retained;
- Nil cost options granted in relation to years 4 and 5, even though vested, will not be able to be exercised until 1 October 2025 at the earliest.

# **Remuneration report** continued

In relation to the next measurement date in January 2023, the hurdle will have increased since the start of the VCP on 1 October 2019 (€4.0bn) by 10% pa to €5.324bn. Any additional value created above the €5.324bn hurdle is to be shared with all of those in the VCP, including the current CEO and previous CEO based on their participation percentages, with the participation of the previous CEO being pro-rated to reflect his time in the role. The value of shares (TSR) is measured post the announcement of financial results (mid-January) using the 30-day average market capitalisation. This hurdle each year is the higher of: (i) 10% pa above the initial €4.0bn value; and (ii) all the previous year's actual 30-day average value.

The 2022 option allocation for VCP participants who are currently employed within the Group will also be underpinned against budgeted EBITDA targets for 2023 and 2024. Should these targets be met, the option will vest. However, if the option vests as per the original plan, this underpin will fall away.

If shareholders so approve at the 2023 AGM, then for the January 2024 measurement date, the starting valuation will be reset to the Company's value in the 30 days preceding the results announcement in December 2022 ("the December 2022 Value"), with the 10% pa hurdle applying from this date. Any additional value created above the December 2022 Value indexed up by 10% is then shared with all those in the VCP and still employed, based on their participation percentages. This basis will be used to calculate nil-cost options to be granted for years 4, 5, 6 and 7. An overall earnings cap will be applied of €52m per annum for the VCP, irrespective of the additional value generated. If this cap is met, the value will be pro-rated using the 6.5% plan total, irrespectively of whether the full 6.5% has been allocated or not. Any value created above the cap will be capable of being earned in future years as the "high water mark" of valuation will equal the value at which the cap is applied. In addition, if any nil-cost options are granted in years 4, 5 and 6 then there will be a one year delay before the hurdle test described above will apply to these nil-cost options. The final hurdle test will then apply for year 7 (financial year ended 30 September 2026).

### Malus and clawback

Malus and clawback provisions apply to the awards.

### Annual cap

Vesting is also subject to an annual cap of €14m for Andy Bond (previous CEO), €20m for Trevor Masters (current CEO) and a maximum cap of €10m for any other Executive Director. Any nil cost options that have met the hurdle tests but not have not vested by the end of the 9th year (i.e. 30 September 2028) due to the application of an annual cap will vest irrespective of the application of the cap.

### Recovery and withholding provisions

In accordance with the Dutch Civil Code, the Non-Executive Directors will be entitled, on behalf of the Company, to recover variable payments paid to Directors, in full or in part, to the extent that payment thereof has been made based on incorrect information about the realisation of the underlying goals or about the circumstances from which the entitlement to the bonus arose. Furthermore, the Non-Executive Directors may adjust the outcome of variable remuneration to an appropriate level if payment of the variable remuneration is unacceptable according to the requirement of reasonableness and fairness. Any application of clawback or discretion will be disclosed and explained in the relevant company's Annual remuneration report.

The recovery and withholding provisions applying to any new LTIP will be considered before implementation to ensure compliance with law and relevant market practice at the time.

### Shareholding requirements

During employment, Executive Directors are required to build and maintain a shareholding equivalent to 300% and 200% of their base salary for the CEO and other Executive Directors respectively. Executive Directors will be encouraged to build up their shareholding over time by retaining at least 50% of the net of tax (and social security) value of shares received under the incentive plans until the requirement is met.

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### Recruitment policy

Consistent with market practice, remuneration packages for any new appointments to the Board (including internal hires) will be set in line with the Policy. For external appointments, the Company recognises that it may need to provide remuneration for forfeited awards from the previous employer (buy-out awards). To the extent possible, the design of buy-out awards will be made on a broadly like-for-like basis and shall be no more generous than the terms of the incentives it is replacing, taking into account the performance conditions attached to the vesting of the forfeited incentives, the timing of vesting and the likelihood of vesting.

### Termination of employment policy

Executive Directors have a service contract requiring six months' notice of termination from either party. The Company may, at its sole discretion, terminate the contract immediately, at any time after notice is served, by making a payment in lieu of notice equivalent to salary, benefits and pension, with any such payments normally being paid in monthly instalments over the remaining notice period. Payments would be reduced to offset earnings from other employment.

In addition, and consistent with market practice, the Company may pay a contribution towards the Executive Director's legal fees for entering into a statutory agreement, may pay a contribution towards fees for outplacement services as part of a negotiated settlement, or may make a payment to compromise claims the Executive Director may have. There is currently no provision for additional remuneration on termination following a change of control. Payment may also be made in respect of accrued benefits, including untaken holiday.

Treatment of other elements of the Policy (including the annual bonus and VCP) will vary depending on whether an Executive Director is defined as a "good" or "bad" leaver. Bad leavers will not be eligible to receive an annual bonus payout and outstanding awards will lapse. However, in certain circumstances, at the discretion of the Remuneration Committee, good leaver status may be applied. Good leavers will generally be eligible to receive an annual bonus payout and outstanding VCP (and any future LTIP) awards. The annual bonus, VCP and EAP (and any future LTIP) awards will be subject to the satisfaction of the relevant performance criteria tested at the normal date and, ordinarily, the outcome will be calculated on a time pro-rata basis. The Remuneration Committee will have the ability to allow the awards to vest with no time pro-rating in exceptional circumstances.

### All-employee share plans

The Executive Directors are eligible to participate in any all-employee share plan operated by the Company. Participation will be capped by the limits imposed by any relevant tax authorities in relation to the respective plan that might be operated.

### Discretions retained by the Remuneration Committee

The Remuneration Committee may apply discretion when permitted by the various plan rules in operating the various incentive plans including in relation to:

- determining vesting under the incentive plans;
- determining the status of leavers and, where relevant, the extent of vesting;
- determining the payments due in the event of a change of control;
- making appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); and
- adjusting existing targets if events occur that cause the Remuneration Committee to determine that the targets set are no longer appropriate and that amendment is required so the relevant award can achieve its original intended purpose, provided that the new targets are not materially less difficult to satisfy in the opinion of the Remuneration Committee.

To the extent discretion is applied in a year, this will be disclosed in the relevant Directors' remuneration report.

### Statement of conditions elsewhere in the Company

The Remuneration Committee will consider pay and employment conditions across the Company when reviewing the remuneration of the Executive Directors and other senior employees. In particular, the Remuneration Committee will consider the range of base pay increases across the Group as well as wider workforce remuneration and related policies.

# **Remuneration report** continued

### Consideration of shareholder views

The Remuneration Committee will take the views of stakeholders, including shareholders, seriously and these views will be taken into account in shaping Policy and practice. Shareholder views will be considered when evaluating and setting remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its Policy.

### Non-Executive Directors

The Chair of the Board and independent Non-Executive Directors have letters of appointment with an initial three-year term. The Chair of the Board receives an all-inclusive fee of £400,000 gross. Independent Non-Executive Directors are paid a base fee of £60,000 gross and the following additional fees for acting as Chair of Board Committees:

- Audit Committee: £15,000 gross per annum; and
- Remuneration Committee: £15,000 gross per annum.
- The Chair of the Nomination Committee will not receive additional cash compensation.

Subject to shareholder approval at the 2023 AGM, the fees for the independent Non-Executive Directors and the Chairs of the Remuneration Committee and Audit Committee will be increased by 5% with effect from 1 October 2022. In subsequent years the fees for the Chair of the Board, independent Non-Executive Directors and Chairs of Board Committees will be subject to annual review providing for increases normally up to the increase for the workforce but with the Board retaining the discretion to increase fees above this rate where appropriate (for example a material change to the scope of the role), or where the fee is materially out of line with market levels.

With the exception of the designate Chair of the Board, the Non-Executive Directors who are not independent will not receive a fee for their services.

Reasonable expenses incurred in carrying out their duties may be reimbursed including any personal income tax payable by the Non-Executive Directors because of reimbursement of those expenses. Fees are reviewed periodically.

Other than the designate Chair of the Board, who will participate in the VCP, the other Non-Executive Directors will not participate in any incentive plans.

## The proportion of fixed and variable remuneration

To support the Policy's objectives to deliver long-term sustainable success of the Company, the remuneration package of our Executive Directors includes a mix of fixed and variable remuneration. The proportion for 2023 is approximately 61% for fixed pay and 39% for variable remuneration on a target basis.

Variable pay is split between the annual bonus and long-term incentives, with 0% being subject to longer-term performance measures in 2022. On a target basis, we would not consider the VCP to have inherent value at target and it has therefore been excluded as this is the first year the VCP has created any value for the Executive Directors as performance against the hurdles has now been determined.

**Brendan Connolly**
**Remuneration Committee Chair**
On behalf of the Board

# Directors' report

The Board presents its report, together with the audited accounts for the year ended 30 September 2022.

## Indemnity provisions

The Company indemnifies all Directors within its Articles of Association.

In addition, the Company holds (i) Directors' and Officers' liability insurance, which provides cover for liabilities incurred by Directors in the performance of their duties or powers; and (ii) Public Offering of Securities Insurance to ring-fence any exposure arising from the initial public offering in May 2021.

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 1 to 59 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.

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 statements which form part of the report.

## 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.

## Ethical conduct

The Board is committed to ensuring that all employees, customers and suppliers act in an ethical manner. The Group has policies in place relating to anti-bribery and corruption, anti-money laundering, insider trading and sanctions.

## 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 Going concern statement on page 38.

# **Directors' report** continued

## Additional information

### Political donations

No political donations were made and no political expenditure was incurred during the year (FY22: £Nil).

### Dividends

No dividends were recommended or paid.

### Significant post-balance sheet events

There are no post-balance sheet events to report for FY22.

### Articles of Association

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

### Research and development

The Group designs products for sale in stores and has arrangements with suppliers for the development of goods. Further, the Group has invested in the use of more sustainable products and packaging (see ESG section on pages 39 to 59 for further details.)

### Change of control

The Senior Facilities Agreement provides that if the Company is delisted or otherwise removed from the Warsaw Stock Exchange, or all or substantially all of the assets of the Group are sold in a single transaction or a series of transactions, the Company is required to notify the finance agent. Following a negotiation period, lenders have a right to cancel their commitments upon giving 30 days' notice.

## Board of Directors' statement

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

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 30 September 2022 are prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position and results of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended 30 September 2022 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at 30 September 2022 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended 30 September 2022, including a description of the key risks that the Company is confronted with.

The Board confirms that:

i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;

ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;

iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and

iv. the report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report.

**Trevor Masters**
**Chief Executive Officer**
22 December 2022

**Mat Ankers**
**Interim Chief Financial Officer**
22 December 2022

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# Shareholder information

The Group's CEO, Interim CFO and investor relations team communicate on a regular basis with shareholders and analysts and endeavour to facilitate open engagement. In FY22, frequent investor meetings were held alongside a focused Capital Markets Day post year end.

The Group has an investor relations website at https://www.pepcogroup.eu/investors/ where all regulatory news as well as other information on the Pepco Group is available.

We aim to maintain strong dialogue with our shareholders and regularly collect feedback. Please contact investorrelations@pepcogroup.eu.

The Company's Annual General Meeting will be held prior to 31 March 2023.

## Contact details

### General enquiries

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United Kingdom

0203 735 9210
contact@pepcogroup.eu

### Investor relations

investorrelations@pepcogroup.eu

### General media enquiries

media@pepcogroup.eu

### Financial and corporate media enquiries

PEPCOGroup-LON@finsbury.com

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# Consolidated income statement

for the year ended 30 September 2022

| | Note | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3 | **4,822,819** | 4,121,801 |
| Cost of sales | | **(2,855,221)** | (2,352,908) |
| **Gross profit** | | **1,967,598** | 1,768,893 |
| Distribution costs | | **(1,347,527)** | (1,123,960) |
| Administrative expenses | | **(341,958)** | (375,209) |
| Other operating income | | **116** | 4,480 |
| Other expenses | | **-** | (21,119) |
| **Operating profit from continuing operations** | 5 | **278,229** | 253,085 |
| Financial income | 6 | **2,242** | 1,000 |
| Financial expense | 7 | **(54,856)** | (87,098) |
| **Profit before taxation from continuing operations for the year** | | **225,615** | 166,987 |
| Taxation | 9 | **(51,900)** | (35,790) |
| **Profit from continuing operations for the year** | | **173,715** | 131,197 |
| Loss on discontinued operations | 26 | **(110)** | (173) |
| **Profit for the year** | | **173,605** | 131,024 |

| | | | |
|---|---|---|---|
| **Earnings per share** | 31 | | |
| Basic earnings per share from continuing operations | | **30.2c** | 22.8c |
| Basic earnings per share from discontinued operations | | **—c** | —c |
| Basic earnings per share | | **30.2c** | 22.8c |
| Diluted earnings per share from continuing operations | | **30.0c** | 22.6c |
| Diluted earnings per share from discontinued operations | | **—c** | —c |
| Diluted earnings per share | | **30.0c** | 22.6c |

The notes on pages 109 to 153 form part of these financial statements.

# Consolidated statement of other comprehensive income

for year ended 30 September 2022

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Profit for the year | **173,605** | 131,024 |
| **Other comprehensive income** | | |
| Items that are or may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation differences – foreign operations | **(55,513)** | 34,828 |
| Effective portion of changes in fair value of cash flow hedges | **23,783** | 58,077 |
| Net change in fair value of cash flow hedges reclassified to profit or loss | **41,425** | 5,028 |
| Deferred tax on items that are or may be reclassified subsequently to profit or loss | **(13,430)** | (10,797) |
| **Other comprehensive (loss)/income for the year, net of income tax** | **(3,735)** | 87,136 |
| **Total comprehensive income for the year** | **169,870** | 218,160 |

The notes on pages 109 to 153 form part of these financial statements.

# Consolidated statement of financial position

at 30 September 2022

| | Note | 30 September 2022 €000 | 30 September 2021 (restated)[1] €000 | 1 October 2020 (restated)[1] €000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | **524,550** | 439,506 | 378,968 |
| Right-of-use asset | 12 | **1,018,240** | 957,343 | 806,854 |
| Goodwill and other intangible assets | 11 | **814,238** | 834,515 | 783,876 |
| Trade and other receivables | 14 | **2,422** | 3,043 | 3,200 |
| Derivative financial instruments | 17 | **5,186** | 1,589 | 1,488 |
| Deferred tax asset | 18 | **91,296** | 68,559 | 54,967 |
| | | **2,455,932** | 2,304,555 | 2,029,353 |
| **Current assets** | | | | |
| Inventories | 13 | **959,094** | 597,121 | 566,676 |
| Tax receivable | | **3,735** | 3,572 | 3,043 |
| Trade and other receivables | 14 | **71,418** | 57,803 | 45,689 |
| Derivative financial instruments | 17 | **165,216** | 66,235 | 3,961 |
| Cash and cash equivalents | | **343,933** | 507,702 | 400,167 |
| | | **1,543,396** | 1,232,433 | 1,019,536 |
| **Total assets** | | **3,999,327** | 3,536,988 | 3,048,889 |
| **Current liabilities** | | | | |
| Trade and other payables | 15 | **927,884** | 744,190 | 610,564 |
| Current tax liabilities | | **47,944** | 19,012 | 5,196 |
| Lease liabilities | 12 | **310,484** | 260,020 | 247,345 |
| Borrowings | 16 | **68,339** | 65,758 | 4,135 |
| Derivative financial instruments | 17 | **37,040** | 5,232 | 5,630 |
| Provisions | 19 | **16,749** | 19,692 | 9,854 |
| | | **1,408,440** | 1,113,904 | 882,724 |
| **Non-current liabilities** | | | | |
| Trade and other payables | 15 | **37,733** | 5,408 | 16,809 |
| Lease liabilities | 12 | **823,060** | 839,298 | 671,517 |
| Borrowings | 16 | **546,203** | 545,034 | 706,066 |
| Derivative financial instruments | 17 | **8,122** | 216 | 969 |
| Provisions | 19 | **31,016** | 70,265 | 38,168 |
| | | **1,446,134** | 1,460,221 | 1,433,529 |
| **Total liabilities** | | **2,854,574** | 2,574,125 | 2,316,253 |
| **Net assets** | | **1,144,754** | 962,863 | 732,636 |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | 20 | **5,750** | 5,750 | 5,705 |
| Share premium reserve | 20 | **13** | 13 | - |
| Cash flow hedge reserve | | **99,187** | 47,409 | (4,899) |
| Merger reserve | | **(751)** | (751) | (751) |
| Translation reserve | | **(70,316)** | (14,803) | (49,631) |
| Share-based payment reserve | | **35,830** | 23,809 | 11,800 |
| Retained earnings | | **1,075,041** | 901,436 | 770,412 |
| **Total shareholders' equity** | | **1,144,754** | 962,863 | 732,636 |

1. See note 28 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration customisation costs in April 2021.

The notes on pages 109 to 153 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 30 September 2022

| | Share capital €000 | Share premium[4] €000 | Cash flow hedge reserve[1] €000 | Translation reserve[2] €000 | Merger reserve[3] €000 | Share-based payment reserve[4] €000 | Retained earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 October 2021 (restated) | 5,750 | 13 | 47,409 | (14,803) | (751) | 23,809 | 901,436 | 962,863 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 173,605 | 173,605 |
| Other comprehensive income for the period | – | – | 51,778 | (55,513) | – | – | – | (3,735) |
| Total comprehensive income for the period | – | – | 51,778 | (55,513) | – | – | 173,605 | 169,870 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Issue of share capital | – | – | – | – | – | – | – | – |
| Equity-settled share-based payments (see note 21) | – | – | – | – | – | 12,021 | – | 12,021 |
| Total contributions by and distributions to owners | – | – | – | – | – | 12,021 | – | 12,021 |
| Balance at 30 September 2022 | 5,750 | 13 | 99,187 | (70,316) | (751) | 35,830 | 1,075,041 | 1,144,754 |

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 subsidiaries acquired.

4 The Group implemented a Value Creation Plan (VCP) for its Executive Directors; see note 21.

The notes on pages 109 to 153 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 30 September 2021 (restated)

| | Share capital €000 | Share premium[4] €000 | Cash flow hedge reserve[1] €000 | Translation reserve[2] €000 | Merger reserve[3] €000 | Share-based payment reserve[4] €000 | Retained earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 October 2020 as previously reported | 5,705 | - | (4,899) | (49,631) | (751) | 11,800 | 791,427 | 753,651 |
| Impact of change in accounting policy | - | - | - | - | - | - | (21,015) | (21,015) |
| Balance at 1 October 2020 (restated) | 5,705 | - | (4,899) | (49,631) | (751) | 11,800 | 770,412 | 732,636 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 131,024 | 131,024 |
| Other comprehensive income for the period | - | - | 52,308 | 34,828 | - | - | - | 87,136 |
| Total comprehensive income for the period | - | - | 52,308 | 34,828 | - | - | 131,024 | 218,160 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Issue of share capital | 45 | 13 | - | - | - | - | - | 58 |
| Equity-settled share-based payments (See note 21) | - | - | - | - | - | 12,009 | - | 12,009 |
| Total contributions by and distributions to owners | 45 | 13 | - | - | - | 12,009 | - | 12,067 |
| Balance at 30 September 2021 | 5,750 | 13 | 47,409 | (14,803) | (751) | 23,809 | 901,436 | 962,863 |

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 subsidiaries acquired.

4 The Group implemented a Value Creation Plan (VCP) for its Executive Directors; see note 21.

The notes on pages 109 to 153 form part of these financial statements.

# Consolidated statement of cash flows

for the year ended 30 September 2022

| | Note | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the period: | | | |
| Continuing operations | | **173,715** | 131,197 |
| Discontinued operations | | **(110)** | (173) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 10,11 | **126,402** | 103,385 |
| Right-of-use asset depreciation | 12 | **260,284** | 222,136 |
| Financial income | 6 | **(2,242)** | (1,000) |
| Financial expense | 7 | **54,856** | 87,098 |
| Loss on sale of property, plant and equipment | | **-** | 204 |
| Equity-settled share-based payment expenses | 21 | **13,988** | 15,426 |
| Taxation | 9 | **51,900** | 35,790 |
| | | **678,793** | 594,063 |
| Decrease/(increase) in trade and other receivables | | **(19,730)** | (21,435) |
| Increase in inventories | | **(384,052)** | (18,578) |
| Increase in trade and other payables | | **184,090** | 140,696 |
| (Decrease)/increase in provisions and employee benefits | | **(21,841)** | 29,413 |
| Settlement of derivatives | | **(12,566)** | (1,513) |
| **Cash generated by operations** | | **424,694** | 722,646 |
| Tax paid | | **(61,387)** | (49,580) |
| **Net cash inflow from operating activities** | | **363,307** | 673,066 |
| **Cash flows used in investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **626** | 161 |
| Interest received | | **-** | 3,153 |
| Acquisition of a subsidiary net of cash acquired | | **-** | (6,034) |
| Additions to property, plant and equipment | 10 | **(218,217)** | (147,140) |
| Additions to other intangible assets | 11 | **(6,764)** | (4,403) |
| **Net cash outflow used in investing activities** | | **(224,355)** | (154,263) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | | **-** | 58 |
| Proceeds from bank loan net of fees incurred | | **45,000** | 606,897 |
| Repayment of borrowings | | **(43,193)** | (489,152) |
| Interest paid | | **(9,642)** | (30,399) |
| Payment of interest on lease liabilities | | **(46,052)** | (36,443) |
| Repayment of lease liabilities | | **(245,598)** | (219,669) |
| Repayment of loan to Group undertakings | | **-** | (246,287) |
| **Net cash outflow from financing activities** | | **(299,485)** | (414,995) |
| Net (decrease)/increase in cash and cash equivalents | | **(160,533)** | 103,808 |
| Cash and cash equivalents at beginning of period | | **507,702** | 400,167 |
| Effect of exchange rate fluctuations on cash held | | **(3,236)** | 3,727 |
| **Cash and cash equivalents at end of period** | | **343,933** | 507,702 |

The notes on pages 109 to 153 form part of these financial statements.

# Notes to the consolidated financial statements

## 1. Significant accounting policies

Pepco Group N.V. (the Company) is a public limited liability company incorporated in the Netherlands (registration number 81928491) and domiciled in the United Kingdom. The Company has a primary listing in on the Warsaw Stock Exchange. The registered address is 14th Floor, Capital House, 25 Chapel Street, London, NW1 5DH, United Kingdom. The Group's primarily activity is a multi-format, pan-European discount variety retailer.

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 in accordance with International Financial Reporting Standards, as adopted by the EU (Adopted IFRSs), and also comply with the statutory provisions of part 9 of Book 2 of the Dutch Civil Code. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU and with part 9 of Book 2 of the Dutch Civil Code; these are presented on pages 154 to 166.

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

### 1.0 Response to auditors' opinion

As part of the year end closing process, management were unable to fully reconcile physical inventory held in warehouses and the inventory held in the company's accounting records, with a net unexplained difference of €7m.

There are two information technology systems for operational stock count and financials which interface but are not synchronised on a real-time basis. This can create challenges for performing reconciliation on a standstill basis. This system construct remains consistent with previous years.

In terms of the net unexplained reconciling difference of €7m, this represents approximately 0.7% of the company's €959m closing inventory balance and for context is slightly less than the value of stock we sell in one day.

Across Pepco and the Pepco Group stock is a significant asset which has rapid turnover in both distribution centres ("DC's") and stores. Management believes the Group operates a clear, well controlled and sophisticated environment for stock that leverages established systems to control the stock across the various locations including DC's and stores and to keep appropriate accounting records. The primary systems in operation to control stock include Oracle, Microsoft AX and Blue Yonder and contain live interfaces between the different systems.

The control environment is built on control points into, within, and out of our distribution centres and control points into, within, and out of our stores. In simple terms;

- Stock sent from suppliers is counted into our DC's to ensure accuracy
- Perpetual inventory counts are used throughout the year in the DC's with any differences to the system corrected in both operational and financial systems to ensure accuracy
- Stock picked in the DC's to be sent to stores is quality sampled to ensure accuracy
- Stock is actively booked into stores to ensure accuracy on delivery
- Stores are stock counted in full up to twice per year alongside store led reviews in between with any differences to the system corrected in both operational and financial systems for accuracy

These procedures are critical to Pepco being able to offer high availability of product in stores with class leading shrinkage and other operating metrics.

Given the volume of stock the business handles and the 24 hour nature of its operations, it leverages and relies on systems it has heavily invested in over the past 3 years to ensure accuracy between operational systems and financial balances.

The overall control environment the Group operates remains the same in the FY22 financial period to the FY21 financial period.

Management of the Group believe that the control environment is robust and the stock values accurately reflect the stock the group holds. As the business continues to grow, management will continue to improve the control environment and work with the auditors to ensure revised procedures for FY23 are agreed to adequately address this reconciliation issue.

### 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 except for derivatives which are measured at fair value. 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 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

In determining the appropriate basis of preparation of the 2022 consolidated financial statements, the Board of Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future.

At the time of signing the consolidated 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. The Group undergoes a rigorous and comprehensive annual budgeting and long-term planning process which is reviewed and challenged by various stakeholders across management and the Board. This financial plan, which is ultimately approved by the Board, is then utilised to measure business performance and it also forms the 'base case' upon which the going concern analysis has been based.

In assessing going concern, the Group has considered the period to the end of FY24, beyond the minimum requirement of twelve months from the date of signing the financial statements. The directors have considered a severe but plausible downside sensitivity and a reverse stress test. The analysis suggested that despite the harsh scenario assumptions, which the directors consider to be very unlikely, the Group still retains sufficient headroom across the assessment period and is able to meet all the requirements of its lending covenants. It should also be noted the Group continued to meet its convent obligations and maintain significant liquidity headroom throughout the Covid-19 pandemic restrictions in 2021 and 2022.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position including the ongoing store expansion strategy is set out in the CEO and CFO's reports. Our robust performance in Covid-19 impacted FY21 and FY22 and conservation of cash to support any disruption gives us confidence that we will be able to navigate the challenging global economic conditions.

As part of the IPO process the Group signed a new Senior Facilities Agreement in April 2021, the terms of these new borrowings comprising of (i) a 3-year €300m term loan facility; (ii) a 5-year €250m term loan facility; and (iii) a 5-year €190m multi-currency revolving credit facility, all of which are well beyond twelve months from signing of these financial statements.

Given the above, the Directors have deemed the application of the going concern basis for the preparation of these consolidated financial statements to be appropriate.

## 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.

### Acquisitions from entities under common control

In accounting for Group reorganisation as a business combination under common control, the following principles have been adopted:

- Where investments are acquired in exchange for consideration and the transactions have economic substance the Group has chosen to account for these transactions at fair value by applying acquisition accounting in accordance with the principles of IFRS 3 as discussed in the accounting policy for business combinations.
- Where businesses are acquired in exchange for the issue of shares, the Group has chosen to account for these transactions using the transferor's book values (pooling of interest method) with the difference between the value of the net assets acquired and nominal value of the shares issued being recognised within a merger reserve in equity.

### 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 non-controlling interest 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.

Unless otherwise indicated, the consolidated and parent company financial statements are prepared on the accruals basis in thousands of Euro (€000). The Euro is the Group's presentation currency and the Company's functional currency.

### Group reorganisation

The Group undertook a Group reorganisation exercise during the prior year. As part of this process, Pepco Group N.V. (formerly Pepco Group B.V.) was inserted above Pepco Group Limited in the Group's structure.

On 13 May 2021, Pepco Group N.V. (the Company) acquired the entire shareholding of Pepco Group Limited and its related subsidiaries, by a way of a share for share exchange with Flow Newco Limited, becoming the Group's immediate parent company. The insertion of the Company on top of the existing Pepco Group Limited does not constitute a business combination under IFRS 3 "Business Combinations" and instead has been accounted for as a Group reorganisation. Merger accounting has been used to account for this transaction (see note 20 for details).

### 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 the average rate during the month in which they were incurred. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the translation reserve.

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

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

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

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

### 1.6 Non-derivative financial instruments

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

#### Financial assets – classification, subsequent measurement and gains and losses

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

The Group makes an assessment of the objective of the business model in which a financial asset is held because this best reflects the way the business is managed and information is provided to management.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group does not have any financial assets accounted for at FVOCI. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets which are accounted for in accordance with the accounting policy (note 1.7) for derivative financial instruments and hedge accounting.

### Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement.

See the accounting policy 1.7 regarding derivative financial instruments and hedge accounting for further information.

### Derecognition

#### Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which either substantially all of the risks and rewards of ownership of the financial asset are transferred, or the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount derecognised and the consideration received is recognised in the income statement.

#### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the income statement.

### 1.7 Derivative financial instruments and hedging

Derivative financial instruments (comprising foreign currency forward contracts and commodity hedges) are used to manage risks arising from changes in foreign currency exchange rates (primarily 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 mostly designated as cash flow hedges.

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

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

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

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

### 1.8 Property, plant and equipment

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

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

| | | |
|---|---|---|
| Leasehold property improvements | – | Over the term of the lease |
| Fixtures and equipment | – | 3 to 25 years (dependent upon lease term) |
| Buildings | – | 10 to 40 years |
| Land | - | No depreciation is charged |

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

### 1.9 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.

### 1.10 Intangible assets and goodwill

#### Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. Goodwill is not amortised, but is tested for impairment annually or whenever there is an indication of impairment. For the purposes of impairment testing, goodwill acquired is allocated to the cash-generating unit (CGU) that is expected to benefit from the synergies of the combination. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### Brand

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.

#### Software

Capitalised software costs include both external direct costs of goods and services, and internal payroll-related costs for employees who are directly associated with the software project.

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it is available for use.
- Management intends to complete the software for use in the business.
- It can be demonstrated how the software will generate probable economic benefits in the future.
- Adequate technical, financial and other resources are available to complete the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives.

Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

Refer to section 1.28 of the accounting policies which provides further information regarding the change in accounting policies relating to software costs being capitalised or expensed in the period.

### 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:

| | | |
|---|---|---|
| Trademarks | – | 5 years |
| Software | – | 3–7 years |

## 1.11 Inventories

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

## 1.12 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 financial assets measured at amortised costs. 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 (CGU)). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to 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.

## 1.13 Cash and cash equivalents

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

### 1.14 Employee benefits

#### Defined contribution plans

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

#### Share-based payment transactions

The grant date fair value of share-based 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 performance 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 and/or market performance conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### 1.15 Provisions

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

### 1.16 Revenue

Revenue comprises the consideration paid for products by external customers at the point of sale in stores, 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 of 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 sell gift cards.

### 1.17 Cost of sales

Cost of sales consist of costs related to purchase price of consumer products sold to customers and inbound shipping charges to distribution centres. Shipping charges to receive products from suppliers are included in inventory and recognised as cost of sales upon sale of products to customers. In addition, warehouse reception and storage costs are not incorporated into inventory valuation on the balance sheet but directly expensed through the income statement as distribution costs. Supplier rebates and contributions to common marketing or advertising campaigns are measured based on contracts signed with suppliers and are considered as a reduction of the prices paid for the products and, therefore, recorded as a reduction of the inventory cost.

### 1.18 Distribution costs

Distribution costs consist of costs incurred in operating and staffing distribution centres and stores and transporting inventory from distribution centres to stores. They consist of warehousing and store employee salaries and wages, store expenses, advertising costs and other selling expenses

### 1.19 Administrative expenses

Administrative expenses consist of support office employees' salaries and wages, impairment losses and reversals, gains and losses on the sale of non-current assets and disposal groups held for sale, restructuring costs and other general and administrative expenses.

### 1.20 Lease accounting

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) and leases of low-value assets (such as personal computers, small items of office furniture and telephones). 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.

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.

The lease liability is presented as a separate line in the Consolidated statement of financial position, split between current and non-current liabilities.

#### Lease liability – subsequent measurement

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

#### Lease liability – remeasurement

The lease liability is remeasured where:

- there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which 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.

## 1.21 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.

## 1.22 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

## 1.23 Government grants

Grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

## 1.24 Events after the balance sheet date

The consolidated financial statements are adjusted to reflect events that occurred provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed where significant, but do not result in an adjustment of the consolidated financial statements themselves.

## 1.25 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 credit against 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 recognised as a credit against cost of sales. 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.

### 1.26 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 expense are recognised in the income statement as they accrue, using the effective interest method.

### 1.27 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. The effective portion is recycled to the income statement upon expiry of the contract or when the hedged future cashflows affect profit or loss.

#### Translation reserve

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

#### Merger reserve

The merger reserve arose 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 and the share for share exchange transaction that took place this year described in note 20. It 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 subsidiaries acquired.

### 1.28 New standards and amendments

#### Standards adopted by the Group for the first time

A number of new and revised standards, including the following, are effective for annual periods beginning on or after 1 January 2021::

- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases – Interest Rate Benchmark Reform – Phase 2
- Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021

Adoption of these standards has not had an impact on the Group's financial statements.

#### Standards and interpretations to existing standards which are not yet effective and are under review as to their impact on the Group.

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 October 2022 or later periods but which the Group has not early adopted::

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture – Annual Improvements to IFRS Standards 2018–2020 (effective 1 January 2022)
- Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework (effective 1 January 2022)
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (effective 1 January 2022)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (effective 1 January 2022)
- IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective 1 January 2023)
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective 1 January 2023)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure Initiative: Accounting Policies (effective 1 January 2023)
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective 1 January 2023)
- Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback (effective 1 January 2024)
- Amendments to IAS 1 Presentation of Financial Statements – Non-current Liabilities with Covenants, Classification of liabilities as current or non-current (effective 1 January 2024))

#### IFRIC decision on Software-as-a-Service (SaaS) implementation costs

In April 2021 the IFRS Interpretations Committee published an agenda decision regarding the treatment of configuration or customisation costs in a cloud computing arrangement under IAS 38 "Intangible Assets". During the period to 30 September 2022, the Group has revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements in response to this IFRS Interpretations Committee decision. In addition, the Group has assessed the impact of this change in accounting policy on any cloud computing arrangements entered into during the prior periods and restated the comparative figures. This has impacted the income statement, balance sheet and retained earnings and has meant that costs that were previously capitalised will now be expensed. For more details on the impact on the financial statements of the change in accounting policy please see note 1.29.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

In a contract where the cloud provider provides both the SaaS configuration and customisation as well as the SaaS access over the contract term, then the configuration and customisation costs are expensed over the contract term only if the services provided are not distinct and are otherwise expensed upfront as the software is configured or customised.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

No other new standards, new interpretations or amendments to standards or interpretations have been published which are expected to have a significant impact on the Group's financial statements.

### 1.29 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 other intangible assets) and right-of-use assets

The Group assesses whether there are any indicators of impairment as at the reporting date for all intangible assets and right-of-use assets. Goodwill is tested for impairment annually and at other times when such indicators exist. Other intangible 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.

### Life of brand asset

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 is amortised on a straight-line basis. See note 11 for detailed disclosures.

### Key judgements

The judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

### 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 1.20 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.

### 1.30 Non-underlying items

Management exercises judgement in determining the adjustments to apply to IFRS measurements. Management believes these measures provide additional useful information to illustrate the underlying trends, performance and position of the Group. Non-underlying adjustments constitute material, exceptional, unusual and other items. 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:

- IFRS 2 charges in respect of management Value Creation Plan.
- Cost relating to implementation of Software-as-a-Service IT solutions.
- IPO related expenses: IPO related expenses relate to project costs associated with listing of the Company on the Warsaw stock exchange; and
- business restructuring programmes.

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 2022 is included in note 4. The non-underlying items are not defined by IFRS.

### 1.31 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 27, 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.

## 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 other expenses.

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 financial statements. 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 the "eliminations" line in the segmental analysis. 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.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **External revenue** | | |
| Pepco (apparel-led multi-price) | **2,714,003** | 2,166,247 |
| Poundland Group (FMCG-led price-anchored) | **2,108,816** | 1,955,554 |
| Group external revenue | **4,822,819** | 4,121,801 |
| **Underlying EBITDA** | | |
| Pepco (apparel-led multi-price) | **519,382** | 456,961 |
| Poundland Group (FMCG-led price-anchored) | **214,121** | 194,995 |
| Other | **(2,765)** | (5,414) |
| Group underlying EBITDA | **730,738** | 646,542 |
| **Reported EBITDA** | | |
| Pepco (apparel-led multi-price) | **501,843** | 447,695 |
| Poundland Group (FMCG-led price-anchored) | **180,805** | 166,182 |
| Other | **(17,716)** | (15,102) |
| Group EBITDA | **664,932** | 598,775 |
| Less reconciling items to operating profit | | |
| Depreciation of right-of-use asset | **(260,284)** | (222,136) |
| Depreciation of property, plant and equipment | **(108,740)** | (91,270) |
| Impairment of property, plant and equipment | **(8,401)** | (419) |
| Amortisation of other intangibles | **(9,261)** | (10,252) |
| Impairment of other intangibles | **-** | (289) |
| Profit/(loss) on disposal of property, plant and equipment | **227** | (204) |
| Other expenses | **(244)** | (21,119) |
| **Group operating profit from continuing operations** | **278,229** | 253,086 |

All income statement disclosures are for the continuing business only. The total asset, total liability and capital expenditure disclosures are for the entire Group including discontinued operations.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **Depreciation and amortisation** | | |
| Pepco (apparel-led multi-price) | **226,486** | 180,916 |
| Poundland Group (FMCG-led price-anchored) | **150,461** | 140,761 |
| Other | **1,338** | 1,981 |
| Group depreciation and amortisation | **378,285** | 323,658 |
| **Impairment of property, plant and equipment and intangible assets** | | |
| Pepco (apparel-led multi-price) | **(238)** | 708 |
| Poundland Group (FMCG-led price-anchored) | **8,639** | (289) |
| Group impairment of property, plant and equipment and intangible assets | **8,401** | 419 |
| **Total assets** | | |
| Pepco (apparel-led multi-price) | **2,307,013** | 1,812,259 |
| Poundland Group (FMCG-led price-anchored) | **1,478,781** | 1,444,964 |
| Other | **952,510** | 1,017,126 |
| Eliminations | **(738,977)** | (737,360) |
| Group total assets | **3,999,327** | 3,536,988 |
| **Total liabilities** | | |
| Pepco (apparel-led multi-price) | **1,377,556** | 1,062,779 |
| Poundland Group (FMCG-led price-anchored) | **1,131,319** | 1,091,645 |
| Other | **345,860** | 593,731 |
| Eliminations | **(161)** | (174,030) |
| Group total liabilities | **2,854,574** | 2,574,125 |
| **Additions to non-current assets** | | |
| Pepco (apparel-led multi-price) | **376,369** | 370,956 |
| Poundland Group (FMCG-led price-anchored) | **188,219** | 159,132 |
| Other | **7,905** | 276 |
| Group additions to non-current assets | **572,493** | 530,364 |

* Items presented in the reconciliation between operating profit and EBITDA include discontinued operations as is consistent with the presentation in the operating profit note 5.

## 3. Revenue

Revenue comprises the consideration paid for products by external customers at the point of sale in stores, 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 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| UK | **1,678,052** | 1,589,638 |
| Poland | **1,191,996** | 1,060,653 |
| Rest of Europe | **1,952,771** | 1,471,510 |
| | **4,822,819** | 4,121,801 |

The Group's disaggregated non-current assets recognised relates to the following geographical segments:

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| UK | **1,268,687** | 1,099,298 |
| Poland | **336,326** | 309,293 |
| Rest of Europe | **754,436** | 783,742 |
| | **2,359,449** | 2,192,333 |

## 4. Non-underlying items

The Group believes underlying profit, an alternative profit measure, is a valuable way in which to present business performance as it provides the users of the accounts with a clear and more representative view of ongoing business performance. Non-underlying adjustments constitute material, exceptional, unusual and other items. 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.

Underlying performance measures should be considered in addition to IFRS measures and are not intended to be a substitute for them. The Group also uses underlying financial performance to improve the comparability of information between reporting periods and geographical units and to aid users in understanding the Group's performance. Consequently, the Group uses underlying financial performance for performance analysis, planning, reporting and incentive setting

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **Reported EBITDA from continuing operations** | **664,932** | 598,775 |
| Group Value Creation Plan (VCP) | **13,988** | 15,426 |
| Impact of implementation of IFRIC interpretation on SaaS arrangements | **35,354** | 29,830 |
| Restructuring and Other costs | **16,464** | 2,511 |
| **Underlying EBITDA from continuing operations** | **730,738** | 646,542 |
| **Reported operating profit from continuing operations** | **278,229** | 253,805 |
| IPO-related expenses | **1,230** | 21,119 |
| Group Value Creation Plan (VCP) | **13,988** | 15,426 |
| Impact of implementation of IFRIC interpretation on SaaS arrangements | **32,891** | 29,830 |
| Restructuring costs | **26,128** | - |
| Other non-underlying items | **-** | 1,837 |
| **Underlying operating profit from continuing operations** | **352,467** | 320,817 |
| **Reported profit before taxation from continuing operations for the year** | **225,615** | 166,987 |
| IPO-related expenses | **1,230** | 21,119 |
| Group Value Creation Plan (VCP) | **13,988** | 15,426 |
| Impact of implementation of IFRIC interpretation on SaaS arrangements | **32,891** | 29,830 |
| Restructuring costs | **26,574** | - |
| Other non-underlying items | **-** | 1,837 |
| IPO-related refinancing expenses | **-** | 9,122 |
| **Underlying profit before tax from continuing operations** | **300,298** | 244,321 |

Group Value Creation Plan: A Value Creation Plan, which is accounted for as an IFRS 2 charge, was approved by the Board of Directors in March 2020 as a reward tool to incentivise the top management of the Pepco Group and to retain them post an IPO. The Group treat the VCP associated costs as Non-Underlying Costs on the basis;

- The VCP was specific IPO related incentive which is not a typical share based payment scheme
- The scheme was implemented prior to the IPO and the total cost of the scheme (€45.3m) is already reflected in the share price achieved at IPO.

Management believe it is beneficial for the users of the financial statements to understand the underlying operational performance without it being skewed by the impact of the VCP charges. See note 21 for more details on the VCP.

Impact of implementation of IFRIC interpretation on SaaS arrangements: Following the recent IFRIC interpretation on accounting for SaaS costs, the Group has expensed previously capitalised costs in relation to certain SaaS projects as part of the retrospective application of the new accounting policy.

Restructuring costs: The Group undertook strategic decision to discontinue the Dealz business in Spain and stores acquired as part of the Fultons acquisition. The non-underlying costs relate to winding down of the operations and store closures. Prior year costs relate to head office cost reduction and strategic change to rationalise the supply chain network.

Other non-underlying items: The €1.8m noted in 2021 relates to costs associated with stock moves, short-term productivity under utilisations, third-party transitional storage and HR costs relating to redundancy and retention. No costs were incurred in relation to this in 2022.

IPO-related expenses: IPO-related expenses relate to project costs associated with this listing of the Company on the Warsaw Stock Exchange.

IPO-related refinancing expenses: IPO-related refinancing expenses relate to the cost of securing new financing and the write off of capitalised financing costs relating to the previous financing activity resulting from the necessity to refinance existing debt prior to the IPO.

## 5. Operating profit from continuing operations

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **Operating profit for the period has been arrived at after charging/(crediting):** | | |
| Expense relating to short-term , low-value and variable leases | **34,174** | 21,351 |
| Depreciation of tangible fixed assets and other items: | | |
| Owned | **108,740** | 91,270 |
| Depreciation of right-of-use assets | **260,284** | 222,136 |
| Impairment of property, plant and equipment | **8,401** | 419 |
| Amortisation of other intangibles | **9,261** | 10,252 |
| Impairment of other intangible assets | **-** | 289 |
| Cost of inventories recognised as an expense | **2,856,523** | 2,146,101 |
| Write downs of inventories recognised as an expense | **33,630** | 23,935 |

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **Auditors' remuneration** | | |
| Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts | **373** | 332 |
| Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries | **977** | ,870 |
| Fees payable to other auditors and their associates for the audit of the Company's subsidiaries | **654** | 591 |
| Fees payable to other auditors and their associates in the current year in relation to prior year audit | **349** | 451 |
| Total audit fees | **2,353** | 2,244 |
| Audit related services | **148** | 143 |
| Other services | **-** | 160 |
| Total assurance-related fees | **148** | 303 |
| Total auditors' remuneration | **2,501** | 2,547 |

1 Audit fees are payable to Mazars Accountants N.V. the auditors of the Company.

## 6. Financial income

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Bank interest income | **2,242** | 668 |
| Other interest income | **-** | 332 |
| | **2,242** | 1,000 |

## 7. Financial expense

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Interest on bank loans and amortisation of capitalised finance costs | **11,548** | 29,144 |
| Interest on lease liabilities | **46,052** | 36,443 |
| On amounts owed to Group undertakings | **-** | 11,570 |
| Ineffective element of hedging | **-** | 1,360 |
| Unrealised foreign currency gains on borrowings | **(3,190)** | (541) |
| | **54,410** | 77,976 |
| Non-underlying financial expenses[1] | **446** | 9,122 |
| | **54,856** | 87,098 |

1 Non-underlying financial expenses relate to lease liability expensed in relation to stores closed as part of the restructure. Prior year costs relate to interest expenses incurred on the early settlement of loans.

## 8. Staff numbers and costs

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

| | Year to 30 September 2022 | Year to 30 September 2021 |
|---|---|---|
| Administration | **2,544** | 2,271 |
| Selling and distribution | **40,668** | 39,774 |
| | **43,212** | 42,045 |

The Group does not have any staff employed in the Netherlands.

The aggregate payroll costs of these persons were as follows:

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Wages and salaries | **646,442** | 585,846 |
| Social security costs | **78,260** | 58,737 |
| Other pension costs (note 24) | **17,876** | 23,000 |
| Share-based payments expense (note 21) | **13,988** | 15,426 |
| | **756,566** | 683,009 |

### Key management renumeration

The amounts for remuneration include the following in respect of the Key management personnel:

| | Basic renumeration €000 | Short-term annual bonus paid €000 | Other short-term Company contributions €000 | Post-employment pension contribution €000 | LTIP[1] €000 | Total €000 |
|---|---|---|---|---|---|---|
| **2022** | **3,948** | **1,676** | **54** | **24** | **7,883** | **13,585** |
| 2021 | 7,175 | 3,051 | 45 | 2 | 7,591 | 17,864 |

1 Long Term Incentive Plan; this includes VCP-related IFRS 2 charges. See note 21 for more details and see Remuneration report (on pages 86 to 98) for Directors' remuneration in detail.

## 9. Taxation

### Analysis of tax (charge)/credit for the year recognised in the income statement

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| **Current tax (charge)/credit** | | |
| Current tax on profits for the year | (87,441) | (65,236) |
| Adjustments in respect of prior periods | (3,396) | 867 |
| Total current tax charge | (90,837) | (64,369) |
| **Deferred tax (charge)/credit** | | |
| Origination and reversal of temporary differences | 37,797 | 25,301 |
| Adjustments in respect of prior periods | 1,138 | (3,887) |
| Impact of change in tax rate | 2 | 7,165 |
| Total deferred tax credit | 38,937 | 28,579 |
| Total tax charge for the year | (51,900) | (35,790) |

### Factors affecting the tax (charge)/credit for the year recognised in the income statement

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%). The differences are explained below.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Profit before tax – continuing operations | 225,615 | 166,987 |
| Loss before tax – discontinued operations | (110) | (173) |
| | 225,505 | 166,814 |
| Expected tax (charge)/credit at the UK statutory rate of 19.0% (2021: 19.0%)* | (42,846) | (31,695) |
| Effects of: | | |
| Movement in unrecognised temporary differences | (2,214) | (10,940) |
| Expenses not deductible for tax purposes | (8,931) | (5,065) |
| Overseas tax rate differences | 4,419 | 7,310 |
| Adjustments in respect of prior periods | (2,258) | (3,020) |
| Difference in tax rates | (70) | 7,620 |
| Total tax charge for the year | (51,900) | (35,790) |

* The Company is UK tax resident based on the Company being managed and controlled in the UK and as such is subject to UK corporation tax with the expected tax charge reconciled to the UK statutory rate.

### Tax (charge)/credit recognised in other comprehensive income

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| **Deferred tax (charge)/credit** | | |
| Fair value movements on derivative financial instruments | **(13,430)** | (10,797) |
| Total tax charge recognised in other comprehensive income | **(13,430)** | (10,797) |

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

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future UK current tax charge accordingly. The deferred tax asset relating to the UK at 30 September 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

### Global minimum tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15%. In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework, followed by detailed guidance released in March 2022, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. Once changes to the tax laws in any jurisdiction in which the Group operates are enacted or substantively enacted, the Group may be subject to the top-up tax.

At the date when the financial statements were authorised for issue, none of the jurisdictions in which the Group operates had enacted or substantively enacted the tax legislation related to the top-up tax. Management is closely monitoring the progress of the legislative process in each jurisdiction the Group operates in. At 30 September 2022, the Group did not have sufficient information to determine the potential quantitative impact.

## 10. Property, plant and equipment

| | Land and buildings €000 | Leasehold property improvements €000 | Fixtures and equipment €000 | Total €000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 October 2020 | 61,981 | 210,152 | 342,826 | 614,959 |
| Additions | - | 72,799 | 74,341 | 147,140 |
| Acquisitions through subsidiaries acquired | - | - | 1,088 | 1,088 |
| Disposals | - | (4,339) | (10,791) | (15,130) |
| Reclassifications[1] | - | 321 | (670) | (349) |
| Differences on translation | (1,012) | 3,636 | 5,960 | 8,584 |
| Balance at 30 September 2021 | 60,969 | 282,569 | 412,754 | 756,292 |
| Balance at 1 October 2021 | 60,969 | 282,569 | 412,754 | 756,292 |
| Additions | - | 95,016 | 123,061 | 218,077 |
| Acquisitions through subsidiaries acquired | - | 140 | - | 140 |
| Disposals | - | (9,397) | (17,994) | (27,391) |
| Impairment | - | (8,873) | 472 | (8,401) |
| Reclassifications[2] | - | - | - | - |
| Differences on translation | - | (16,840) | (450) | (17,290) |
| **Balance at 30 September 2022** | **60,969** | **342,615** | **517,843** | **921,427** |
| **Depreciation** | | | | |
| Balance at 1 October 2020 | 714 | 70,415 | 164,862 | 235,991 |
| Charge for the period | 607 | 33,419 | 57,244 | 91,270 |
| Disposals | - | (4,191) | (10,628) | (14,819) |
| Impairment | - | 177 | 242 | 419 |
| Reclassifications | - | - | - | - |
| Differences on translation | (458) | (275) | 4,658 | 3,925 |
| Balance at 30 September 2021 | 863 | 99,545 | 216,378 | 316,786 |
| Balance at 1 October 2021 | 863 | 99,545 | 216,378 | 316,786 |
| Charge for the period | 607 | 38,715 | 69,418 | 108,740 |
| Disposals | - | (8,045) | (18,379) | (26,424) |
| Reclassifications | - | - | 2,042 | 2,042 |
| Differences on translation | (41) | (9,193) | 4,967 | (4,267) |
| **Balance at 30 September 2022** | **1,429** | **121,022** | **274,426** | **396,877** |
| **Net book value** | | | | |
| **Balance at 30 September 2022** | **59,540** | **221,593** | **243,417** | **524,550** |
| Balance at 30 September 2021 | 60,106 | 183,024 | 196,376 | 439,506 |
| Balance at 30 September 2020 | 61,267 | 139,737 | 177,964 | 378,968 |

1 The reclassifications during the prior year primarily relate to ERP development costs transferred to intangible assets.
2 The reclassifications during the current year relate to Finance leases within fixtures and fittings being reclassified to right of use assets.

An impairment was recognised in the year of €8.4m as a result of the closure and rebranding of certain stores.

## 11. Goodwill and other intangible assets

| | Goodwill[1] €000 | Brand[1] €000 | Software and trademarks €000 | Total €000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 October 2020 (restated) | 764,934 | 120,414 | 35,689 | 921,037 |
| Additions (restated) | 9,084 | - | 3,249 | 12,332 |
| Disposals | - | - | (3) | (3) |
| Reclassifications | - | - | 349 | 349 |
| Differences on translation | 47,805 | 7,258 | 1,742 | 56,805 |
| Balance at 30 September 2021 (restated) | 821,823 | 127,672 | 41,026 | 990,521 |
| Balance at 1 October 2021 (restated) | 821,823 | 127,672 | 41,026 | 990,521 |
| Additions | 1,557 | - | 6,764 | 8,321 |
| Disposals | - | - | (714) | (714) |
| Differences on translation | (20,211) | (3,249) | 933 | (22,527) |
| **Balance at 30 September 2022** | **803,169** | **124,423** | **48,009** | **975,601** |
| **Amortisation** | | | | |
| Balance at 1 October 2020 (restated) | 109,425 | 6,021 | 21,715 | 137,161 |
| Amortisation for the period (restated) | - | 3,145 | 7,107 | 10,252 |
| Impairments | - | - | 289 | 289 |
| Differences on translation | 7,745 | 411 | 148 | 8,304 |
| Balance at 30 September 2021 (restated) | 117,170 | 9,577 | 29,259 | 156,006 |
| Balance at 1 October 2021 (restated) | 117,170 | 9,577 | 29,259 | 156,006 |
| Amortisation for the period | - | 3,271 | 5,990 | 9,261 |
| Reclassification | - | - | (2,042) | (2,042) |
| Differences on translation | (2,982) | (404) | 1,524 | (1,862) |
| **Balance at 30 September 2022** | **114,188** | **12,444** | **34,731** | **161,363** |
| **Net book value** | | | | |
| **Balance at 30 September 2022** | **688,981** | **111,979** | **13,278** | **814,238** |
| Balance at 30 September 2021 | 704,653 | 118,095 | 11,767 | 834,515 |
| Balance at 30 September 2020 | 655,509 | 114,393 | 13,974 | 783,876 |

1 Brand and goodwill relate to the acquisition of the Poundland Group, Fultons Group and Poundshop.com. For details on additions to goodwill during the year, please refer to note 22.

### Impairment

Under IAS 36 "Impairment of Assets", the Group is required to:

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

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

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

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 (2021: €Nil).

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 10.9% (2021: 9.2%) 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 1% to 10.8% (2021: 0.0% to 13.2%) in the first five years which has resulted in an average growth rate of 6.4% (2021: 4.7%) in the first five years and a terminal-term growth rate of 1.2% (2021: 1.2%). The 10.8% EBITDA growth rate reflects EBITDA recovery post Covid-19 in 2022. EBITDA % conversion of net sales to profit is projected to grow with the continuation of the price architecture anchored around a limited number of simple price points to 11.3% of net sales in the terminal year. The resulting growth in EBITDA is projected at a CAGR rate of 6.4% (2021: 4.5%). The Group has also chosen to increase its WACC by 1% (2021: 1%) 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 of €218m (2021: €327m). 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 headroom reduction of €143m; if the pre-tax discount rate applied to the cash flow projections of Poundland had been 1.0% higher than management's estimates the goodwill headroom would reduce to €76m. Should the projected long-term growth rate applied to the cash flow projections of Poundland reduce to 0.2%, the headroom would reduce to €148m.

A 10% increase in EBITDA in the terminal year will result in an increase in recoverable amount of €143m; 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 €402m. 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 €308m.

Reduction in EBITDA in the terminal year of 15%, an increase in the pre-tax discount rate of 1.6% or a reduction in the long-term growth rate to -3.1% will reduce the recoverable amount to €Nil.

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

- **Product mix:** The continued roll-out of the 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.

## 12. Leases

### Right-of-use assets

| | Buildings €000 | Equipment €000 | Vehicles €000 | Total €000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 October 2020 | 978,474 | 25,769 | 13,026 | 1,017,269 |
| Additions | 363,868 | - | 7,024 | 370,892 |
| Disposals | (34) | - | - | (34) |
| Differences on translation | 9,787 | 1,372 | (457) | 10,702 |
| Balance at 30 September 2021 | 1,352,095 | 27,141 | 19,593 | 1,398,829 |
| Balance at 1 October 2021 | 1,352,095 | 27,141 | 19,593 | 1,398,829 |
| Additions | 341,468 | 1,735 | 2,752 | 345,956 |
| Disposals | (5,685) | (317) | - | (6,002) |
| Differences on translation | (35,490) | (830) | 773 | (35,547) |
| **Balance at 30 September 2022** | **1,652,389** | **27,729** | **23,118** | **1,703,235** |
| **Depreciation** | | | | |
| Balance at 1 October 2020 | 194,621 | 10,644 | 5,150 | 210,415 |
| Depreciation for the period | 214,983 | 4,959 | 2,194 | 222,136 |
| Differences on translation | 7,932 | 586 | 417 | 8,935 |
| Balance at 30 September 2021 | 417,536 | 16,189 | 7,761 | 441,486 |
| Balance at 1 October 2021 | 417,536 | 16,189 | 7,761 | 441,486 |
| Depreciation for the period | 247,604 | 3,843 | 8,837 | 260,284 |
| Disposals | (3,102) | (188) | - | (3,290) |
| Differences on translation | (10,973) | 1,228 | (3,740) | (13,485) |
| **Balance at 30 September 2022** | **651,065** | **21,072** | **12,858** | **684,995** |
| **Net book value** | | | | |
| **Balance at 30 September 2022** | **1,001,324** | **6,657** | **10,260** | **1,018,240** |
| Balance at 30 September 2021 | 934,559 | 10,952 | 11,832 | 957,343 |
| Balance at 30 September 2020 | 783,853 | 15,125 | 7,876 | 806,854 |

### Lease liabilities

| | **Year to 30 September 2022 €000** | Year to 30 September 2021 €000 |
|---|---|---|
| At beginning of period | **1,099,318** | 918,862 |
| Additions | **346,834** | 370,670 |
| Interest on lease liability | **46,052** | 36,443 |
| Repayment of lease liability | **(291,650)** | (256,112) |
| Disposal | **(2,137)** | - |
| Differences on translation | **(64,873)** | 29,455 |
| **At end of period** | **1,133,544** | 1,099,318 |
| Current | **310,484** | 260,020 |
| Non-current | **823,060** | 839,298 |
| | **1,133,544** | 1,099,318 |

### Amounts recognised in the income statement

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Interest expenses (included in finance cost) | **46,052** | 36,443 |
| Expense relating to short-term leases (included in cost of goods sold and administrative expenses) | **144** | 411 |
| Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) | **410** | 135 |
| Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses) | **32,280** | 20,805 |
| Unrealised foreign exchange loss on revaluation of lease liabilities | **–** | 253 |

### Amounts recognised in the statement of cash flows

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Total cash outflow for leases | **291,650** | 256,112 |

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. 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

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Goods purchased for resale | **642,123** | 410,415 |
| Goods in transit | **316,971** | 186,706 |
| | **959,094** | 597,121 |

Inventories have been reduced by €33,630k (2021: €23,935k) as a result of the write-down to net realisable value.

## 14. Trade and other receivables

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| **Non-current trade and other receivables** | | |
| Other receivables | 2,422 | 3,043 |
| | 2,422 | 3,043 |
| **Current trade and other receivables** | | |
| Trade receivables | 3,195 | 742 |
| Other receivables | 8,515 | 9,689 |
| Amounts owed by Group undertakings | – | 913 |
| Prepayments | 59,708 | 46,459 |
| | 71,418 | 57,803 |

Current amounts owed by Group undertakings is €nil (2021: €0.9m). In the prior year, all amounts owed by Group undertakings were non-interest bearing and are repayable on demand. These amounts were recovered in full in FY22.

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.

Non-current other receivables relate to cash collateralised landlord guarantees; these amounts are presented at amortised cost.

## 15. Trade and other payables

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| **Current** | | |
| Trade payables[1] | 555,029 | 301,022 |
| Other taxation and social security | 79,618 | 73,316 |
| Other payables | 100,618 | 89,707 |
| Accruals | 192,619 | 280,145 |
| | 927,884 | 744,190 |
| **Non-current** | | |
| Accruals and deferred income | 37,300 | 4,903 |
| Amounts owed to Group undertakings | 433 | 505 |
| | 37,733 | 5,408 |

1 Trade payables includes €130m (2021: Nil) payable to suppliers utilising the Supply Chain Financing programme implemented by the Group during the year.

Amounts owed to Group undertakings are repayable on demand and non-interest bearing at 30 September 2022 and 30 September 2021, respectively.

## 16. Borrowings

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| **Current** | | |
| Borrowings from credit institutions | 68,339 | 65,758 |
| **Non-current** | | |
| Borrowings from credit institutions | 546,203 | 545,034 |

Included within non-current liabilities are loans from credit institutions of €550m (2021: €550m). 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 2022 borrowings are stated net of unamortised issue costs of €6.1m (2021: €7.4m). Interest is being charged on the net borrowings amount at an effective rate of 1.7%. This facility contains financial covenants which are typical for this type of facility and include minimum leverage and interest cover. The Group remained compliant with these covenants for the year ended 30 September 2022.

The loans from credit institutions are secured over the shares of material overseas subsidiaries and 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.

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 minimal.

### 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 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, excluding lease liabilities, consists of Term Loans and a Revolving Credit Facility. The interest rate applicable on these borrowings comprises of a variable interest rate component and a fixed interest rate component. The variable component is linked to EURIBOR which is added to the loan as and when changes in the EURIBOR take effect. The fixed element is pre-agreed as typical for these types of loan instruments. The fixed element of the interest ranges between 1.5% and 1.8%.

The Group has considered its interest rate risk not to be significant given the low leverage position, low fixed interest rate element and the low EURIBOR rates. In addition, the Group has significant interest cover headroom to absorb any increase in interest rates. Given the developments in the market, the focus on interest rates is clearly increasing. However, the Group has significant interest rate headroom and doesn't expect further increases in EURIBOR to have a material impact on profitability.

The table below shows the interest rate risk profile for the Group's financial instruments:

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Cash and cash equivalents | **343,933** | 507,702 |
| Borrowings from credit institutions | **(614,542)** | (610,792) |
| Finance lease liabilities | **(1,133,544)** | (1,099,318) |
| | **(1,404,153)** | (1,202,408) |

### 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 following assumptions were made in calculating the sensitivity analysis:

- It is assumed interest is receivable on the entirety of the Group's cash balances
- The impact is reflected on net assets (gross of tax)

| | 2022 (decrease)/ Increase in income €000 | 2021 (decrease)/ Increase in income €000 | 2022 (decrease)/ increase in equity €000 | 2021 (decrease) /increase in equity €000 |
|---|---|---|---|---|
| +1% movement in interest rates | **(3,439)** | (5,077) | **(6,145)** | (6,076) |
| -1% movement in interest rates | **3,439** | 5,077 | **6,145** | 6,076 |

See below for impact of 1% increase in the EURIBOR on the interest cost payable by the Group:

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Loan balance outstanding | **620,000** | 615,000 |
| Impact of 1% change | **6,200** | 6,150 |

### 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 and Chinese Yuan. The Group's policy allows these exposures to be hedged for up to 18 months forward in order to fix the cost in Polish Zloty and Pound Sterling. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts. See below for further details on FX hedge accounting. The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of its businesses.

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

| | 30 September 2022 | | | | 30 September 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | GBP €000 | EUR €000 | PLN €000 | Others €000 | GBP €000 | EUR €000 | PLN €000 | Others €000 |
| Cash and Cash equivalents | **49,439** | **31,792** | **243,136** | **19,566** | 71,740 | 43,492 | 311,100 | 81,640 |
| Trade and other receivables | **4,597** | **2,876** | **6,256** | **403** | 4,785 | 4,349 | 4,678 | 575 |
| Borrowings | **-** | **(614,542)** | **-** | **-** | - | (606,815) | (3,977) | - |
| Trade and other payables | **(312,481)** | **(10,685)** | **(559,674)** | **(82,777)** | (326,816) | (13,068) | (262,325) | (98,566) |
| Provisions | **(12,500)** | **-** | **(35,264)** | **-** | (28,417) | (965) | (48,245) | (12,330) |
| Finance Lease liabilities | **(458,757)** | **(541,094)** | **(102,267)** | **(31,425)** | (362,698) | (576,151) | (128,189) | (34,280) |
| | **(729,703)** | **(1,131,653)** | **(447,815)** | **(94,234)** | (641,676) | (1,149,158) | (124,958) | (62,961) |

## Significant exchange rates used

| | Year to 30 September 2022 | Year to 30 September 2021 |
|---|---|---|
| **Average rate for the year** | | |
| Polish Zloty | **4.66** | 4.54 |
| Pound Sterling | **0.85** | 0.86 |
| **Statement of financial position rates** | | |
| Polish Zloty | **4.85** | 4.62 |
| Pound Sterling | **0.88** | 0.86 |

### 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 defined contribution personal pension plans for its employees.

### 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 Board regularly monitors the level of capital in the Group to ensure that this can be achieved. Refer to note 16 for loan covenant requirements.

The Group monitors capital using net debt. This is because the Group believes this measure provides an indicator of the overall strength of its balance sheet and can be used to assess its earnings as compared to its indebtedness as defined by the Group's financing agreements. Please refer to note 27 where the calculation of net debt is disclosed.

### Fair value disclosures

The fair value of each class of financial assets and liabilities approximates 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. |

### 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:

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| **Financial assets measured at fair value** | | |
| Derivative contracts used for hedging | 170,402 | 67,824 |
| **Financial assets not measured at fair value** | | |
| Cash and cash equivalents | 343,933 | 507,702 |
| Trade and other receivables | 14,132 | 14,387 |
| **Total financial assets** | 526,467 | 589,913 |
| **Financial liabilities measured at fair value** | | |
| Derivative contracts used for hedging | 45,162 | 5,448 |
| **Financial liabilities not measured at fair value** | | |
| Trade and other payables | 965,617 | 700,775 |
| Borrowings at amortised cost | 614,542 | 610,792 |
| Finance lease liabilities | 1,133,544 | 1,099,318 |
| **Total financial liabilities** | 2,758,865 | 2,416,333 |

### 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 currency rates are as follows:

### 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:

| | 2022 increase/ (decrease) in equity €000 | 2021 increase/ (decrease) in equity €000 |
|---|---|---|
| 10% appreciation of the Euro against the Polish Zloty | 44,781 | 11,770 |
| 10% depreciation of the Euro against the Polish Zloty | (44,781) | (11,770) |
| 10% appreciation of the Euro against Pound Sterling | 72,970 | 60,248 |
| 10% depreciation of the Euro against Pound Sterling | (72,970) | (60,248) |

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.

### Contractual cash flows

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

| | 30 September 2022 | | | |
|---|---|---|---|---|
| | Due in less than one year €000 | Expiring between one to five years €000 | Expiring after five years €000 | Total €000 |
| Borrowings | 68,339 | 570,691 | - | 639,030 |
| Trade and other payables | 927,884 | 37,733 | - | 965,617 |
| Lease liabilities | 310,484 | 744,377 | 78,683 | 1,133,544 |
| | 1,306,707 | 1,352,801 | 78,683 | 2,738,191 |

| | 30 September 2021 | | | |
|---|---|---|---|---|
| | Due in less than one year €000 | Expiring between one to five years €000 | Expiring after five years €000 | Total €000 |
| Borrowings | 65,758 | 581,351 | - | 647,109 |
| Trade and other payables | 672,096 | 28,679 | - | 700,775 |
| Finance lease liabilities | 275,443 | 756,093 | 195,620 | 1,227,156 |
| | 1,013,297 | 1,366,123 | 195,620 | 2,575,040 |

### Derivatives and hedge accounting

The Group uses foreign currency forward contracts to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. These have been designated as cash flow hedges with the respective underlying risks identified in accordance with the hedging strategy discussed as part of the financial risk management.

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Hedge ineffectiveness may occur due to:

a) the fair value of the hedging instrument on the hedge relationship designation date if the fair value is not €Nil;

b) changes in the contractual terms or timing of the payments on the hedged item; and

c) a change in the credit risk of the Group or the counterparty with the hedging instrument.

The following table represents the net carrying values and nominal amounts of derivatives in a continued hedge relationship as at 30 September:

| | 30 September 2022 €'000 | 30 September 2021 €'000 |
|---|---|---|
| Derivative financial assets/(liabilities) at beginning of period | 62,376 | (1,150) |
| Recognised in the income statement[1] | 8,491 | 1,512 |
| Recognised in other comprehensive income | 65,208 | 63,105 |
| Translation differences | (10,835) | (1,091) |
| Derivative financial assets at end of period | 125,240 | 62,376 |

1 Amounts recognised in the income statement are included within cost of sales.

The below table illustrates the notional value of the hedged exposure.

| | 30 September 2022 | | | | |
|---|---|---|---|---|---|
| | EUR €000 | USD €000 | CNY €000 | Other €000 | Total €000 |
| Maturing in less than one year | 109,264 | 959,165 | 878,647 | (528,088) | 1,418,988 |
| Maturing in greater than one year | 30,000 | 64,629 | – | 3,094 | 97,723 |
| Total | 139,264 | 1,023,794 | 878,647 | (524,944) | 1,516,711 |

| | 30 September 2021 | | | | |
|---|---|---|---|---|---|
| | EUR €000 | USD €000 | CNY €000 | Other €000 | Total €000 |
| Maturing in less than one year | 229,000 | 636,247 | 538,165 | (25,759) | 1,377,653 |
| Maturing in greater than one year | 93,000 | 64,819 | 8,016 | (9,741) | 156,094 |
| Total | 322,000 | 701,066 | 546,181 | (35,500) | 1,533,747 |

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

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| EUR | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | (4,932) | – | (5,378) | – |
| Expiring between one and two years | (1,840) | – | – | – |
| Contractual cash flows | (6,772) | – | (5,378) | – |
| Fair value | (6,772) | – | (5,378) | – |

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| USD | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | – | 117,691 | – | 33,240 |
| Expiring between one and two years | – | 5,007 | – | 0 |
| Contractual cash flows | – | 122,698 | – | 33,240 |
| Fair value | – | 122,698 | – | 33,240 |

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| CNY | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | – | 40,038 | – | 40,010 |
| Expiring between one and two years | – | – | – | – |
| Contractual cash flows | – | 40,038 | – | 40,010 |
| Fair value | – | 40,038 | – | 40,010 |

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| Other | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | (32,108) | 7,488 | (6,863) | – |
| Expiring between one and two years | (6,282) | 179 | – | – |
| Contractual cash flows | 38,390 | 7,667 | (6,863) | – |
| Fair value | 38,390 | 7,667 | (6,863) | – |

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| Total | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | (37,040) | 165,216 | (12,241) | 73,250 |
| Expiring between one and two years | (8,122) | 5,186 | – | – |
| Contractual cash flows | (45,163) | 170,403 | (12,241) | 73,250 |
| Fair value | (45,163) | 170,403 | (12,241) | 73,250 |

## 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 2021** | **(1,099,318)** | **-** | **(610,792)** | **(1,710,110)** |
| **Financing cash flows[1]** | **245,598** | **-** | **(1,807)** | **243,791** |
| **Interest cash flows[1]** | **46,052** | **-** | **9,642** | **55,694** |
| **Other changes[2]** | **(261,003)** | **-** | **(11,585)** | **(272,588)** |
| **Foreign exchange** | **(64,873)** | **-** | **-** | **(64,873)** |
| **At 30 September 2022** | **(1,133,544)** | **-** | **(614,542)** | **(1,748,086)** |

| | Lease liabilities €000 | Loans from Group undertakings €000 | Borrowings from credit institutions €000 | Total liabilities from financing activities €000 |
|---|---|---|---|---|
| At 30 September 2020 | (918,862) | (224,173) | (486,028) | (1,629,063) |
| Financing cash flows[1] | 219,669 | 246,287 | (117,745) | 348,211 |
| Interest cash flows[1] | 36,443 | 662 | 29,737 | 66,842 |
| Other changes[2] | (407,113) | (11,571) | (36,756) | (455,440) |
| Foreign exchange | (29,455) | (11,205) | - | (40,660) |
| At 30 September 2021 | (1,099,318) | - | (610,792) | (1,710,110) |

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 Other changes include interest accruals and payments.

### Financial assets and liabilities by category as at 30 September 2022

| | Amortised cost | Fair value through OCI | Fair value through income statement |
|---|---|---|---|
| **Non-current financial assets** | | | |
| Derivative financial instruments[1] | – | 5,186 | – |
| Trade and other receivables | 2,422 | – | – |
| | 2,422 | 5,186 | – |
| **Current financial assets** | | | |
| Trade and other receivables | 11,710 | – | – |
| Derivative financial instruments[1] | – | 165,216 | – |
| Cash and cash equivalents | 343,933 | – | – |
| | 355,643 | 165,216 | – |
| **Non-current financial liabilities** | | | |
| Interest-bearing long-term borrowings | 546,203 | – | – |
| Lease liabilities | 823,060 | – | – |
| Derivative financial instruments[1] | – | 8,122 | – |
| Trade and other payables | 37,733 | – | – |
| | 1,406,996 | 8,122 | – |
| **Current financial liabilities** | | | |
| Current portion of long-term borrowings | 68,339 | – | – |
| Lease liabilities | 310,484 | – | – |
| Derivative financial instruments[1] | – | 37,040 | – |
| Trade and other payables | 927,884 | – | – |
| | 1,306,707 | 37,040 | – |

1 Derivative financial instruments relate to cash flow hedge.

### Financial assets and liabilities by category as at 30 September 2021

| | Amortised cost | Fair value through OCI | Fair value through income statement |
|---|---|---|---|
| Non-current financial assets | | | |
| Derivative financial instruments[1] | – | 1,589 | – |
| | – | 1,589 | – |
| Current financial assets | | | |
| Trade receivables | 14,387 | – | – |
| Derivative financial instruments[1] | – | 66,235 | – |
| Cash and cash equivalents | 507,702 | – | – |
| | 522,089 | 66,235 | – |
| Non-current financial liabilities | | | |
| Interest-bearing long-term borrowings | 545,034 | – | – |
| Lease liabilities | 839,298 | – | – |
| Derivative financial instruments[1] | – | 216 | – |
| Other non-current liabilities | 5,408 | – | – |
| | 1,389,740 | 216 | – |
| Current financial liabilities | | | |
| Current portion of long-term borrowings | 65,758 | – | – |
| Lease liabilities | 260,020 | – | – |
| Derivative financial instruments[1] | – | 5,232 | – |
| Trade and other payables | 700,775 | – | – |
| | 1,026,553 | 5,232 | – |

1 Derivative financial instruments relate to cash flow hedge.

## 18. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and (liabilities) are attributable to the following:

| | 30 September 2022 €000 | 30 September 2021 (restated) €000 |
|---|---|---|
| Net deferred tax assets and (liabilities) at beginning of period | **68,559** | 54,967 |
| Recognised in the income statement (note 9) | **38,937** | 28,579 |
| Recognised in other comprehensive income (note 9) | **(13,430)** | (10,797) |
| Exchange differences | **(2,770)** | (4,190) |
| Net deferred tax assets and (liabilities) at end of period | **91,296** | 68,559 |

| | Deferred tax assets | | Deferred tax liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 30 September 2022 €000 | 30 September 2021 (restated) €000 | 30 September 2022 €000 | 30 September 2021 €000 | 30 September 2022 €000 | 30 September 2021 (restated) €000 |
| Property, plant and equipment | **35,949** | 35,731 | **(2,155)** | (2,742) | **33,794** | 32,989 |
| Intangible assets | **-** | - | **(27,985)** | (29,235) | **(27,985)** | (29,235) |
| Provisions | **41,417** | 22,847 | **-** | - | **41,417** | 22,847 |
| Financial assets | **4,946** | 1,373 | **(25,126)** | (12,351) | **(20,180)** | (10,978) |
| Tax losses and other temporary differences | **64,250** | 52,936 | **-** | - | **64,250** | 52,936 |
| | **146,562** | 112,887 | **(55,266)** | (44,328) | **91,296** | 68,559 |

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 2021 (restated) €000 | Recognised in income statement €000 | Recognised in other comprehensive income €000 | Exchange differences €000 | 30 September 2022 €000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 32,989 | 1,855 | - | (1,050) | **33,794** |
| Intangible assets | (29,235) | 506 | - | 744 | **(27,985)** |
| Provisions | 22,847 | 20,487 | - | (1,917) | **41,417** |
| Financial assets | (10,978) | 3,154 | (13,430) | 1,074 | **(20,180)** |
| Tax losses and other temporary differences | 52,936 | 12,935 | - | (1,621) | **64,250** |
| | 68,559 | 38,937 | (13,430) | (2,770) | **91,296** |

| | 1 October 2020 (restated) €000 | Recognised in income statement (restated) €000 | Recognised in other comprehensive income €000 | Exchange differences (restated) €000 | 30 September 2021 (restated) €000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 13,906 | 15,026 | - | 4,057 | 32,989 |
| Intangible assets | (20,469) | (6,440) | - | (2,326) | (29,235) |
| Provisions | 15,290 | 8,087 | - | (530) | 22,847 |
| Financial assets | 15,992 | (14,950) | (10,797) | (1,223) | (10,978) |
| Tax losses and other temporary differences | 30,248 | 26,856 | - | (4,168) | 52,936 |
| | 54,967 | 28,579 | (10,797) | (4,190) | 68,559 |

### Deferred tax not recognised

Deferred tax assets have not been recognised in respect of gross temporary differences of €218.5m (2021: €134.1m). These temporary differences relate to tax losses, and disallowed interest amounts under the Corporate Interest Restriction rules in the UK, which do not have an expiry date and recoverability of which is uncertain.

## 19. Provisions

| | Property provisions | | Other provisions | | Total | |
|---|---|---|---|---|---|---|
| | **30 September 2022 €000** | 30 September 2021 €000 | **30 September 2022 €000** | 30 September 2021 €000 | **30 September 2022 €000** | 30 September 2021 €000 |
| At beginning of period | **25,944** | 18,085 | **64,013** | 29,937 | **89,957** | 48,022 |
| Provisions made during the period | **(189)** | 3,348 | **21,468** | 39,074 | **21,279** | 42,422 |
| Arising from acquisition | **-** | 4,867 | **-** | - | **-** | 4,867 |
| Provisions utilised during the period | **(12,512)** | (3,755) | **(29,316)** | (2,723) | **(41,828)** | (6,478) |
| Provisions reversed during the period | **(34)** | (274) | **(19,766)** | - | **(19,800)** | (274) |
| Translation differences | **(707)** | 3,673 | **(1,136)** | (2,275) | **(1,843)** | 1,398 |
| | **12,502** | 25,944 | **35,263** | 64,013 | **47,765** | 89,957 |
| Current | **7,429** | 8,206 | **9,320** | 11,486 | **16,749** | 19,692 |
| Non-current | **5,073** | 17,738 | **25,943** | 52,527 | **31,016** | 70,265 |
| | **12,502** | 25,944 | **35,263** | 64,013 | **47,765** | 89,957 |

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 (2021: 3.1 years).

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 and premium

| | **30 September 2022 €000** | 30 September 2021 €000 |
|---|---|---|
| **Ordinary share capital** | | |
| **Allotted, Issued, and fully paid** | | |
| 575,000,000 (2021: 575,000,000) A ordinary shares of €0.01 each | **5,750** | 5,750 |

On 13 May 2021, the Company acquired the entire shareholding of Pepco Group Limited and its subsidiaries through a share for share exchange transaction. On this date the Company became the Group's immediate parent company. This transaction does not constitute a business combination under IFRS 3 "Business Combinations" and has been accounted for as a Group reorganisation. Merger accounting has been applied to account for the insertion of the new company. The effect of this was an increase in share capital of the Company with an offset posted to the merger reserve. As a common control transaction, the Group has elected to present the comparative information as if this transaction had occurred before the start of the comparative period. The share capital arising on the share for share exchange has been presented as share capital allotted for issue in the comparative period.

| | Nominal value | Share capital | | Share premium | Merger reserve |
|---|---|---|---|---|---|
| | € | Shares ('000) | €000 | €000 | €000 |
| At 30 September 2021 | €0.01 | 575,000 | 5,750 | 13 | (751) |
| **At 30 September 2022** | **€0.01** | **575,000** | **5,750** | **13** | **(751)** |

## 21. Share-based payments

### Value Creation Plan

The Value Creation Plan (VCP) was adopted on 3 March 2020 (the Grant Date). The scheme aligns the remuneration of Senior Management with the value generated for shareholders. The VCP scheme was originally granted by Pepco Group Limited, which was acquired by Pepco Group N.V. on 13 May 2021. On acquisition the VCP plan was novated up from Pepco Group Limited to Pepco Group N.V.; the novation also included the 2021 VCP charged recognised in Pepco Group Limited for 2021 (€11.8m).

### 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.

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 next Measurement Date will be in January 2023, 30 days after publication of the 2022 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. 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;

b. any shares vesting cannot be sold prior to two years from the first vesting date (save to cover tax liabilities); and

c. 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.

### Valuation of awards

The fair value of awards granted under the VCP is €45.3m and employer's National Insurance liability of €9.7m spread over the five-year period. An expense of €14.0m was recognised during the period (2021: €15.4m). The expense recognised consisted of €12.0m (2021: €12.0m) in relation to share awards and €2.0m (2021: €3.4m) 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.

## 22. Business combinations

On February 25 2022 Poundland Limited executed a Share Purchase Agreement for the purchase of the entire issued share capital of Online Poundshop Limited ("Poundshop") for total consideration of £1. Poundshop is an online discount retailer using the brand name Poundshop.com. The principal reason for the acquisition was to provide Poundland Limited with improved e-commerce capability.

On 8 October 2020 the Group acquired 100% of the share capital of Viewtone Trading Group Limited, the parent company of a group (Fultons Group) whose principal activity is the sale of food on a retail basis. The principal reason for the acquisition was to secure supply chain knowledge to accelerate the roll-out of the chilled and frozen offering within Poundland.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill for both business combinations are as follows:

| | 30 September 2022 | | | 30 September 2021 | | |
|---|---|---|---|---|---|---|
| | Poundshop | | | Fultons Group | | |
| | Book value €000 | Adjustments €000 | Fair value €000 | Book value €000 | Adjustments €000 | Fair value €000 |
| Property, plant and equipment | 140 | - | 140 | 1,458 | (370) | 1,088 |
| Intangible assets | 229 | - | 229 | - | - | - |
| Trade and other receivables | 60 | - | 60 | 1,212 | – | 1,212 |
| Cash and cash equivalents | 162 | - | 162 | (539) | – | (539) |
| Inventories | 120 | (1) | 119 | 3,770 | (38) | 3,732 |
| Prepayments and accrued income | (140) | - | (140) | - | - | - |
| Trade and other payables | (1,163) | 170 | (993) | (4,251) | – | (4,251) |
| Provisions | - | - | - | (197) | (4,290) | (4,487) |
| Borrowings | (1,673) | 539 | (1,135) | (344) | – | (344) |
| | (2,264) | 708 | (1,557) | 1,109 | (4,698) | (3,589) |

In the instance of the acquisition of the Fultons Group in October 2020, the fair value of property, plant and equipment and provisions has been calculated based on expected future cash flows for each store. Where the carrying value of property, plant and equipment is in excess of the expected future cash flows, an impairment has been recognised. Where the lease payments for a store are in excess of its expected future cash flows a provision has been recognised.

The fair value of inventory has been assessed based on the lower of cost and net realisable value.

## Fair value of consideration paid

| | 30 September 2022 Poundshop €000 | 30 September 2021 Fultons Group €000 |
|---|---|---|
| Cash consideration paid on acquisition | - | 2,959 |
| Settlement of existing borrowings | - | 344 |
| Deferred cash consideration payable | - | 2,192 |
| Total consideration | - | 5,495 |
| **Goodwill** | **1,557** | **9,084** |

The effect of discounting the deferred consideration payable is not material in both periods. The deferred consideration in 2021 has therefore been recognised at its fair value of the future cash outflows of €2,192k.

## Net cash flows

| | 30 September 2022 Poundshop €000 | 30 September 2021 Fultons Group €000 |
|---|---|---|
| Total consideration | - | 5,495 |
| Bank overdrafts acquired | - | 539 |
| **Total cash outflow** | - | 6,034 |

No material acquisition costs were incurred as a result of the transactions in 2022 or 2021.

The deferred consideration for the acquisition of the Fultons Group is not contingent on business performance and is payable over the two years following the acquisition date. There is no contingent consideration for the acquisition of Poundshop.com.

The main factor leading to the recognition of goodwill for the acquisition of the Fultons Group is the expected material cost savings to the Group resulting from supply chain knowledge existing within the business resulting in the Group being prepared to pay a premium. Similarly, for the acquisition of Poundshop.com, goodwill has been recognised due to the benefit of accessing ecommerce capabilities.

The goodwill recognised will not be deductible for tax purposes.

## 23. Capital commitments

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

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Acquisition of property, plant and equipment and intangible assets | **75,344** | 91,689 |

## 24. 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 €17.9m (2021: €23.0m). Contributions amounting to €3.3m (30 September 2021: €0.8m) were payable to the scheme at the year end and are included in accruals.

## 25. Transactions with related parties

The following is a summary of trading transactions and balances outstanding at year end in relation to transactions with Steinhoff group companies. Steinhoff group refers to the ultimate parent company, Steinhoff International Holdings N.V., and its subsidiaries, excluding companies within the Pepco Group.

| For the year ending | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Financial expense | **-** | (11,570) |
| Revenue received | **215** | 4,981 |
| Receivables outstanding | **-** | 913 |
| Payables outstanding | **(433)** | (505) |

Interest payable to Steinhoff companies relates to loans from Group undertakings which have now been fully repaid. Revenue from Steinhoff companies relates to product sourcing services provided to members of the Steinhoff group. Receivables outstanding from and payables outstanding to Steinhoff companies are described in notes 14 and 15. Please refer to note 8 for remuneration paid to key management.

## 26. 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.

### Financial performance and cash flow information

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Revenue | **-** | - |
| Expenses | **(110)** | (173) |
| Income tax | **-** | - |
| **Loss from discontinued operation** | **(110)** | (173) |
| Net cash outflow from operating activities | **(110)** | (666) |
| Net cash outflow from investing activities | **-** | - |
| Net cash outflow from financing activities | **-** | - |
| **Net decrease in cash generated by discontinued operation** | **(110)** | (666) |

## 27. Alternative Performance Measures (APMs)

### 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).

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 Directors believe that presentation of the Group's results on an underlying basis 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 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 2022; see note 4 for more details:

- business restructuring programmes;
- Impact of implementation of IFRIC interpretation on SaaS arrangements;
- IFRS 2 charges in relation to Value Creation Plan award to the management team; and
- Residual fees associated with the IPO, which concluded in May 2021, including legal, accounting and advisory fees.

### 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 2022 €000** | Year to 30 September 2021 €000 |
|---|---|---|
| Reported revenue growth | **17.0%** | 17.2% |
| Like-for-like revenue growth | **5.2%** | 6.5% |

### Underlying EBITDA

Underlying EBITDA is defined as reported EBITDA excluding the impact of non-underlying items. Prior year underlying EBITDA also excluded the impact of the discontinued operations.

| | **Year to 30 September 2022 €000** | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Reported EBITDA | **664,932** | 598,449 |
| Non-underlying items | **65,805** | 48,093 |
| **Underlying EBITDA** | **730,737** | 646,542 |

### Underlying profit before-tax

Underlying profit before tax is defined as reported profit before tax excluding the impact of non-underlying items. Prior year underlying profit before tax also excludes the impact of the discontinued operations.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Reported profit before tax | 225,615 | 166,987 |
| Other non-underlying items | 74,683 | 78,008 |
| **Underlying profit before tax** | **300,298** | 244,995 |

### Cash generated by operations

Cash generated by operations is defined as net cash from operating activities excluding tax.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Net cash from operating activities | 363,307 | 673,066 |
| Tax paid | 61,387 | 49,580 |
| **Cash generated by operations** | **424,694** | 722,646 |

### Gross margin

Gross margin represents gross profit divided by revenue.

The Group uses gross margin in its business operations, among other things, as a means of comparing the underlying profitability of the Group from period to period and the performance of its sourcing model. The Group uses gross margin as a useful metric to understand business performance and its ability to "sell for less" by "buying for less". Gross margin is expressed as a percentage.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Gross profit | 1,967,598 | 1,768,893 |
| Revenue | 4,822,819 | 4,121,801 |
| **Gross margin %** | **40.8%** | 42.9% |

### Net debt (frozen GAAP)

The Group uses net debt because the Group believes this measure provides an indicator of the overall strength of its balance sheet and can be used to assess its earnings as compared to its indebtedness as defined by the Group's financing agreements.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Borrowings from credit institutions | 614,542 | 610,792 |
| Capitalised OID add back | - | - |
| Loans from related parties | - | - |
| Obligations under finance leases | 4,246 | 4,969 |
| **Gross debt (excluding IFRS 16 lease liabilities)** | **618,788** | 615,761 |
| Closing cash balance | (343,933) | (507,702) |
| **Net debt (excluding IFRS 16 lease liabilities)** | **274,855** | 108,059 |

1 IFRS 16 lease liability is excluded from the gross debt definition under the Group's financing agreement.

### Excluding impact of IFRS 16

The Group's performance is also analysed excluding the impact of IFRS 16, which provides greater comparability to prior performance.

### Underlying EBITDA (pre-IFRS 16)

Underlying EBITDA is defined as reported EBITDA excluding the impact of non-underlying items and the impact of IFRS 16. Prior year underlying EBITDA also excluded the impact of the discontinued operations.

| | **Year to 30 September 2022 €000** | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Reported EBITDA | **664,932** | 598,775 |
| Non-underlying items | **65,805** | 47,767 |
| IFRS 16 adjustments | **(291,698)** | (246,124) |
| **Underlying EBITDA (pre-IFRS 16)** | **439,039** | 400,418 |

### Underlying profit before-tax (pre-IFRS 16)

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.

| | **Year to 30 September 2022 €000** | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Reported profit before tax | **225,615** | 166,987 |
| Non-underlying items | **74,683** | 78,008 |
| IFRS 16 adjustments | **5,685** | 13,151 |
| **Underlying profit before tax (pre-IFRS 16)** | **305,983** | 258,147 |

## 28. Change in accounting policy

As explained in note 1, the Group has revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. The impact of the adoption of this revised accounting policy is set out below. Comparatives have been restated accordingly.

| As at 30 September 2021 | As reported €000 | Adjustments €000 | As restated €000 |
|---|---|---|---|
| Income Statement | | | |
| Administrative expenses | (345,859) | (29,350) | (375,209) |
| **Operating profit** | 282,435 | (29,350) | 253,085 |
| **Profit before tax** | 196,337 | (29,350) | 166,987 |
| **Taxation** | (41,367) | 5,577 | (35,790) |
| **Profit after tax** | 154,970 | (23,773) | 131,197 |
| Statement of Financial Position | | | |
| Goodwill and other intangibles | 889,809 | (55,294) | 834,515 |
| Deferred tax assets | 58,053 | 10,506 | 68,559 |
| **Total assets** | 3,581,776 | (44,788) | 3,536,988 |
| Retained earnings | 946,224 | (44,788) | 901,436 |
| **Total shareholder's equity** | 1,007,651 | (44,788) | 962,863 |
| Cashflow statement | | | |
| **Cash generated by operations** | 751,996 | (29,350) | 722,646 |
| **Cash flows used in investing activities** | (183,613) | 29,350 | (154,263) |

The impact on earnings per share as a result of the revised accounting policy have been outlined in the table below.

| As at 30 September 2021 | As reported c | Adjustments c | As restated c |
|---|---|---|---|
| **Earnings per share** | | | |
| Earnings per share | 26.9 | (4.1) | 22.8 |
| Diluted earnings per share | 26.7 | (4.1) | 22.6 |

## 29. Subsequent events

There are no reportable subsequent events.

## 30. Ultimate parent company

The Company is a direct subsidiary undertaking of IBEX Retail Investments (Europe) Limited, which is registered in England. IBEX Retail Investments (Europe) Limited's registered address is The Space (Floor 3), 120 Regent Street, London, W1B 5FE, United Kingdom.

At the reporting date, the Company's ultimate parent company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange and Johannesburg 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.

## 31. Earnings per share

| | Year to 30 September 2022 ¢ | Year to 30 September 2021 (restated) ¢ |
|---|---|---|
| **Basic earnings per share** | | |
| Earnings per share from continuing operations | 30.2 | 22.8 |
| Earnings per share from discontinued operations | – | – |
| Earnings per share | 30.2 | 22.8 |
| Earnings per share from continuing operations adjusted for non-underlying items | 42.0 | 35.2 |
| **Diluted earnings per share** | | |
| Diluted earnings per share from continuing operations | 30.0 | 22.6 |
| Diluted earnings per share from discontinued operations | – | – |
| Diluted earnings per share | 30.0 | 22.6 |
| Diluted earnings per share from continuing operations adjusted for non-underlying items | 41.7 | 35.0 |

Basic earnings per share is based on the profit for the year attributable to equity holders of the Company divided by the number of shares ranking for dividend.

Diluted earnings per share is calculated by adjusting the weighted average number of shares used for the calculation of basic earnings per share as increased by the dilutive effect of potential ordinary shares. The only potentially dilutive instrument in issue is share awards under the VCP scheme. Please see note 21 for further details of this scheme.

The following table reflects the profit data used in the basic and diluted earnings per share calculations:

| | Year to 30 September 2022 €000 | Year to 30 September 2021 (restated) €000 |
|---|---|---|
| Profit from continuing operations attributable to the ordinary equity holders of the Company | 173,715 | 131,197 |
| Add back non-underlying items: | 74,587 | 76,854 |
| Add back tax on non-underlying items | (6,792) | (5,577) |
| Adjusted profit attributable to the ordinary equity holders of the company | 241,510 | 202,474 |

The following table reflects the share data used in the basic and diluted earnings per share calculations:

| | Year to 30 September 2022 '000 | Year to 30 September 2021 '000 |
|---|---|---|
| **Weighted average number of shares** | | |
| Weighted average number of ordinary shares in issue | 575,000 | 575,000 |
| **Weighted average number of shares for basic earnings per share** | | |
| Weighted average of dilutive potential shares | 4,113 | 4,113 |
| **Weighted average number of shares for diluted earnings per share** | 579,113 | 579,113 |

## 32. Other information

### Distribution of profit

No dividends were declared by Pepco Group N.V. for the 2022 reporting period.

### Approval and signatories

London (United Kingdom), 22 December 2022

### Temporary Executive Director

Trevor Masters, Chief Executive Officer

### Management

Mat Ankers, Interim Chief Financial Officer

### Non-Executive Directors

Richard Burrows, Independent Chair
Pierre Bouchut, Independent Non-Executive Director
Maria Fernanda, Independent Non-Executive Director
Brendan Connolly, Independent Non-Executive Director
Grazyna Piotrowska-Oliwa, Independent Non-Executive Director
Neil Brown, Non-Executive Director
Helen Bouygues, Non-Executive Director
Paul Soldatos, Non-Executive Director

# PEPCO GROUP N.V.

## SEPARATE FINANCIAL STATEMENTS

September 2022

Registered number: 81928491

# Separate income statement

for the year ended 30 September 2022

| | Note | **Period to 30 September 2022 €000** | Period to 30 September 2021 €000 |
|---|---|---|---|
| Administrative expenses | | **(675)** | (287) |
| **Operating loss for the year** | 2 | **(675)** | (287) |
| Financial income | 3 | **20** | 665 |
| Financial expense | 4 | **–** | (662) |
| **Loss before taxation for the year** | | **(655)** | (284) |
| Taxation | 5 | **–** | – |
| **Loss for the year** | | **(655)** | (284) |

The above results were derived from continuing operations.

There was no other comprehensive income for the period.

The notes on pages 159 to 166 form part of these financial statements.

# Separate statement of financial position

at 30 September 2022

| | Note | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 6 | **705,121** | 693,100 |
| Trade and other receivables | 7 | **54** | 55 |
| | | **705,175** | 693,155 |
| **Current assets** | | | |
| Trade and other receivables | 7 | **580** | 1 |
| Cash and cash equivalents | | **2** | 3 |
| | | **582** | 4 |
| **Total assets** | | **705,757** | 693,159 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 9 | **5,750** | 5,750 |
| Share premium reserve | | **663,599** | 663,599 |
| Share-based payment reserve | | **35,830** | 23,809 |
| Accumulated losses | | **(939)** | (284) |
| **Total shareholders' equity** | | **704,240** | 692,874 |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **1,517** | 285 |
| **Total equity and liabilities** | | **705,757** | 693,159 |

The notes on pages 159 to 166 form part of these financial statements.

# Separate statement of changes in equity

for the year ended 30 September 2022

| | Share capital €000 | Share premium reserve €000 | Share-based payment reserve €000 | Accumulated losses €000 | Total equity €000 |
|---|---|---|---|---|---|
| Balance at 1 October 2020 | – | – | – | – | – |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | – | – | – | (284) | (284) |
| Total comprehensive income for the year | – | – | – | (284) | (284) |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of share capital[1] | 45 | 13 | – | – | 58 |
| Share for share exchange | 5,179 | 664,112 | – | – | 669,291 |
| Share conversion | 526 | (526) | – | – | – |
| Equity-settled share-based payments | – | – | 23,809 | – | 23,809 |
| Total contributions by and distributions to owners | 5,750 | 663,599 | 23,809 | – | 693,158 |
| Balance at 30 September 2021 | 5,750 | 663,599 | 23,809 | (284) | 692,874 |

1 The Company was incorporated on 17 February 2021. The initial share capital issued was one share of €1.00 with consideration left outstanding on the date of incorporation.

| | Share capital €000 | Share premium reserve €000 | Share-based payment reserve €000 | Accumulated losses €000 | Total equity €000 |
|---|---|---|---|---|---|
| Balance at 1 October 2021 | 5,750 | 663,599 | 23,809 | (284) | 692,874 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | – | – | – | (655) | (655) |
| Total comprehensive income for the year | – | – | – | (655) | (655) |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Equity-settled share-based payments | **-** | **-** | **12,021** | **-** | **12,021** |
| Total contributions by and distributions to owners | **-** | **-** | **12,021** | **-** | **12,021** |
| Balance at 30 September 2022 | **5,750** | **663,599** | **35,830** | **(939)** | **704,240** |

Refer to note 9 for a description of each reserve held within equity and details of movements in the period.

The notes on pages 159 to 166 form part of these financial statements.

# Separate statement of cash flows

for the year ended 30 September 2022

| | Note | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash utilised in operations | 10 | (3) | - |
| **Net cash outflow from operating activities** | | (3) | - |
| **Cash flows from investing activities** | | | |
| Loans made to Group undertakings | | - | (246,346) |
| Proceeds from repayment of loans to Group undertakings | | - | 246,291 |
| Interest received | | 2 | 662 |
| **Net cash inflow from investing activities** | | 2 | 607 |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | | - | 58 |
| Proceeds from loans from Group undertakings | | - | 246,287 |
| Repayment of loans from Group undertakings | | - | (246,287) |
| Interest paid | | - | (662) |
| **Net cash outflow from financing activities** | | - | (604) |
| **Net (decrease) / increase in cash and cash equivalents** | | (1) | 3 |
| Cash and cash equivalents at beginning of period | | 3 | - |
| **Cash and cash equivalents at end of period** | | 2 | 3 |

The notes on pages 159 to 166 form part of these financial statements.

# Notes to the financial statements

## 1. Significant accounting policies

Pepco Group N.V. is a public limited company which is listed on the Warsaw Stock Exchange and was incorporated on 17 February 2021 and became a UK tax resident entity on 8 March 2021.

As part of a Group reorganisation undertaken prior to the IPO last year, the Company acquired the entire shareholding of Pepco Group Limited from Flow Newco Limited on 13 May 2021 (the acquisition date), in a share for share exchange by issuing its ordinary shares. Consequently the Company became the immediate holding company of Pepco Group Limited.

The Group reorganisation has been accounted for as a common control transaction whereby the cost of investment in Pepco Group Limited has been determined based on its net asset value on the acquisition date. Please see note 6 for details of the Group reorganisation.

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU and with part 9 of Book 2 of the Dutch Civil Code and are included as part of the consolidated financial statements of Pepco Group N.V.

Unless otherwise stated, the accounting policies applied are the same as those in the consolidated financial statements.

### 1.1 Measurement convention

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 Company 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..

### 1.2 Going concern

The separate financial statements have been prepared on a going concern basis.

In the 2022 reporting period, the Company's current liabilities exceed the current assets.

Refer to the Going Concern section of the consolidated financial statements for a detailed going concern assessment of the Group, including the Company.

### 1.3 Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment provisions. Investments in subsidiaries are impaired to their recoverable amount. Where a common control transaction takes place, an investment is recognised at a value equivalent to the net assets of the acquired entity on the acquisition date. Please see note 6 for more details surrounding the common control acquisition made during the prior period.

### 1.4 Shareholders' equity

The reserves are recognised in accordance with the Dutch Civil Code.

### 1.5 Changes in accounting policies

Refer to note 1.28 of the consolidated financial statements for disclosures regarding new accounting standards adopted by the Company and the Group.

### 1.6 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 Company makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The Directors continually evaluate the estimates, assumptions and judgements based on available information and experience.

#### 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 investments

The Company assesses whether there are any indicators of impairment as at the reporting date for all investments in subsidiaries. Investments 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. Refer to note 11 of the consolidated financial statements for detailed disclosures.

#### Key judgements

There are no key judgements made in preparation of these financial statements.

### 1.7 Standards issued but not effective

For a list of new standards issued but not yet effective, please refer to note 1.28 of the consolidated financial statements.

## 2. Operating loss

The Company does not have any employees. Details of Directors' remuneration can be found in note 8 of the consolidated financial statements. The Company does not receive a charge for these costs as these are borne by another Group entity.

Auditors' remuneration is borne by another Group entity. Please refer to note 5 of the consolidated financial statements for details of total Group auditors' remuneration.

## 3. Financial income

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Interest income on loans to Group undertakings | 2 | 663 |
| Other financial income | 18 | 2 |
| | 20 | 665 |

## 4. Financial expense

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Interest expense on loans from Group undertakings | – | 662 |

## 5. Taxation

### Analysis of tax (charge)/credit for the year recognised in the income statement

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| **Current tax (charge)/credit** | | |
| Current tax on profits for the year | – | – |
| Adjustments in respect of prior periods | – | – |
| Total current tax charge | – | – |
| **Deferred tax (charge)/credit** | | |
| Origination and reversal of temporary differences | – | – |
| Adjustments in respect of prior periods | – | – |
| Impact of change in tax rate | – | – |
| Total deferred tax credit | – | – |
| Total tax charge for the year | – | – |

### Factors affecting the tax (charge)/credit for the year recognised in the income statement

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%). The differences are explained below.

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| Loss before tax | (655) | (284) |
| | (655) | (284) |
| Expected tax (charge)/credit at the UK statutory rate of 19.0% (2021: 19.0%)* | 124 | 54 |
| Effects of: | | |
| Movement in unrecognised temporary differences | (124) | (54) |
| Total tax charge for the year | – | – |

* The Company is UK tax resident based on the Company being managed and controlled in the UK and as such is subject to UK corporation tax with the expected tax credit reconciled to the UK statutory rate.

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

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future UK current tax charge accordingly.

### Deferred tax not recognised

Deferred tax assets have not been recognised by the Company in respect of gross temporary differences of €0.9m (2021: €0.2m). These temporary differences relate to tax losses which do not have an expiry date and recoverability of which is uncertain.

## 6. Investments in subsidiaries

| | Country of incorporation | Issued share capital | Shareholding % | Total carrying value €000 |
|---|---|---|---|---|
| Pepco Group Limited | United Kingdom | £1,801 | 100 | 693,462 |

On 13 May 2021 the Company acquired the entire share capital of Pepco Group Limited in exchange for issuing its own shares. As a common control transaction, the deemed cost of the investment was the net asset value of Pepco Group Limited on the acquisition date of €669,291,000.

| | **30 September 2022 €000** | 30 September 2021 €000 |
|---|---|---|
| Historical cost | **669,291** | 669,291 |
| Contributions to subsidiaries | | |
| Group share-based payments[1] | **35,830** | 23,809 |
| | **705,121** | 693,100 |

1 The Company's subsidiaries recognise the amounts relating to awards to their employees as a share-based payment expense in their financial statements. As Pepco Group N.V. will settle the share awards, this is recognised as an increase in the investment in relevant subsidiaries in accordance with IFRS 2 "Share-based Payment". For details of the share-based payments which have increased the Company's investments, see note 21 to the consolidated financial statements.

## 7. Trade and other receivables

| | **30 September 2022 €000** | 30 September 2021 €000 |
|---|---|---|
| **Non-current trade and other receivables** | | |
| Loans to Group undertakings | **54** | 55 |
| **Current trade and other receivables** | | |
| Interest due from Group undertakings | **3** | 1 |
| Prepayments | **577** | - |
| | **580** | 1 |

## 8. Trade and other payables

| | **30 September 2022 €000** | 30 September 2021 €000 |
|---|---|---|
| **Current trade and other payables** | | |
| Amounts due to Group undertakings | **1,357** | 285 |
| Trade payables | **160** | - |
| | **1,517** | 285 |

## 9. Share capital and reserves

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| **Authorised share capital** | | |
| 1,725,000,000 ordinary shares of €0.01 each | **17,250** | 17,250 |
| **Issued share capital** | | |
| 575,000,000 ordinary shares of €0.01 each | **5,750** | 5,750 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

### Share premium reserve

The closing share premium reserve on 30 September 2022 was €663,599,000.

### Share-based payment reserve

This reserve comprises the cumulative value of shares to be issued as a result of the Group equity-settled share-based payment scheme. Upon the issue of any shares resulting from the scheme, a transfer will be made out of the share-based payment reserve to share capital and share premium as applicable. Please see note 21 of the consolidated financial statements for details about the share-based payment scheme.

## 10. Cash flow information

### Cash utilised in operations

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| **Loss before tax** | **(666)** | (284) |
| Adjusted for: | | |
| Net foreign exchange gains | **(7)** | (2) |
| Financial income | **(2)** | (663) |
| Financial expense | **-** | 662 |
| **Cash generated from operations before changes in working capital** | **(675)** | (287) |
| Changes in working capital: | | |
| Increase in trade and other receivables | **(560)** | - |
| Increase in trade and other payables | **1,232** | 287 |
| **Net changes in working capital** | **672** | 287 |
| **Cash generated from operations** | **(3)** | - |

### Net debt reconciliation

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Cash and cash equivalents | **2** | 3 |
| Loans receivable from Group undertakings | **54** | 55 |
| | **56** | 58 |

## 11. Transactions with related parties

The following is a summary of transactions with Group companies during the period and balances at the end of the period:

| | Year to 30 September 2022 €000 | Year to 30 September 2021 €000 |
|---|---|---|
| **Interest income** | | |
| Pepco Group Limited | – | 662 |
| Peu (Fin) Limited | 2 | 1 |
| | 2 | 663 |
| **Finance cost** | | |
| Steinhoff UK Holdings Limited | – | 662 |
| **Loans receivable** | | |
| Peu (Fin) Limited | 54 | 58 |

Interest is charged on the loans receivable at the gross effective interest rate of the Group's external debt, plus an appropriate transfer pricing mark-up. Loans are unsecured and repayable in line with the maturity of the Group's external debt.

## 12. Financial risk management

The Management Board and executive team are responsible for implementing the risk management strategy to ensure that an appropriate risk management framework is operating effectively within the Company. The Company does not speculate in the trading of derivative or other financial instruments.

### Total financial assets and liabilities

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Related party loans receivable | 54 | 55 |
| **Non-current financial assets** | 54 | 55 |
| Related party loans receivable | 3 | 1 |
| Prepayments | 577 | – |
| Cash and cash equivalents | 2 | 3 |
| **Current financial assets** | 582 | 4 |
| Amounts owed to Group undertakings | (1,357) | (285) |
| Trade payables | (160) | – |
| **Current financial liabilities** | (1,517) | (285) |

No items were classified as "at fair value through profit or loss" or "at fair value through other comprehensive income" during the 2022 reporting period.

The carrying amount of financial assets and liabilities approximates its fair value.

The fair value calculation of the financial assets and liabilities was performed at the reporting date. Between the reporting date and the date of this report, the fair values reported may have fluctuated with changing market conditions and therefore the fair values are not necessarily indicative of the amounts the Company could realise in the normal course of business subsequent to the reporting date.

### Foreign currency risk

The financial assets and liabilities of the Company are denominated in the functional currency except for the following British Pound denominated related party loans receivable, cash and cash equivalents and amounts owed to Group undertakings.

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Related party loans receivable | **57** | 56 |
| Cash and cash equivalents | **1** | 3 |
| Amounts owed to Group undertakings | **(356)** | (285) |
| | **(298)** | (226) |

The following significant exchange rates applied during the period and were used in calculating sensitivities:

| | Forecast rate | Spot rate |
|---|---|---|
| Euro:British Pound | **1.17** | 1.13 |

### Sensitivity analysis

The table below indicates the Company's sensitivity at the reporting date to the movements in the British Pound that the Company are exposed to on its financial instruments. The percentage given below represents a weighting of foreign currency rates forecasted by the major banks that the Company transacts with regularly. This analysis assumes that all other variables, in particular interest rates, remain constant. The impact on the reported numbers, using the forecast rates as opposed to the reporting date spot rates, is set out below.

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Through profit/(loss) | | |
| British Pound strengthening/weaking by 10% against the Euro | **30** | 23 |

If the foreign currencies were to weaken/strengthen against the Euro, by the same percentages as set out in the table above, it would have an equal, but opposite, effect on profit or loss.

### Interest rate risk

At the reporting date the interest rate profile of the Company's financial instruments was:

| | 30 September 2022 €000 | 30 September 2021 €000 |
|---|---|---|
| Non-current financial assets | **54** | 55 |
| Current financial assets | **-** | - |
| Current financial liabilities | **-** | - |
| | **54** | 55 |

### Sensitivity analysis

The Directors do not consider the Company to be sensitive to movements in LIBOR. A reasonably foreseeable movement in LIBOR would not have a material effect on the profit of the Company or the carrying value of the Company’s financial instruments.

### Credit risk

Potential concentration of credit risk consists principally of related party loans receivable. At 30 September 2022, the Company did not consider there to be any significant concentration of credit risk which had not been adequately provided for.

The carrying amounts of financial assets represent the maximum credit exposure.

The maximum remaining exposure to credit risk at the reporting date, without taking account of the value of any collateral obtained, was €59,000. All exposure to credit risk is within the United Kingdom.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected. The Company is not exposed to significant liquidity risk on the basis that its only financial liabilities are owed to other Group companies.

## 13. Reconciliation of net profit and shareholders' equity of the Company with the consolidated results

| | 30 September 2022 | | 30 September 2021 | |
|---|---|---|---|---|
| | Total equity €000 | Net profit for the period €000 | Total equity €000 | Net profit for the period €000 |
| **Shareholders' equity and net profit for the period according to separate income statement** | **704,240** | **(655)** | 692,874 | (284) |
| Share of subsidiaries' consolidated profit for the period | **174,260** | **174,260** | 131,024 | 131,308 |
| Share of subsidiaries' consolidated other comprehensive income for the period | **(3,735)** | **-** | 87,136 | - |
| Prior period share of subsidiaries' consolidated total comprehensive income for the period and other reserve movements | **269,989** | **-** | 51,829 | - |
| **Group equity and profit after tax for the period according to Consolidated income statement** | **1,144,754** | **173,605** | 962,863 | 131,024 |

## 14. Subsequent events

There are no reportable subsequent events.

## 15. Principal subsidiaries

The statutory list of all subsidiaries and affiliated companies in included on pages 173 to 175.

## 16. Ultimate parent company

The Company is a direct subsidiary undertaking of IBEX Retail Investments (Europe) Limited, which is registered in England. IBEX Retail Investments (Europe) Limited's registered address is The Space (Floor 3), 120 Regent Street, London, W1B 5FE.

At the reporting date, the Company's ultimate parent company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange and the Johannesburg 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.

## 17. Approval and signatories

London (United Kingdom), 22 December 2022

### Temporary Executive Director

Trevor Masters, Chief Executive Officer

### Management

Mat Ankers, Interim Chief Financial Officer

### Non-Executive Directors

Richard Burrows, Independent Chair
María Fernanda Mejía, Independent Non-Executive Director
Brendan Connolly, Independent Non-Executive Director
Pierre Bouchut, Independent Non-Executive Director
Grazyna Piotrowska-Oliwa, Independent Non-Executive Director
Helen Bouygues, Non-Executive Director
Paul Soldatos, Non-Executive Director
Neil Brown, Non-Executive Director

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# Independent auditor's report

To: The shareholders and Board of Directors of Pepco Group N.V.

## Report on the audit of the financial statements 2022 included in the annual report
## Our qualified opinion

We have audited the financial statements for the year ended 30 September 2022 of Pepco Group N.V. based in London, United Kingdom.

In our opinion, except for the possible effects of the matter described in the 'Basis for our qualified opinion' section, the accompanying financial statements give a true and fair view of the financial position of Pepco Group N.V. for the year then ended as at 30 September 2022 and of its result and its cash flows for the year then ended 30 September 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the consolidated and company statement of financial position for the year then ended 30 September 2022 ;
2. the following statements for the year ended 30 September 2022 :
   the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

### Basis for our qualified opinion

In the course of our audit of the Pepco Sp.z.o.o. component, we were unable to obtain sufficient and appropriate audit evidence regarding the reconciliation between physical inventory held in warehouses (€ 163.4 mln) and the inventory in the consolidated financial statements (€ 170.1 mln), the net unexplained difference being circa € 7m. This unexplained difference could result from both physical inventory that could not be traced to the accounting records and accounted inventory not directly traceable in physical inventory. As a result, we were unable to determine whether any corrections arising from this difference were necessary with regard to the stock position as at 30 September 2022.

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

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We are independent of Pepco Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

### Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 16.7 mln. The materiality is based on 7,5% of profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of € 0.5 mln, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

Pepco Group N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Pepco Group N.V.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group. We have determined the type of work required to be performed at component level by the group engagement team and by each component auditor.
Our audit is aimed at the significant components of Pepco Group N.V. We have 2 sub consolidations in scope for our audit procedures.

We have:

- performed audit procedures ourselves at group entities Pepco Group N.V. and Pepco Group Services Ltd;
- used the work of other auditors when auditing entity Pepco Group CEE subconsolidation and Poundland subconsolidation;
- performed review procedures or specific audit procedures at other group entities;
- performed regular site visits to meet with local management and component auditors;

by performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the financial statements.

**Audit approach fraud risks**

During our audit we have identified and assessed the risks of material misstatements of the financial statements due to fraud. As part of our audit procedures we have obtained an understanding and evaluated the entity and her internal control environment and have assessed management procedures with regards to the risks of fraud and how the board exercises oversight on this process. We also considered the results of our other audit procedures and evaluated whether any findings were indicative of fraud. We have discussed with relevant executives and board members whether fraud has occured or where it is likely to occur. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial statements . We identified the following fraud risks and performed the following specific procedures:

| Fraud risk | Our audit work performed |
|---|---|
| **Management override of controls**<br><br>In all of our audits the risk of management override of controls is identified and needs to be addressed by the auditor. The risk is aimed at the ability to bypass the control environment. | - We assessed the internal control framework and evaluated the design and implementation of the relevant controls in the financial closing process and other processes.<br>- We performed inquiries with the relevant people in the Company<br>- We performed audit procedures on journal entries based on fraud selection criteria.<br>- We assessed the appropriateness of significant judgements, related party transactions and transactions outside of the regular course of business |

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| | |
|---|---|
| | We did not identify any specific findings of fraud or suspicion of fraud with regards to management override of controls. |
| **Risk of fraud in revenue recognition**<br><br>The risk of fraud in revenue recognition is a presumed audit risk and for the Company this has been assessed as a risk for overstatement of revenue. The risk of fraud in revenue recognition is focused on the occurrence of inappropriate manual transactions. | - We assessed the internal control framework and evaluated the design and implementation of the relevant controls in the financial closing process and other processes.<br>- We assessed the IT environment and relevant systems.<br>- We performed audit procedures on journal entries based on fraud selection criteria.<br>- We tested the reconciliation point of sales systems to cash and found no abnormalities.<br><br>We did not identify specific findings resulting from the work performed mentioned above. |

**Audit approach going concern**

We assessed the going concern assessment prepared by management and concur with the going concern assumption. We reviewed the future forecast and potential downward scenario's and had no adverse findings.

**Our key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our scope addressed this matter |
|---|---|
| **Carrying Value of Goodwill**<br><br>The group's accounting policies in respect of goodwill and impairment are set out in the accounting policy notes of the consolidated financial statements (Note 1.10). The disclosure on the 'Accounting estimates and judgements' in relation to impairment of | - We evaluated the design effectiveness of controls related to the impairment assessment including the appropriateness of management's assessment of the CGUs, indicators of impairment, discount rates and forecasts. |

| | |
|---|---|
| intangible assets (goodwill) is set out in Note 1.29 of the consolidated financial statements.<br><br>The carrying value of goodwill is € 704.7m (2020: € 655.5m) which is attributable to the Poundland Cash Generating Unit (CGU). In assessing the recoverability of goodwill, management prepared a value in use calculation across the CGU, which involves assumptions, such as future cash flows and the discount rate to apply to those.<br><br>Due to the subjectivity involved in estimating future performance and the significance of the carrying value of goodwill, we identified this as a significant risk and key audit matter. | - We assessed and evaluated the reasonableness of key assumptions in the value in use calculations, including the projected revenue growth, operating margin, discount rates and growth rates.<br>- We benchmarked key assumptions against external data and challenged management by comparing the assumptions to historic performance of the company and local economic developments, taking into account the sensitivity test of the goodwill balances for any changes in the respective assumptions;<br>- We engaged with our internal valuation experts to assist us in evaluating the appropriateness of the impairment model, the discount rates applied and to assess the overall reasonableness of the assumptions;<br>- We audited the management's sensitivity analysis to assess the impact of potential changes in assumptions;<br>- We verified the mathematical accuracy of the models and agreed these models with relevant data;<br>- We evaluated the reasonableness of the disclosures made in the financial statements in relation to the carrying value of goodwill.<br><br>**Our observations**<br>Based on the procedures performed, we have no specific findings that the carrying value of the goodwill in the financial statements is not reasonable. |
| **Risk of bribery and corruption**<br><br>During FY2022 the Company was alerted to possible fraudulent activities performed by one of its agents. Based on these allegations management performed an analysis of the possible implications for the Company and | - We obtained and examined the third party investigation report and assessed the findings and recommendations |

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| | |
|---|---|
| requested an external party to perform an investigation.<br><br>Based on this investigation no irregularities were noted at Company level. The investigation report did show some internal control deficiencies with regards to certain agents which the Company was working with. | - We took note of the follow up actions decided by management and reviewed their implementation<br><br>- Based on the findings set out in the investigation report and management's follow up action plan,we performed additional substantive procedures which consisted in verifying the basis for the transactions as well as identifying possible illegal activities of agents. Furthermore, we have performed background checks on agents.<br><br>- We reviewed the Company disclosures in their risk management section, included in the directors' report.<br><br>- We reported control deficiencies in relation to the risk of bribery and corruption to those charged with governance<br><br>No adverse findings were identified. |

## Report on the other information included in the annual report

The annual report contains other information, in addition to the financial statements and our auditor's report thereon.

Except for the possible effects of the matter/matters described in the 'Basis for our 'qualified opinion' section, we conclude, that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all the information regarding the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including Board of Directors report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

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## Report on other legal and regulatory requirements and ESEF

### Engagement

We were engaged by the Board of Directors as auditor of Pepco Group N.V. on December 8, 2021, as of the audit for the year then ended 30 September 2022 and have operated as statutory auditor ever since that financial year.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

### European Single Electronic Format (ESEF)

Pepco Group N.V. has prepared its annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).
In our opinion, the annual report, prepared in XHTML format, including the partly marked-up consolidated financial statements, as included in the reporting package by Pepco Group N.V. , complies in all material respects with the RTS on ESEF.
The Board of Directors is responsible for preparing the annual report including the financial statements in accordance with the RTS on ESEF, whereby management combines the various components into one single reporting package.
Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (Koninklijke Nederlandse Beroepsorganisatie van Accountants, the Dutch institute of chartered accountants) included among others:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the reporting package;
- Obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files have been prepared in accordance with the technical specifications as incluede n the RTS on ESEF;
- Examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

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## Description of responsibilities regarding the financial statements

### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.
The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the  Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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We provide the  Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 22 December 2022,

Mazars Accountants N.V.

Drs. N.E. Habers-Boerema RA

## Articles of Association provisions governing the distribution of profit

The holders of ordinary shares are entitled to one vote per share and to participate in the distribution of dividends and liquidation proceeds. Pursuant to Article 26 of the Articles of Association, a dividend may be declared provided that the Company's equity exceeds the amount of the paid-up and called-up part of the issued capital, increased by the reserves which must be kept by virtue of the law. The Board shall determine the amount of profits to be reserved. The general meeting is authorised to, in whole or in part, distribute the profits remaining thereafter and to declare a distribution in kind. The Board is authorised to declare interim distributions of profits or on account of a freely distributable reserve.

### Distribution of profit

No dividends were declared by Pepco Group N.V. for the 2022 reporting period.

# List of branches

The table below lists all branches of the Company as well as all subsidiaries whose results were consolidated during the reporting period.

| Branch | Place of branch | Country of branch | Register of branch | Origin entity | Country of origin entity |
|---|---|---|---|---|---|
| Fully Sun China Limited – Bangladesh | Bangladesh | Bangladesh | TIN- 4404-3933-6667 | Fully Sun China Limited (Hong Kong) | China (Hong Kong) |
| Poundland Limited - Isle of Man | Isle of Man | UK (Isle of Man) | Tax reference: C145894-73 | Poundland Limited (UK) | UK |
| Poundland Limited – Republic of Ireland | Republic of Ireland | Republic of Ireland | Tax reference: 9798866A | Poundland Limited (UK) | UK |

# Statutory list of all subsidiaries and affiliated companies

as at 30 September 2022

This list forms part of the notes to the 2022 separate financial statements and has been referenced therein.

| Entity name | Country of incorporation | Registered no. | Shareholding | Principal place of business |
|---|---|---|---|---|
| Pepco Group Limited | UK | 09127609 | 100% | 14th Floor, Capital House, 25 Chapel Street, London, United Kingdom NW1 5DH |
| Peu (Fin) Limited | UK | 11808114 | 100% | 14th Floor, Capital House, 25 Chapel Street, London, United Kingdom NW1 5DH |
| Peu (Tre) Limited | UK | 11808312 | 100% | 14th Floor, Capital House, 25 Chapel Street, London, United Kingdom NW1 5DH |
| Pepco Group Services Limited | UK | 10972213 | 100% | 14th Floor, Capital House, 25 Chapel Street, London, United Kingdom NW1 5DH |
| Poundland UK & Europe Limited | UK | 09127615 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Dealz Retailing (Ireland) Limited | Republic of Ireland | 541977 | 100% | Unit 3 Westend Retail Park, Blanchardstown, Dublin 15 |
| Poundland International Limited | UK | 03484379 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Vaucluse Diffusion S.A.S. | France | RCS 306 487 075 | 100% | 19 Rue du Musée 13001 Marseille, France |
| Dealz España SL | Spain | B86867512 | 100% | C/Bravo Murillo 192, Madrid, Spain |
| Dealz Poland Sp z.o.o | Poland | KRS 0000692949 | 100% | Budynek Biurowy OMEGA, ul. J.H. Dąbrowskiego 79A p.4, 60-529 Poznań |
| Poundland Limited | UK | 02495645 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Pepkor Europe Limited | UK | 09015100 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Pepkor UK Retail Limited | UK | 09288913 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Viewtone Trading Group Limited | UK | 07398652 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |

| | | | | |
|---|---|---|---|---|
| Viewtone Limited | UK | 03271182 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Frozen Value Limited | UK | 01003192 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Jack Fulton Limited | UK | 02317009 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Viewtone Trustees Limited | UK | 04560070 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Minaldi Limited | UK | 09151610 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom WS1 3TX |
| Pepkor Import B.V. | Netherlands | KvK 61649112 | 100% | Noord Brabantlaan 265, 5652LD Eindhoven |
| Pepkor France S.A.S. | France | RCS 805 402 104 | 100% | 1 Place Boieldieu, Paris, 75002, France |
| Pepco Retail España SL | Spain | B86283751 | 100% | Avda. Baix Llobregat 1-3, Módulo A, Planta Baja Par No., Esc. P, El Prat de Llobregat |
| Fully Sun China Limited | China (Hong Kong) | CR 1075298 | 100% | Rm 1006-8, 10/F, Sun House, 181 Des Voeux Road Central Sheung Wan, Hong Kong |
| Shanghai Pepco Group Sourcing Company | China | 913100007914 | 100% | 8th Floor, H Zone (East), 666 Beijing East Road, Huangpu District, Shanghai |
| PGS Partner India Private Limited | India | U74999HR2018FTC073 537 | 100% | 10th Floor, Unit Nr 1004, Magnum Towers, Sector 58, Gurgao, 122002, Haryana, India |
| Pepco Holdings Sp z.o.o. | Poland | KRS 7811997491 | 100% | ul. Strzeszyńska 73A, 60-479 Poznań |
| Pepco Germany GmbH | Germany | HRB 224064 | 100% | Markgrafenstr. 33, 10117 Berlin |
| Pepco Italy S.r.l | Italy | 10941920968 | 100% | Via Michelangelo Buonarroti 39, 20145 Milano (MI), Italy |
| Pepco Properties Sp z.o.o. | Poland | KRS 0000356422 | 100% | ul. Strzeszyńska 73A, 60-479 Poznań |
| Pepco Austria GmbH | Austria | FN 534293 | 100% | Gertrude-Fröhlich-Sandner-Straße, 2-4/Turm 9/7.Stock 1100 Wien |
| Pepco Poland Sp z.o.o. | Poland | KRS 0000111962 | 100% | ul. Strzeszyńska 73A, 60-479 Poznań |
| Pepco España SL | Spain | B01963644 | 100% | Avenida Cortes Valencianas, number 58, 5th floor, 46015 Valencia |
| Konopacka Holdings B.V. | Netherlands | KvK 58864504 | 100% | Noord Brabantlaan 265, 5652LD Eindhoven |
| Rawksa Holdings B.V. | Netherlands | KvK 58864385 | 100% | Noord Brabantlaan 265, 5652LD Eindhoven |
| Cardina Investments Sp z.o.o. | Poland | KRS 0000424893 | 100% | ul. Strzeszyńska 73B lok. 4, 60-479 Poznań |
| Evarts Investments Sp z.o.o. | Poland | KRS 0000471011 | 100% | ul. Strzeszyńska 73B lok. 4, 60-479 Poznań |
| Pepco Ingatlan Kft | Hungary | Cg. 01-09-300734 | 100% | H-1138 Budapest, Váci út 187 |
| Pepkor Europe GmbH | Switzerland | CHE-194.732.602 | 100% | c/o Kanzlei Pilatushof, Hirschmattstrasse 15, 6003 Luzern |
| Pepco Hungary Kft | Hungary | Cg. 01-09-192750 | 100% | H-1138 Budapest, Váci út 187 |
| Pepco Czech Republic s.r.o. | Czechia | IfåO 24294420 | 100% | Prague 4 – Nusle, Hvězdova 1716/2b, PSČ 14078 |
| Pepco Retail SRL | Romania | J40/4655/2013 | 100% | 17 Ceasornicului street, 3rd floor, District 1, Bucharest, Romania |
| Pepco Slovakia s.r.o. | Slovakia | IfåO 46 868 674 | 100% | Nevädzova 6, Ružinov, Bratislava, 821 01, Slovakia |

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|---|---|---|---|---|
| Pepco Croatia d.o.o. | Croatia | MBS 081038164 | 100% | Zagreb (Grad Zagreb), Damira Tomljanovića Gavrana 11 |
| Pepco Lithuania UAB | Lithuania | 304488450 | 100% | Viršuliškių skg. 34-1, Vilniaus, 05132, Lithuania |
| Pepco Latvia SIA | Latvia | 40203062113 | 100% | Strelnieku iela 9 – 7, Riga, LV-1010, Latvia |
| Pepco d.o.o. | Slovenia | 7176457000 | 100% | Tržaška cesta 515, Brezovica pri Ljubljani, 1351, Slovenia |
| Pepco Estonia OU | Estonia | 14249111 | 100% | Sõpruse Pst 145, Kristiine District, Tallinn, 13417, Estonia |
| Pepco Bulgaria EOOD | Bulgaria | 205119149 | 100% | Nikola Tesla №5 str., fl. 4, Building BSR 2, Sofia 1574, Bulgaria |
| Pepco d.o.o. Beograd-Novi Beograd | Serbia | 21457345 | 100% | Bulevar Mihaila Pupina 10L, 11000 Novi Beograd, Serbia |

# Glossary of terms

| Term | Definition |
|---|---|
| **AGM** | Annual General Meeting of shareholders |
| **APM(s)** | Alternative Performance Measure(s) |
| **Annual Report** | Management report (bestuursverslag) as referred to in Section 2:391 of the Dutch Civil Code |
| **Articles** | Articles of Association of the Company, as amended from time to time |
| **BCI** | Better Cotton Initiative |
| **Board** | Directors of the Company |
| **Board Rules** | Board of Directors' Rules of Procedure |
| **CAGR** | Compound annual growth rate |
| **CAP** | Corrective action plan |
| **CEE** | Central and Eastern Europe |
| **CEO** | Chief Executive Officer of the Company |
| **CFO** | Chief Financial Officer of the Company |
| **CGU** | Cash-generating unit |
| **CODB** | Cost of doing business |
| **CODM** | Chief Operating Decision Maker |
| **Company/ PGNV** | Pepco Group N.V. |
| **Company Secretary** | Company secretary of the Company |
| **Covid-19** | An ongoing pandemic of coronavirus disease 2019 (Covid-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The pandemic has led to severe global socioeconomic disruption, the closure of a number of businesses and widespread shortages of supplies |
| **DC** | Distribution centre |
| **Dutch Code** | Dutch Corporate Governance Code |
| **Dealz** | FMCG-led price-anchored retailer (non-UK) |
| **EAP** | Equity Award Plan |
| **EBITDA** | Operating profit or loss before depreciation and amortisation adjusted for capital and reclassification items |
| **EPOS** | Electronic point of sale |
| **EPS** | Earnings per share |
| **ERP** | Enterprise resource planning |
| **ESG** | Environmental, social and governance |
| **EU** | European Union |
| **External auditors** | Mazars Accountants N.V |
| **FMCG** | Fast-moving consumer goods |
| **Fultons/Fultons Foods** | Viewtone Trading Group Limited and its subsidiaries |
| **FVOCI** | Fair value through other comprehensive income |
| **FVTPL** | Fair value through profit and loss |
| **FY20** | 1 October 2019 to 30 September 2020 |
| **FY21** | 1 October 2020 to 30 September 2021 |
| **FY22** | 1 October 2021 to 30 September 2022 |
| **FY23** | 1 October 2022 to 30 September 2023 |
| **FY24** | 1 October 2023 to 30 September 2024 |
| **GM** | General merchandise |
| **GOTS** | Global Organic Textile Standard |
| **Group/Pepco Group** | The Company and its subsidiaries |
| **IAS** | International Accounting Standards |

| | |
|---|---|
| **IBEX** | IBEX Retail Investments (Europe) Limited |
| **IDG** | Internal Delivery Group |
| **IFRIC** | International Financial Reporting Interpretations Committee |
| **IFRS** | International Financial Reporting Standards |
| **ISG** | Internal Strategy Group |
| **IPO** | Initial Public Offering – on 26 May 2021 the Company was admitted for listing on the Warsaw Stock Exchange |
| **KPI** | Key performance indicator |
| **LFL** | Like-for-like |
| **LTIP** | Long Term Incentive Plan |
| **Mazars** | Mazars Accountants N.V., the Company's external auditors |
| **NED** | Non-Executive Director |
| **NPS** | Net promoter score |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PBT** | Profit before tax |
| **Pepco** | Apparel-led multi-price retailer |
| **PGS** | Pepco Global Sourcing |
| **Poundland** | FMCG-led price-anchored retailer (UK) |
| **Poundland Group** | Poundland and Dealz |
| **Poundshop** | Online Poundshop Limited |
| **RCF** | Revolving credit facility |
| **Relationship Agreement** | Agreement between affiliates of SIHNV and the Company |
| **ROIC** | Return on invested capital |
| **SaaS** | Software-as-a-Service |
| **Share** | A share in the capital of the Company |
| **Shareholder** | Holder of one or more shares |
| **SHL** | Shareholder loan |
| **SIHNV** | Steinhoff International Holdings N.V. |
| **Subsidiary** | Subsidiary of the Company as referred to in Section 2:24a of the Dutch Civil Code |
| **TSR** | Total shareholder return |
| **VCP** | Value Creation Plan |
| **WEU** | Western Europe |
| **WMS** | Warehouse management system |
| **WSE** | Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie) |
| **Warsaw Code** | Code of Best Practice for GPW Listed Companies 2021 |
| **YoY** | Year on year |

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