PEPCO Group

13th December 2022

Pepco Group
Preliminary Results for the Year Ending 30th September 2022
Continued strong strategic progress drives profitable growth

The fast-growing pan-European variety discount retailer, Pepco Group, owner of the Pepco and Dealz brands in Europe and Poundland in the UK, today reports preliminary unaudited financial results for the year ending 30th September 2022.

Full Year Highlights

- Revenue for the year ending 30th September 2022 of €4,823m up 17.4% year on year ("YoY") on a constant currency basis, +17.0% on an actual basis.
- Like-for-like ("LFL") sales growth was +5.2% on a constant currency basis.
- Underlying EBITDA on an IFRS16 basis of €731m, being at the upper end of our €720m - €735m guidance, up 14.3% on a constant currency basis and +13.0% YoY on an actual basis.
- Underlying PBT of €300m up 25.8% on a constant currency basis and +23.2% YoY on an actual basis.
- Underlying EPS of €0.42 up 21.3% on a constant currency basis and +19.3% YoY on an actual basis.
- Closing net debt on 30th September of €1,404m (IFRS16), €202m higher YoY primarily driven by growth in store footprint and planned increase in inventory.
- Record new store openings with 516 net new stores opened (excluding closure of 59 Fultons stores) and renewals of 727 stores.
- Subsequent to the year end, Neil Galloway was nominated as CFO and Andy Bond was nominated as non-executive Chair.
- The Group remains on track to meet 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 environment.

	FY22	FY21	YoY change
	€m	€m	Actual rate
Revenue	4,823	4,122	17.0%
Underlying EBITDA	731	647	13.0%
Underlying PBT	300	244	23.2%
	#	#	
Number of stores	3,961	3,504	13.0%

Current Trading

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" 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 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.

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.

Commenting on the results, Trevor Masters, CEO Pepco Group, said:

"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. 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. I would like to take this opportunity to thank 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.

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

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Conference Call details:
When: 13 December 2022
Time: 08:30 – 09:30 GMT
Webcast access details: https://stream.brrmedia.co.uk/broadcast/638dfcf621e50e480f0738e6

Investors and analysts who would like to participate in the Q&A session, please dial in 5-10 minutes prior to scheduled start time and quote "Pepco". You will then be asked to provide your name and organisation. The operator will take you through when and how to ask a question.

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Poland	Participant	Tollfree/Freephone	+48 22 397 9053
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Future Market Updates:

Annual Report publication: Given the later than prior year AGM planned date of 2nd February 2023 the Annual Report will be published by 21st December in line with Dutch corporate code to publish 42 days ahead of the Annual General Meeting.

First quarter revenue update: 12th January 2023

True and Fair Statement
The Board of Directors are responsible for preparing this update and state that, to the best of their knowledge, the information contained herein regarding Pepco Group N.V. is correct as of the date of publication of this document and that it fairly reflects the Group's financial situation and business activities.

Business Review

Our core strategic imperatives all evidenced significant progress in the year, as follows:

- Bigger - The continued expansion of the Group's store footprint across the whole of Europe;
- Better - The ongoing development of the Group's customer proposition driving LFL revenue growth;
- Cheaper - Scale-led operating cost efficiencies;
- Simpler - Enabling our growth through investing in high quality infrastructure and our colleagues.

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 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 approximately 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.

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.

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 (up by 40% year on year, which represented 1.3bn units). 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. 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.

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.

Financial Review

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. Our strategic delivery is in the context of continuing to deliver compelling financial results alongside maintaining a robust balance sheet position, utilising the strong cash generation to support continued investments in the businesses with compelling financial returns.

Bigger

We have opened a record 516 net new stores 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. The store growth has been underpinned through continued well managed capex investment with €128m spent in the year on new stores and judicious investments in working capital to support new store growth.

We are particularly pleased that the initial positive trading response in our Western European (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 over 50% IRR.

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.

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 and sets the business 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 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, reducing inventory and store staffing levels and optimising markdown management in FY22 driven through investments of €28m.

The year saw the launch of standard warehouse management systems (WMS) in the Pepco business, 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 company 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, inflation in clothing and footwear in some of our core markets - Poland, Hungary and Romania, is running at approximately one third of the headline rate and 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 the business performance.

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 (FY22 year-end PLN:EUR rate of 0.206 compares to 0.217 a year earlier, representing a c. 5% reduction). 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:

i. €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;
ii. €27m associated with restructure costs relating to mainly to the retirement of the Dealz brand in Spain and conversion to Pepco Plus stores, and closure of Fultons branded stores;
iii. €14m of charges relating to a one-off Value Creation Plan (VCP) scheme; and
iv. €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 clearly passed the worst of the Covid-19 pandemic, continued disruption was evident in FY22, particularly in the first quarter as the Omicrom variant became dominant across Europe. Whilst full lockdowns were limited in FY22 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%

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

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 3.1pps 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

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% holding level 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	-

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, payroll taxes, customs duties, sales taxes, property taxes and any other relevant taxes.

The tax charge in the year was €52m versus €36m in FY21, 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. This is currently 19% in the UK and Poland, with the UK tax 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: additional €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 €28m capital expenditure was invested in our supply chain 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 amount 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.

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	(264)
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.

Financial statement extracts accompanying the preliminary results announcement

Contents

Consolidated income statement

for the year ended 30 September 2022

The results below are currently unaudited

	Note	Year to 30 September 2022 €000	Year to 30 September 2021 (restated) €000
Continuing operations			
Revenue	6	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	8	278,229	253,085
Financial income	9	2,242	1,000
Financial expense	10	(54,856)	(87,098)
Profit before taxation from continuing operations for the year		225,615	166,987
Taxation		(51,900)	(35,790)
Profit from continuing operations for the year		173,715	131,197
Loss on discontinued operations		(110)	(173)
Profit for the year		173,605	131,024

Earnings per share		
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	22.7c
Diluted earnings per share from discontinued operations	—c	—c
Diluted earnings per share	30.0c	22.6c

Full disclosures to the financial statements will be available in the Annual Report once published.

Consolidated statement of other comprehensive income

for year ended 30 September 2022

The results below are currently unaudited

	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

Full disclosures to the financial statements will be available in the Annual Report once published.

Consolidated statement of financial position

at 30 September 2022

The results below are currently unaudited

	30 September 2022 €000	30 September 2021 (restated) [1] €000	1 October 2020 (restated) [1] €000
Non-current assets			
Property, plant and equipment	524,550	439,506	378,968
Right-of-use asset	1,018,240	957,343	806,854
Goodwill and other intangible assets	814,238	834,515	783,876
Trade and other receivables	2,421	3,043	3,200
Derivative financial instruments	5,186	1,589	1,488
Deferred tax asset	91,296	68,559	54,794
	2,455,931	2,304,555	2,029,180
Current assets			
Inventories	959,094	597,121	566,676
Tax receivable	3,735	3,572	3,043
Trade and other receivables	71,418	57,803	45,689
Derivative financial instruments	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	3,048,716
Current liabilities			
Trade and other payables	927,884	744,190	610,564
Current tax liabilities	47,944	19,012	5,196
Lease liabilities	310,484	260,020	247,345
Borrowings	68,339	65,758	4,135
Derivative financial instruments	37,040	5,232	5,630
Provisions	16,749	19,692	9,854
	1,408,440	1,113,904	882,724
Non-current liabilities			
Trade and other payables	37,733	5,408	16,809
Lease liabilities	823,060	839,298	671,517
Borrowings	546,203	545,034	706,066
Derivative financial instruments	8,122	216	969
Provisions	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	732,463
Equity attributable to equity holders of the parent			
Share capital	5,750	5,750	5,705
Share premium reserve	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	770,239
Total shareholders' equity	1,144,754	962,863	732,463

1. See note 11 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.

Full disclosures to the financial statements will be available in the Annual Report once published.

Consolidated statement of changes in equity

for the year ended 30 September 2022

The results below are currently unaudited

	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	-	-	-	-	-	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.

Full disclosures to the financial statements will be available in the Annual Report once published.

Consolidated statement of changes in equity

for the year ended 30 September 2021 (restated)

The results below are currently unaudited

	Share capital	Share premium[4]	Cash flow hedge reserve[1]	Translation reserve[2]	Merger reserve[3]	Share-based payment reserve[4]	Retained earnings	Total equity
	€000	€000	€000	€000	€000	€000	€000	€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	-	-	-	-	-	-	(21,188)	(21,188)
Balance at 1 October 2020 (restated)	5,705	-	(4,899)	(49,631)	(751)	11,800	770,239	732,463
Total comprehensive income for the period								
Loss for the year	-	-	-	-	-	-	131,197	131,197
Other comprehensive income for the period	-	-	52,308	34,828	-	-	-	87,136
Total comprehensive income for the period	-	-	52,308	34,828	-	-	131,197	218,333
Transactions with owners, recorded directly in equity								
Issue of share capital	45	13	-	-	-	-	-	58
Equity-settled share-based payments	-	-	-	-	-	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.

Full disclosures to the financial statements will be available in the Annual Report once published.

Consolidated statement of cash flows

for the year ended 30 September 2022

The results below are currently unaudited

	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	126,402	103,385
Right-of-use asset depreciation	260,284	222,136
Financial income	(2,242)	(1,000)
Financial expense	54,856	87,098
Loss on sale of property, plant and equipment	-	204
Equity-settled share-based payment expenses	13,988	15,426
Taxation	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	(218,217)	(147,140)
Additions to other intangible assets	(6,746)	(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

Full disclosures to the financial statements will be available in the Annual Report once published.

Notes to the consolidated financial statements

1. Basis of preparation

The primary statements and the following extract notes from the financial statements are currently unaudited. Please note that the notes provided here are only a selection of those that will be included in the final consolidated financial statements.

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 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.

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

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.

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 the 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 which will be included in the financial statements. 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 will be well beyond twelve months from signing of the financial statements.

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

3. New accounting standards and policies

The following interpretations to existing standards was published that is mandatory for the Group's accounting periods beginning on or after 1 October 2022 or later periods and has had an impact on the current year and prior year results.

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 these financial statements of the change in accounting policy please see note 11.

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.

4. Accounting estimates and judgements

The preparation of the 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.

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.

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.

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.

5. 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	253,085

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	3,046,625
Poundland Group (FMCG-led price-anchored)	1,478,781	1,444,964
Other	952,510	1,017,126
Eliminations	(738,976)	(1,971,726)
Group total assets	3,999,328	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	1276
Group additions to non-current assets	572,494	530,364

6. 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 (restated) €000
UK and Republic of Ireland	1,779,522	1,589,638
Poland	632,584	1,060,653
Rest of Europe	2,410,713	1,471,510
	4,822,819	4,121,801

7. 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	599,449
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	16,463	-
Underlying EBITDA from continuing operations	730,737	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 ("VCP"): A Value Creation Plan ("VCP"), which is accounted for as 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.

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 retire the Dealz business in Spain and close all 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. These occurred in FY22.

8. Operating profit

	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	11,407
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 €000
Auditors' remuneration		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts	216	216
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries	1,146	1,215
Fees payable to other auditors and their associates for the audit of the Company's subsidiaries	650	591
Fees payable to other auditors and their associates in the current year in relation to prior year audit	350	451
Total audit fees	2,362	2,473
Other services	-	160
Total assurance-related fees	-	160
Total auditors' remuneration	2,362	2,633

1 Audit fees are payable to Mazars Accountants N.V. the auditors of the Company.

9. 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

10. 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 losses 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.

11. Change in accounting policy

As explained in note 3, 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)	5,576	(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	10,056	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	(29,351)	722,645
Cash flows used in investing activities	(183,614)	29,351	(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