

PEPCO Group

PEPCO Group N.V

Annual Report and Consolidated Financial Statements
September 2021

CCI number 81928491



CONTENTS

Strategic Report

| | |
|----|---------------------------------|
| 5 | Chair's Introduction |
| 6 | CEO's Report |
| 10 | Company Overview |
| 11 | Our Business Model |
| 13 | Our Strategy |
| 15 | KPIs |
| 18 | CFO's Report |
| 24 | Risk Management |
| 34 | Going Concern |
| 35 | Corporate Social Responsibility |
| | Strategy |
| | Environment |
| | Social |

Governance

| | |
|----|--------------------------------------|
| 42 | Introduction |
| 43 | Board of Directors |
| 49 | Audit Committee |
| 53 | Remuneration Committee |
| 56 | Nomination Committee |
| 58 | Board and Committee Attendance |
| 61 | Deviation from the DCGC and WSE Code |
| 63 | Directors' Report |
| 65 | Remuneration Report |

Financial Statements

| | |
|----|----------------------|
| 76 | Financial Statements |
|----|----------------------|

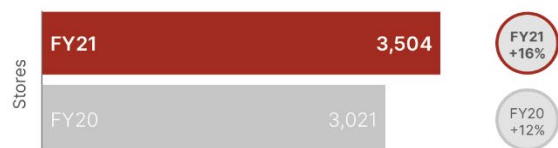
Other Information

| | |
|-----|---|
| 135 | Independent Auditors' Report |
| 140 | Articles of Association |
| 140 | Distribution of Profit |
| 141 | List of Branches |
| 142 | Statutory List of all Subsidiaries and Affiliated Companies |
| 146 | Glossary of Terms |

FINANCIAL HIGHLIGHTS

Stores¹

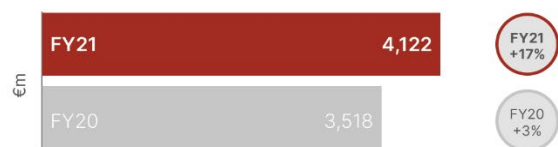
3,504

+483 net new stores² YoY

Sales

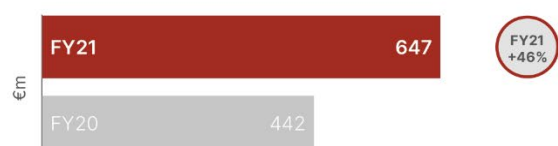
€4,122m

+17.2% YoY

Underlying EBITDA³

€647m

+46.2% YoY

Underlying PBT⁴

€244m

+394% YoY

Net debt⁵

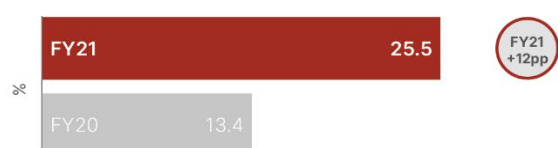
€1,202m

-€37m YoY

ROIC⁶

25.5%

+12.1pp YoY

Earnings per share⁷

27.0 cents (€)

- Alternative Performance Measure (APM), defined as net number of stores in the estate as at the period end.
- APM, defined as year-on-year growth in net new stores (new store openings less store closures). Net new stores includes 59 Fultons stores acquired by Poundland (424 excluding Fultons).
- 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.
- 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.
- APM, defined as the Group's long-term borrowings and lease liabilities, net of cash and bank balances as at 30 September 2021.
- APM, defined as NOPAT/IC, where IC = PP&E + intangibles (excl. goodwill) + NWC (current assets – current liabilities) and NOPAT = net underlying operating profit after tax.
- EPS, defined as basic earnings per share from continuing operations.

KEY FIGURES



Consolidated results

Income statement

| Key figures | FY21 | FY20 | YoY |
|----------------------------------|--------------|-------|---------------|
| Revenue (€m) | 4,122 | 3,518 | 17.2% |
| Gross profit (€m) | 1,769 | 1,433 | 23.4% |
| Gross profit margin (%) | 42.9% | 40.7% | 220bps |
| Reported operating profit (€m) | 282 | 120 | 135% |
| Underlying operating profit (€m) | 321 | 152 | 111% |
| Reported EBITDA (€m) | 629 | 423 | 48.9% |
| Underlying EBITDA (€m) | 647 | 442 | 46.2% |
| Reported PBT (€m) | 196 | 18 | 1,013% |
| Underlying PBT (€m) | 244 | 49 | 394% |

Balance sheet

| Key figures | FY21 | FY20 | YoY |
|---|--------------|-------|-------------|
| Reported net debt (€m) | 1,202 | 1,239 | 37 |
| Net debt: underlying EBITDA multiple (leverage) | 1.9x | 2.8x | 0.9x |
| Net debt (pre-IFRS 16) (€m) | 108 | 328 | 220 |
| Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage) | 0.3x | 1.4x | 1.2x |

Note: The year-on-year comparatives are presented based on the actual rather than rounded results.

STRATEGIC REPORT

Contents

- 5 Chair's Introduction
- 6 CEO's Report
- 10 Company Overview
- 11 Our Business Model
- 13 Our Strategy
- 15 KPIs
- 18 CFO's Report
- 24 Risk Management
- 34 Going Concern
- 35 Corporate Social Responsibility Strategy
 - Environment
 - Social

Poundland®



CHAIR'S INTRODUCTION

The year FY21 was a year of change and challenge for Pepco Group. At a time when the Company's main markets were in the grip of Covid-19 and the governmental restrictions to trading and commercial activity, Pepco Group made its debut on the Warsaw Stock Exchange.

Despite the challenges of Covid-19, the Company made strong progress in revenue and profitability and continued its strategic expansion in retail markets opening 424 (483 including Fultons) net new stores during the year. In addition, 954 stores were renewed leading to like-for-like revenue growth and enhanced customer perception.

This performance would not have been achieved without the remarkable efforts of employees throughout the Group who kept stores open and trading wherever permitted. The Board has acknowledged the resilience and dedication of colleagues in a tangible way.

The safety of colleagues and customers was paramount during these difficult times and, indeed, is to the fore as we look ahead in a continuing Covid-19 environment.

The Group is very conscious of its responsibility to the societies and communities in which we operate. Therefore, we are setting goals for reducing environmental impact, improving diversity in our employment, and striving for the highest standards of ethical behaviour as part of our culture. We are working on the development of a Group-wide sustainability framework to guide our efforts in the future.

Your Board has expanded during this past year as a result of seeking a listing in Warsaw. Pierre Bouchut, María Fernanda Mejía, Brendan Connolly, Grazyna Piotrowska-Oliwa and I joined the Board as Non-Executive Directors and Louis Du Preez, who represented Steinhoff International Holdings N.V. (SIHNV), stood down.

Although our meetings to date have been virtual, the Board has worked well and is a strong blend of new independent Directors, with Neil Brown, my predecessor as chair, Helen Lee Bouygues and Paul Soldatos representing the creditors, and our Executive Directors Andy Bond, CEO, and Nick Wharton, CFO. To them all I record my thanks for their support and contributions.

As we look ahead, whilst mindful of the continuing concern about Covid-19, and the impact it has had on supply chain management and cost inflation, which will certainly last through the first quarter, I am optimistic that Pepco Group will continue to grow in existing and new markets. The customer propositions of our portfolio of retail brands, PEPCO, Poundland and Dealz, are well positioned in the attractive discount retail sector and the strength of our supply chain augurs well for continued strong revenue growth and shareholder returns.

Pepco Group's ambition is to become Europe's pre-eminent discount variety retailer, which can be achieved through sustainable growth in the years ahead.

Richard Burrows

Independent Chair

BUSINESS REVIEW: CEO'S REPORT



Andy Bond
Group Chief Executive Officer

Strong trading and strategic progress achieved despite a challenging Covid-19-affected trading environment

Introduction

We delivered another strong trading performance and made good progress against our strategic plans during the year. The macro environment was defined by the ongoing disruption from Covid-19 and the emergence of disrupted global supply chains from the return of consumer demand and business activity. However, against this backdrop, our colleagues rose to the challenge impressively to continue delivering our successful and profitable growth strategy.

The business has recovered well from the easing of Covid-19 restrictions in many of its markets, and we are now a stronger, more resilient and more agile business than we were before the pandemic.

Strategy update

The last year has given the leadership team increased confidence that we have the right strategy to grow both sales and profit, and to maximise the attractive opportunities ahead of us.

The key strategic drivers of this growth are:

1. significant store portfolio expansion for the PEPCO and Dealz brands;
2. proposition development and store renewal programmes driving above market average like-for-like sales growth; and
3. substantial scale and efficiency programmes driving operating cost improvements across the Group.

To enable us to meet these objectives, we have clear investment plans to develop high-quality, scalable infrastructure, which we continue to be able to fund alongside our store opening plans from the cash we generate from our operations.

After the year end, we appointed Trevor Masters, who was Managing Director of PEPCO, as Group Chief Operating Officer, to further support our growth and efficiency agenda.

Profitable store expansion

We continued our successful store opening programme, notably within the PEPCO and Dealz brands, despite the operational challenges from Covid-19 disruption. The roll-out remains highly targeted and profitable, with stores continuing to pay back quickly as we continue to drive profit and working capital improvements.

The Group opened 424 net new stores (483 including the acquired Fultons stores in the UK that were trading at the year end). This was a record number of annual openings and included landmarks such as PEPCO's 200th Hungarian store and our 100th Dealz store in Poland.

PEPCO opened 364 net new stores, which represented a 17.3% increase in stores versus the previous year, including the inaugural stores in Spain, Serbia and Austria. As with our launch in Italy in 2020, we have been encouraged by the response of customers in Spain and Austria with stores trading ahead of our own expectations and more importantly the overall return on investment being ahead of our internal financial hurdles. Overall, we introduced 36 new stores in our Western European markets in Italy, Spain and Austria in FY21.

We are also pleased by the continued roll-out of the Dealz format across Poland and Spain, with 65 stores opened over the year.

Proposition renewal programme helps to drive LFL sales

The Group's store and proposition refresh programme continued apace over the year, including updating stores to our latest layout and environment in PEPCO and driving a full proposition renewal in Poundland, underpinned through new price architecture. These store updates, together with the Group's advantaged and developing customer proposition, continue to drive improved customer perception and sustainable like-for-like sales growth ahead of market rates.

We completed 954 store renewals across the twelve months, including in 827 PEPCO and 127 Poundland stores.

The store and proposition renewal programme helped PEPCO achieve like-for-like (LFL) growth of +9.8% for the year, including the impacts of Covid-19-related store closures. In the year we also began to update branding in stores to reflect the new design that will represent PEPCO in the next phase of our growth. In addition, PEPCO continued to upsize or relocate stores, totalling 60 in the year.

Similarly, Poundland Group's full year LFL of +3.1% also provided a clear indication of the strengthened customer offer, including particularly strong performances across recently extended categories in clothing and homeware, and the introduction of a new frozen and chilled offer to 127 stores over the year. The store renewal programme is being delivered in parallel to significant proposition renewal, leveraging our new price architecture to better meet customers' needs and deliver a compelling and competitive multi-price offer. In the year we achieved a notable milestone with more than a third of Poundland's sales being at prices other than £1, compared to 26% in FY20.

Continued operating efficiency improvements

We continued to deliver operating cost improvements across the individual operating companies. In the year, the stronger trading performance lessened the impact of Covid-19 and has driven a natural improvement in cost efficiencies, which alongside the numerous efficiency programmes has driven the cost of doing business (CODB) ratio 90bps less than the prior year. Each of the businesses in the Group has its own bespoke plans to deliver further cost efficiencies. At their core we have a number of critical levers:

- the reduction of rent costs as we renegotiate leases;
- the reduction of our labour costs through store operating efficiency work; and
- ongoing supply chain efficiency, delivering markdown reduction, labour cost reduction and stock optimisation.

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 212 leases in the year, saving on average 37% versus the prior lease agreement, alongside acquiring new sites at attractive lease terms.

Our numerous store efficiency improvements drove significant benefits in the year with a 40bps improvement in store labour costs as a proportion of revenue, including a reduction in colleague hours required to continue serving customers and operate our stores to the same high standards. In particular, PEPCO's end-to-end supply chain work significantly reduced duplicated handling of products in stores and our technology investments in Poundland enabled more efficient store management across our estate.

Across the supply chain, primarily led by PEPCO, we implemented a programme which analysed and optimised stock in the business at each stage of its lifecycle. This has delivered lower overall stock holding, whilst improving product availability, reducing markdown and lowering the volume of stock handling both in store and in distribution centres (DCs). Alongside these programmes, the Group's distribution network optimisation has continued to deliver significant benefits, which included the closure of one of the four UK DCs and significantly reduced trunking in the PEPCO business, cutting miles travelled by 18% in the year.

In addition to P&L benefits, the end-to-end supply chain programme in the PEPCO business has also dramatically improved terms with suppliers of core products which, combined with the stock optimisation, supported an improvement of €129m in working capital during the year.

Building infrastructure to support growth

To support the pace of current expansion and our strategic growth ambitions, investing and building high-quality, scalable infrastructure is critical.

The Group currently has three core components to infrastructure: our IT systems, distribution network capacity and store opening capacity.

Our strategic IT systems are centred on developing and rolling out Oracle as the Group's core Enterprise Resource Planning (ERP) with supporting investment across HR systems including labour demand planning and stock optimisation tools. Combined, these represent a material set of programmes that will both transform how the businesses operate and enable significant scale. In the year we delivered the first phase of the ERP programme with the finance module going live in the UK. We continue development on stock, the second UK phase, with delivery due in 2022 alongside planning and design for future phases across CEE.

Our distribution programme is centred on growing and enhancing our DC infrastructure alongside improving the efficiency and effectiveness of our delivery network through effective use of technology and better stock planning. This year was the first full year of operation of the Gyal 2 mega DC, near Budapest, a 100,000 sq m site that incorporates the most up-to-date technology and equipment available to enable significant improvements in both fulfilment and cost to serve. The change to our approach to stock alongside improved route planning led to significant reductions in miles travelled and consequently significantly reduced cost.

Our ongoing store opening programme is centred on how we identify suitable sites and develop a significant pipeline and subsequently deliver on those sites across our new store opening teams, store fit contractors and store equipment. This year we have restructured and expanded the resources internally and externally to support further openings.

We continue to invest in the capability of our people through developing our colleagues and bringing new, high-calibre recruits into the business to continue to support and drive our growth agenda. Around 86% of our store managers are internally promoted and even against the challenging backdrop the year saw over 2,000 internal promotions, a testament to the importance we place on this.

Mitigating headwinds

The Group has a very clear focus on identifying and mitigating risks to enable us to serve our customers, drive our profitable growth agenda and deliver our financial plans.

Supply chain

Towards the end of FY21, the return of consumer demand and business activity following the global withdrawal of Covid-19 restrictions placed increased pressure on supply chains. For nearly all retailers, a reduction in raw material availability drove commodity inflation – further compounded by constrained container capacity – significantly increasing shipping costs.

The Group acted quickly to alleviate these pressures, taking decisive action across our operating businesses. Principally driven through our Far East direct sourcing operation, PGS, we leveraged our strong direct relations with suppliers and factories, to re-engineer products to reduce input costs and closely co-ordinate our flow of goods to maximise the filling of containers. We also leveraged the teams we have on the ground to co-ordinate our response with local ports to reduce the disruption and ensure shipping capacity.

Whilst we believe the current level of cost inflation in commodity and shipping is driven by transitory factors, these will persist into calendar year 2022. As such we continue to invest in our price proposition to best meet our customers' needs and seek to capture greater share and accelerate our growth across Europe. To enable this strategy whilst delivering for our shareholders, we are executing a number of programmes across our business that will seek to mitigate these costs.

Covid-19 restrictions

Alongside supply chain pressures we continue to monitor the emergent further wave of Covid-19 cases across Europe. The level of cases has already resulted in the reintroduction of government mandated restrictions in some of our operating territories. The potential breadth, length and depth of the impact of these restrictions are uncertain as is the impact to sales from both restrictions and store closures.

We are confident in our ability to react effectively as restrictions are reintroduced as we have done since the beginning of the pandemic. We are also confident in our proposition remaining attractive to our customers, the opportunities we have across Europe and our continued long-term growth.

Brexit

Whilst the exit of the UK from the European Union was formally on 31 January 2020, the implementation of the exit arrangements has been deferred or amended over the past twelve months. The Group has been able to overcome the principally administrative burdens seen so far by building marginally higher stock holdings in its European businesses served by the UK to weather short-term disruption alongside building alternative direct European sourcing and investing in resource and infrastructure to manage the processes. However, potential changes to the current arrangements or interpretations of the existing rules have the potential to disrupt in the future. We continue to monitor and take appropriate action.

We are confident that the Group is well placed to weather the current global pressures and are committed to investing in our attractive discount customer proposition.

Our responsibility

The Group is aware of the growing expectations and requirement for environmental, social, and governance (ESG) action and reporting not only from regulators but also, more importantly, from our customers. In recognition of this, a strategic ESG framework was developed and adopted by the Group to guide our businesses' efforts and initiatives under a unified approach moving forward. In 2021, the Group has been laying the foundations of this new ESG framework while still continuing to deliver on its environmental and social initiatives already in place. Our existing initiatives in the community are extensive and I am incredibly proud of the work we do from partnering with SOS Children's Villages in Europe to our School of Hope in Bangladesh, in total our initiatives supported 80,000 people in FY21. We are also proud of the stance we have taken on operating an ethical supply chain, where we are increasing our focus actively on environmental factors including the progressive introduction of more sustainable materials.

Summary and outlook

Despite a challenging operating environment, the Group's three retail brands continue to perform well. Our strategy continues to be focused on our customers and their requirements that will ultimately drive our long-term success. This is alongside delivering the core pillars of our strategic growth ambitions, which has continued through the past 18 months.

We continue to reap the rewards of our ongoing investment across both store openings and renewals. Alongside new space investment, the store and proposition renewal programme is driving LFL growth and increasing store profitability and supporting market-leading Net Promoter Scores (NPSs).

Whilst the Group continues to face commodity inflation and increased shipping costs and disruption at the start of our new financial year, I am confident we have a clear strategy to mitigate these impacts and to continue to thrive.

To help further drive our significant growth plans, we intend to invest in our price proposition to maintain, or potentially grow, our price advantage in FY22, which should serve us well due to the price sensitive nature of our core customer. We will also continue to execute clear plans to reduce our operating cost base and ultimately maintain our delivery of profitable growth.

Personally, and on behalf of the Board, I would like to thank all colleagues across the Group who have repeatedly demonstrated their dedication to our business and serving our customers in this particularly challenging period.

The backdrop against which we operate will remain challenging into the new financial year, but we believe the significant growth opportunities for us are even greater than before the pandemic and we remain confident in achieving our plans.

Andy Bond

Group Chief Executive Officer

COMPANY OVERVIEW

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

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

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

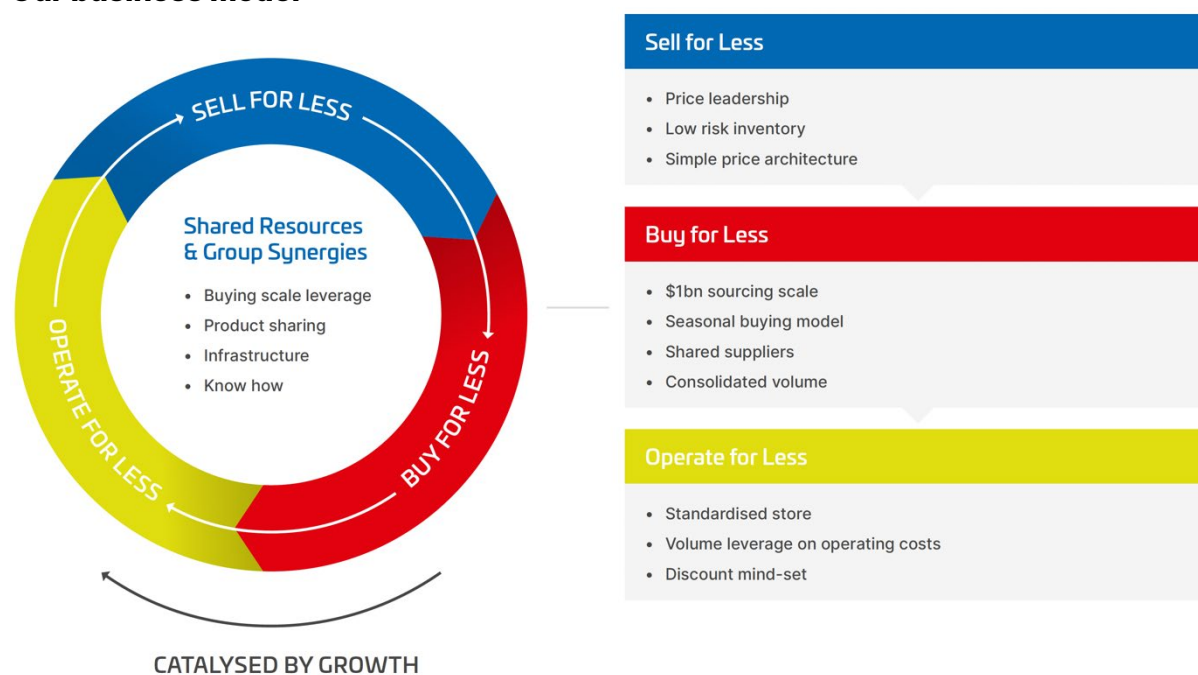
We sell to our customers for less by buying for less and operating for less, sharing resources across the Group and seeking benefits of scale wherever possible.

| | |
|---|--|
| <p>Our Vision</p> | <p>Our Mission</p> |
| <p>To be Europe’s pre-eminent Discount Variety Retailer</p> | <p>To provide a Mum on a budget with her regular “top-up” shopping needs at the lowest price within apparel, homeware-led general merchandise and FMCG</p> |
| <p>Our Brands</p> | <p>Our Strengths</p> |
| <p>Instantly recognisable, wide reaching brands with a strong reputation</p>  <p>pepco Apparel and general merchandise</p> <p>Poundland FMCG, general merchandise and Apparel</p> <p>Dealz Apparel</p> | <ul style="list-style-type: none"> • Right Sector: Discount variety with consistent growth • Right Markets: Sizeable markets with favourable macro economics • Sector-leading customer proposition, defensible and sustainable model <ul style="list-style-type: none"> • Long term low risk store expansion potential • Outstanding financial profile and strong track record • Skilled and dedicated store colleagues and strong management teams |
| <p>Our Stores (as at 30 September 2021)</p> | <p>Our Sourcing and Suppliers</p> |
|  <p>3,504 Total Stores</p> <p>pepco 2,464 Stores</p> <p>Poundland 801 Stores</p> <p>Dealz 239 Stores</p> |  <ul style="list-style-type: none"> • Leveraging strong supplier relationships, we source responsibly through PGS, our far-east based integrated sourcing model that maximises buying scale and efficiencies across the Group. • Complimented by local sourcing in the UK and EU, particularly for FMCG product ranges. • Sourcing across multiple countries and suppliers to balance scale benefits and effective diversification. |

OUR BUSINESS MODEL

Price leadership enabled by increasing economies of scale and Group-level buying and operating cost synergies

Our business model



What we do

We own and operate a multi-format, Europe-wide variety discount retail business, through 3,504 physical stores located across 17 countries (as at 30 September 2021). Our stores are local and therefore convenient, and offer a combination of FMCG, homeware-led general merchandise, including toys and seasonal products, and apparel. The majority of these products are sourced via the Group's integrated sourcing business, Pepco Global Sourcing (PGS), which serves to maximise buying scale and operating efficiencies across the Group's operations.

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

PEPCO (apparel-led multi-price)

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

PEPCO operates 2,377 stores across 11 countries in Central and Eastern Europe (CEE), 46 in Serbia and a further 41 stores in the Western European (WE) markets of Italy, Spain and Austria.

Poundland Group (FMCG-led price-anchored)

Poundland Group, comprising Poundland in the UK and its international brand, Dealz, mirrors the characteristics of the successful US "dollar store" concept, being FMCG led with a price architecture anchored around a limited number of simple price points.

Poundland has operated in the UK since 1990 and trades from 801 stores, while Poundland's international brand, Dealz, which was introduced in 2011 as part of its international expansion, now operates 239 stores in the Republic of Ireland, Spain and Poland.

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

STRATEGIC REPORT

The majority of products within the Poundland Group segment remain at a core anchor price, such as £1 in the UK. However, in recent years, similar to the proposition development seen in US-based “dollar stores” and in response to customer demand to provide greater choice of both individual products and brands in order to satisfy a larger proportion of their replenishment needs, we have expanded the number of price points both above and below the anchor price point.

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

Our customer

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

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

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

Our “top-up” or replenishment proposition also drives high customer frequency with 60% of PEPCO customers visiting stores more than once a month.

Alongside how our customers shop we also understand and react to changing tastes and needs. An example of this is the progressive introduction of “good, better, best” products in the PEPCO business to respond to greater demand from the growing affluence across CEE.

OUR STRATEGY

To become Europe's pre-eminent discount variety retailer

Strategy overview

We have an established and well-defined mission to provide our core customer, being a “mum on a budget”, with her regular “top-up” shopping needs within apparel, homeware-led general merchandise and FMCG.

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

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

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

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

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

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

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

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

As we continue to grow it is important that we continue to reduce our impact on the environment and the communities in which we are present. Our businesses already have established environmental and social initiatives, but we are aware of the ever-growing needs and requirements of our stakeholders; as such, environmental, social and governance (ESG) will progressively become more important in our decision making and our processes in the future.

To future-proof our business, a Group ESG framework has been developed and adopted to more clearly align our individual initiatives to increase the positive impact of our work. A strategy delivery group (SDG) has also been formed with a mix of newly appointed ESG specialist staff and existing colleagues from each of our operating businesses with the key aim of driving our current and new initiatives under this ESG framework. This group will enable coherent delivery and the sharing of knowledge and expertise across our businesses and serve as a forum for exploring future reporting requirements and external memberships.

Our current offering has a range of affordable and sustainably sourced products which we aim to grow. We aim to demonstrate that price is not a barrier to affordable, sustainable and ethically produced products. Further information on our social and environmental strategies and initiatives can be found on pages 35 to 40.

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

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

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

- **Buying scale leverage and integrated sourcing**

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

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

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

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

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

- **Infrastructure and capability sharing**

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

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

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

We are also leveraging our established property capability to the Group's advantage with the PEPCO team in CEE being used to identify Dealz locations.

- **Know-how**

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

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

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

Strategic growth opportunities

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

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

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

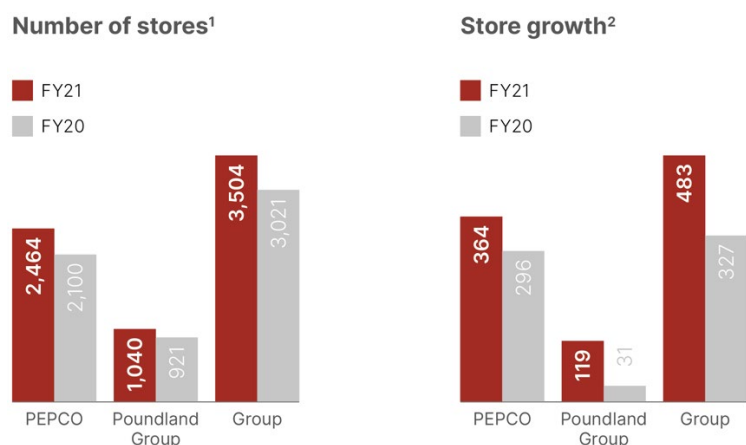
This investment, together with the focus on personal and professional development of colleagues across the Group (as discussed on page 37 of this report), will also allow us to maintain the quality of the Group and its individual businesses, whether measured in financial or customer experience terms, while we grow.

KPIS

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

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

Stores



New store openings remain the main driver of Group growth, with 483 net new stores inclusive of Fultons stores acquired by Poundland (424 excluding Fultons) in the period under review (16% year-on-year growth). Despite the trading challenges, where for the second financial period under review Covid-19 restrictions played a major factor at various times throughout the year, we maintained our store expansion strategy, reflecting the resilience and strength of the business. We exit the period under review with 3,504 stores across 17 countries.

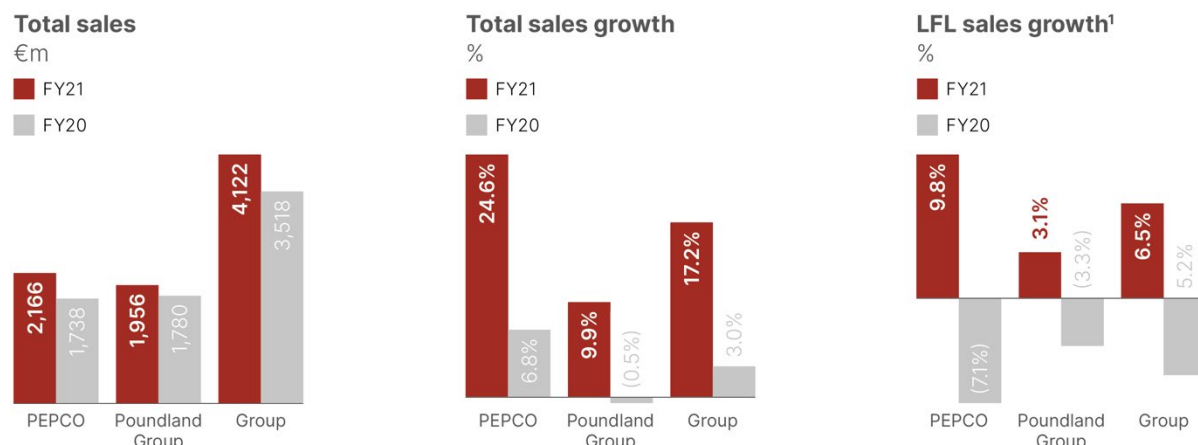
In our PEPCO segment, we expanded our PEPCO store estate by 364 stores in the year (17% growth), including entering Austria, which represents PEPCO's third Western European territory, following the successful openings and customer reception in both Italy and Spain. We exited the year with 2,464 PEPCO stores across 15 countries.

In our Poundland Group segment, our expansion of the Dealz brand continued, with 35 openings in Poland and 30 in Spain, exiting the year with 161 Dealz stores in mainland Europe as well as a further 78 in the Republic of Ireland (ROI). The acquisition and integration in the year of Fultons Foods in the UK significantly add capability in frozen food, with 59 stores at the year end. Within the UK, excluding the acquisition of Fultons Foods, our UK portfolio remained broadly flat and reflects a large portfolio in which all key catchments are covered and where the focus is on optimising the store estate.

1 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). Net new stores includes 59 Fultons stores acquired by Poundland (424 excluding Fultons).

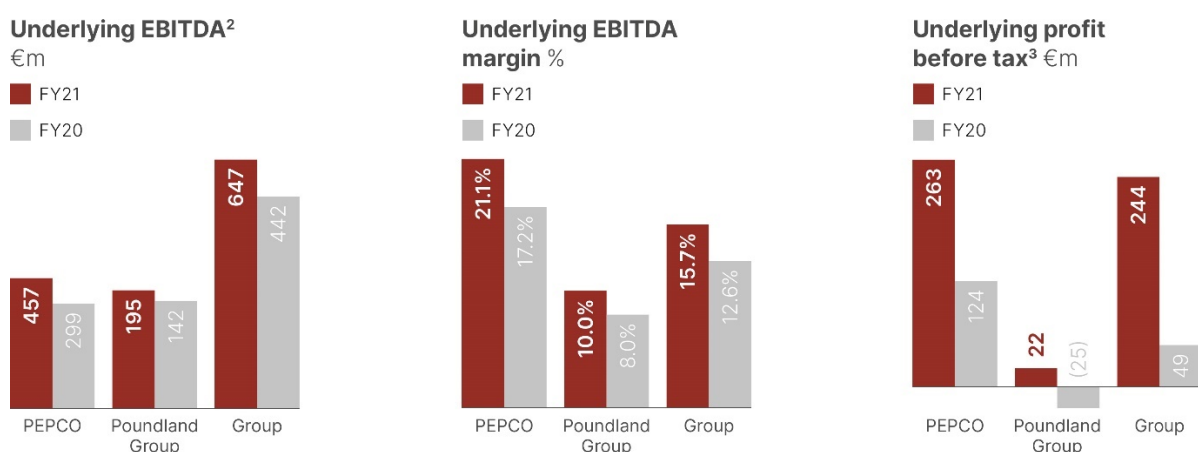
Sales



The Group generated more than €4.1bn of sales in the period, growing year on year by 17%, driven by a combination of store and LFL growth across both segments.

LFL sales increased year on year by 6.5%, reflecting the impact of strict Covid-19-related lockdowns on footfall across all the territories in which we operate in both the current and prior year. In the context of a volatile trading environment, in which c. 9% (FY20: c. 6%) of trading weeks were lost, LFL sales above historical heights are considered likely to have resulted in market share gains.

Profit



The Group generated underlying EBITDA of €647m and underlying profit before tax of €244m, with revenue-led growth across both segments. With the prior year profitability severely impacted by Covid-19, there has been a significant rebound in FY21, with underlying EBITDA growing by €204m (46.2%) year on year.

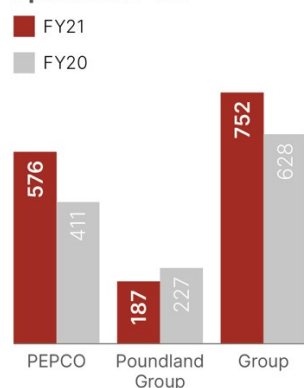
The Group delivered an underlying EBITDA margin of 15.7%, an accretion of 310bps year on year, benefiting from Covid-19 recovery, continued store expansion, gross margin upside through better sourcing and a short-term mix benefit, alongside tightly managed operating costs coupled with UK government support.

Underlying profit before tax (PBT) growth of 394% is further supported by the IPO-linked refinancing in May 2021.

- 1 APM, defined as year-on-year revenue growth for stores open beyond their trading anniversary, with stores relocated in a catchment and/or upsized included within LFL provided the enlarged store footprint is less than 50% bigger than the existing store. Unless otherwise stated, LFL sales growth includes stores which were temporarily closed due to Covid-19 restrictions.
- 2 APM, defined as profit on ordinary activities before depreciation, amortisation, finance costs and taxation. A reconciliation of underlying EBITDA and underlying EBITDA margin to statutory measures is presented on note 27 in the financial statements. Group profit and cash measures comprise the PEPCO and Poundland Group segments presented above as well as Group Services (a loss-making service centre).
- 3 APM, defined as profit on ordinary activities before tax. A reconciliation of underlying PBT and underlying PBT margin to statutory measures is presented on note 27 in the financial statements.

Cash

Cash generated by operations¹ €m

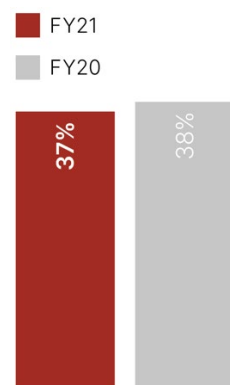


The Group continues to be strongly cash generative and maintained all of its targeted growth investments across the year. The Group generated €752m (FY20: €628m) operating cash flow in the period, reflecting continued underlying business growth and actions agreed with key suppliers that enhance the Group's working capital cycles.

During the year, the Group refinanced or repaid all of its external and intergroup debt to twelve relationship banks at a considerably lower interest rate. The Group has deleveraged during the year, increasing headroom on financial covenants significantly.

Net Promoter Score (NPS)

The Group achieved a Group-wide NPS of 37% (FY20: 38%) for the period under review which remains consistent with the prior year and in the upper quartile within 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. 85% of the Group's geographical store portfolio.



1 Cash generated by operations as defined in the Consolidated Statement of Cash Flows presented on page 81.

BUSINESS REVIEW: CFO'S REPORT



Nick Wharton
Pepco Group CFO

Our successful debut as a public company displays the financial and operational strength plus ambitious growth potential of the business

Introduction

Despite a backdrop of continued Covid-19-driven disruption, the Group's performance has been strong, significantly growing profits and managing working capital and cash effectively whilst continuing at pace with the strategic roll-out of stores in existing and new territories.

This is illustrated by the achievement of very strong growth in the year with revenue increasing 17.2% underpinned by a recovery in like-for-like sales to 6.5% and the opening of 483 net new stores (including Fultons stores), driving underlying EBITDA to €647m, an increase of 46% versus the previous year.

FY21 also represented a significant step in the Group's history when, in May 2021, Pepco Group successfully debuted on the Warsaw Stock Exchange as a public company. As well as illustrating the financial and operational strength of the business, this milestone also demonstrated the continued strategic progress of the Group, evidenced by solid share price growth since listing. Furthermore, the Group refinanced as part of the listing process, achieving significantly reduced interest rates on its borrowings and further bolstering the financial strength of the Group in a new listed environment.

Trading overview and Covid-19 impact

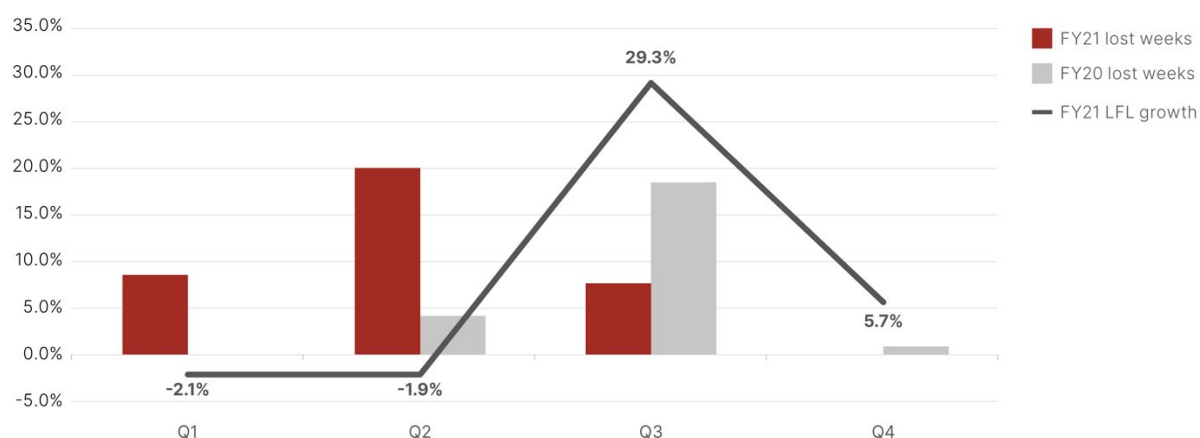
From an operational and trading perspective the financial year under review was the second year in which Covid-19 restrictions played a major factor at various times throughout the year. Whilst this negatively impacted customer confidence, market footfall and trading patterns, our committed and talented store and operational colleagues were well set-up to navigate the business through these challenges to provide a platform upon which the Pepco Group has delivered an excellent financial performance.

The financial year started with minimal Covid-19 disruption and with the vast majority of stores trading. However, second waves of the pandemic driven by the "Delta variant" resulted in a variety of government-driven restrictions in late autumn 2020, continuing into May 2021.

Across this period, PEPCO saw material levels of disruption, where on average over 20% of the store estate was closed whilst open stores were hindered by tightened trading restrictions. Poundland and Dealz, which are classed as "essential retailers", were largely allowed to remain open throughout but were affected by lower footfall as consumer confidence was impacted by additional lockdowns, notably the UK-wide lockdown on 6 January 2021.

As markets began to fully reopen from late May 2021, performance has been extremely resilient and the business has benefited from pent-up consumer demand. Furthermore, the pandemic has not distracted from management's key strategic focus of expanding the Group's store footprint, which has continued at pace with the PEPCO brand now present in three Western European territories and the Group operating from 3,504 (+16% YoY) stores in 17 territories overall.

The table below, which summarises the percentage of lost trading weeks in FY21 versus FY20, illustrates the scale of this Covid-19-driven impact at various points across the year:



Whilst the Covid-19 challenges remain and the economic backdrop remains unclear, the Group has consistently demonstrated its ability to deliver strong performance at the same time as prioritising colleague and customer safety. With a strong customer proposition, robust infrastructure in place and a clear strategic plan built around continued store expansion, the Group is confident that it can build on the success of this financial year into the future.

Accounting period

The FY21 accounting period includes trading for the twelve months up to 30 September 2021 and the comparative period represents the equivalent twelve-month period up to 30 September 2020.

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 the business performance. Please refer to the section below and note 4 in the financial statements for further information on non-underlying items.

Financial reporting

Summary of full year Group performance

| Pepco Group | FY21 | FY20 | YoY |
|---|--------------|--------|---------|
| Revenue (€m)¹ | 4,122 | 3,518 | 17.2% |
| Like-for-like revenue (%) | 6.5% | (5.2%) | 11.6pp |
| Gross profit (€m) | 1,769 | 1,433 | 23.4% |
| Gross profit margin (%) | 42.9% | 40.7% | 220bps |
| Underlying EBITDA (€m) | 647 | 442 | 46.2% |
| Underlying EBITDA margin (%) | 15.7% | 12.6% | 310bps |
| Depreciation and amortisation (€m) | (326) | (291) | (12.1%) |
| Interest and other (€m) | (77) | (102) | 24.8% |
| Underlying PBT (€m) | 244 | 49 | 394% |
| Non-underlying items (€m) | (48) | (32) | n/a |
| Reported PBT (€m) | 196 | 18 | 1,013% |

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

Our total Group revenue in FY21 was €4,122m (FY20: €3,518m) and represents an increase of 17.2% (+19.3% constant currency). Despite a challenging trading environment affected by Covid-19, in which approximately 9% (FY20: 6%) of trading weeks were lost due to store closures, revenue growth is driven by the strength of our proposition, including our store and refit programmes, and Covid-19 recovery resulting in higher customer demand. A strong LFL growth of 6.5% with 483 net new stores is a reflection of the ability to deliver sustainable growth.

Group gross margin of 42.9% represents a 220bps improvement year on year. This margin accretion is driven through a combination of ongoing sourcing benefits, a short-term Covid-19 benefit of an enhanced general merchandise mix and lower levels of markdown versus the more severely Covid-19-impacted trading in 2020.

STRATEGIC REPORT

Underlying operating costs before depreciation and amortisation impact grew by 13.3% to €1,122m representing 27.2% of revenue (FY20: 28.2%). As referenced in the strategy section, the absolute increase primarily reflects the continued strategic investment in store openings across the PEPCO and Dealz businesses, with continuing cost efficiencies within Poundland. The improvement in cost productivity as a percentage of sales primarily reflects the operational leverage derived from positive like-for-like growth that was limited in FY20.

The increased number of stores also resulted in a depreciation and amortisation expense increase of 12.1% to €326m.

Underlying EBITDA of €647m (FY20: €442m) benefited from continued store expansion, gross margin upside through better sourcing and a short-term mix benefit, alongside tightly managed operating costs, whilst underlying profit before tax of €244m (FY20: €49m) represents a fivefold improvement.

Non-underlying items

The Group manages performance on an underlying basis after adjusting for non-underlying items, defined as material, one-off and unusual in nature. Such items are detailed below and in note 4 of the financial statements. Non-underlying items in FY21 totalled €47.5m (FY20: €31.8m).

The key non-underlying items include:

- €21.1m of fees associated with the IPO, which concluded in May 2021, including legal, accounting and advisory fees and specific employee incentives linked to the successful outcome of the IPO transaction;
- €9.1m of pre-payment penalties and costs associated with the release of the original issue discount (OID) asset relating to the existing debt financing that was replaced as part of the IPO-related refinancing;
- €15.4m of charges relating to a one-off Value Creation Plan (VCP) scheme, not part of the ongoing Remuneration Policy; and
- €1.8m of other non-underlying costs largely relating to reorganisation work.

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 53% of total revenue and over 70% of underlying EBITDA with the Poundland Group segment contributing 47% and 30% respectively.

| Revenue | Reported | | | Constant currency |
|----------------------------------|--------------|--------|-------|-------------------|
| | FY21 | FY20 | % YoY | % YoY |
| PEPCO (€m) | 2,166 | 1,738 | 24.6% | 29.3% |
| Like-for-like revenue (%) | 9.8% | (7.1%) | | 16.9pp |
| Poundland Group (€m) | 1,956 | 1,780 | 9.9% | 9.7% |
| Like-for-like revenue (%) | 3.1% | (3.3%) | | 6.4pp |
| Total Group (€m) | 4,122 | 3,518 | 17.2% | 19.3% |
| Like-for-like revenue (%) | 6.5% | (5.2%) | | 11.6pp |

| Gross profit margin % | Reported | | | Constant currency |
|-----------------------|--------------|-------|----------|-------------------|
| | FY21 | FY20 | Variance | % YoY |
| PEPCO | 46.7% | 44.1% | 260bps | 270bps |
| Poundland Group | 37.7% | 36.5% | 120bps | 120bps |
| Total Group | 42.9% | 40.7% | 220bps | 210bps |

| Operating costs % | Reported | | | Constant currency |
|--------------------|----------------|---------|----------|-------------------|
| | FY21 | FY20 | Variance | % YoY |
| PEPCO | (25.6%) | (26.9%) | 130bps | 130bps |
| Poundland Group | (27.7%) | (28.5%) | 80bps | 90bps |
| Total Group | (27.2%) | (28.2%) | 90bps | 120bps |

| Underlying EBITDA | Reported | | | Constant currency |
|-------------------------|------------|------|-------|-------------------|
| | FY21 | FY20 | % YoY | % YoY |
| PEPCO (€m) | 457 | 299 | 52.8% | 58.9% |
| Poundland Group (€m) | 195 | 142 | 37.0% | 39.7% |
| Other (€m) | (5) | 1 | - | - |
| Total Group (€m) | 647 | 442 | 46.2% | 51.3% |

| Underlying EBITDA margin | Reported | | | Constant currency |
|--------------------------|--------------|-------|----------|-------------------|
| | FY21 | FY20 | Variance | % YoY |
| PEPCO | 21.1% | 17.2% | 390bps | 390bps |
| Poundland Group | 10.0% | 8.0% | 200bps | 210bps |
| Total Group | 15.7% | 12.6% | 310bps | 330bps |

PEPCO

PEPCO'S LFL growth was 9.8% for the full year, including the impacts of Covid-19-related store closures. This is driven by the strength of our proposition, including our store refit programmes and higher levels of customer demand.

Recognising the significant future store capacity in all of the territories in which it operates, PEPCO expanded its store portfolio in the full year by 364 stores (+17.3% YoY) which included its first stores in Austria, Serbia and Spain. In addition, PEPCO continued to upsize or relocate stores, numbering 60 in the full year, and began the first steps in updating branding in stores to reflect the new design that will represent PEPCO in our next phase of growth.

Gross profit margin of 46.7% improved by 260bps through higher general merchandise sales reflecting the benefits of the strategic space initiatives and reduced markdowns. Process and systems enhancements in PEPCO have enabled a significantly more focused, targeted and tailored approach to the discounting of poor-performing ranges which, as an example, is now undertaken on a country-by-country basis rather than by applying the same discount to the product across all territories.

Underlying operating costs, excluding depreciation, amortisation and non-underlying costs, grew by 18.8% versus a store growth of 17.3% with cost increases primarily reflecting an investment in the infrastructure to deliver future growth. On a percent to sales basis there was a 130bps improvement as higher like-for-like sales delivered operational leverage.

Underlying EBITDA was €457m in FY21 (FY20: €299m). Underlying EBITDA margin was 21.1% versus 17.2% in FY20.

Poundland Group

Poundland Group's full year LFL growth of 3.1% provides a clear indication of the strengthened customer offer and, in particular, strong performances across recently extended categories in clothing and homeware and the introduction of a new frozen and chilled offer to 127 stores in the year. Alongside the renewal programme, the proposition transformation continues driving multi-price participation to 36.2% of sales (FY20: 25.9%).

Following sustained improving performances, we continued the roll-out of the Dealz format across Poland and Spain with 65 stores opened in the year and over 100 stores now trading in Poland.

The increase in the scale of the Poundland store portfolio primarily reflects Fultons Foods stores acquired in October 2020, as part of a transaction designed to materially enhance the Group's capability and scale in this key target growth category of frozen food. The year closed with 879 stores, with the 59 Fultons stores accounting for the majority of the year-on-year increase of 54.

Gross profit margin of 37.7% in FY21 for the Poundland Group represented an increase of 120bps through a combination of continued buying benefits plus a margin mix benefit of general merchandise sales growth. Gross margin also benefited from consumers "stocking up" demand for lower margin FMCG products in the prior year and ongoing initiatives to expand the higher margin general merchandise footprint and lower markdown rates through operational initiatives to improve inventory allocation in line with rates of sale.

Underlying operating costs excluding depreciation and amortisation were 80bps lower versus the previous year with Poundland continuing to drive operating cost efficiencies in line with the Group's strategy while also benefiting from Covid-19-driven governmental schemes such as business rates relief. There were increases in the cost bases of the Dealz businesses as we continued to expand through new store openings.

Reflecting the compound impact of the factors outlined above, underlying EBITDA for the Poundland Group was €195m in FY21 (FY20: €142m). Underlying EBITDA margin was 10.0% versus 8.0% in FY20.

Financing

Linked to the IPO transaction, the Group successfully completed a significant refinancing exercise in the financial year which achieved the following key objectives:

1. to replace the existing external financing with new debt with a significant reduction in interest rates in the current and future years; and
2. to repay all existing Steinhoff intra-group debt to further distance the Pepco Group from Steinhoff, the ultimate parent company.

The refinancing completed in May 2021 and resulted in €550m of new external term debt being agreed, replacing the previous €489m external loan. In combination with the increased term loan the Group utilised €130m of internal cash to repay €246m of debt outstanding to the shareholder loan (SHL).

The Group also secured a revolving credit facility (RCF) of €190m which provides working capital flexibility if required, with €65m of the RCF drawn at year end. This replaced all existing RCF facilities and unutilised shareholder working capital loans that were put in place in the previous financial year against the liquidity uncertainty created by the first wave of the global pandemic in financial year 2020.

This refinancing exercise represents a positive milestone for the Group, having fully settled all outstanding loans with the Steinhoff group.

As a consequence of these actions, the net finance cost in FY21 was €77m (FY20: €104m).

Profit before tax

Statutory profit before tax of €196m has benefited from new store growth, positive LFL, gross margin accretion, operational efficiency and reduced interest costs, and compares to a heavily Covid-19 impacted €18m PBT in FY20. At an underlying level, FY21 underlying PBT of €244m represents growth of €194m versus the €49m underlying PBT recorded in FY20.

Taxation

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

The tax charge in the year was €41m versus €17m in FY20, reflecting an effective tax rate of 21.1%. In FY22 we expect the tax rate to mirror that of the key countries in which we operate, being the UK, Poland and Czechia (all 19%).

Investment activity

FY21 represented another year of continued expansion with YoY investment in property, plant and equipment and intangible assets increasing by €18m (FY21: €181m vs FY20: €163m). The key drivers are twofold:

- An ongoing strategic programme to invest in new store openings, relocations, enlargements and refurbishments (€147m), illustrated by the net increase in stores of 483 across FY21, including entry into the 3 new markets of Austria, Serbia and Spain.
- As a critical enabler to achieving efficiency savings, our ERP and system infrastructure programme (€34m), through which our existing central systems will be replaced with Oracle as the Group's core ERP application, continued at pace across the Group with the first finance module going live in the Poundland business in July.

In line with our previously communicated strategy, Pepco Group has been moving its IT infrastructure to software-as-a-service (SaaS) solution products, which is the current industry trend for new software implementations. Poundland and Dealz, with PEPCO following in FY22, are currently undergoing a major implementation of the enterprise resource planning (ERP) infrastructure using an Oracle SaaS solution. In addition, other IT infrastructure replacements (e.g. HR, warehouse management and POS systems) are also in progress or due to be implemented within the planning horizon. Collectively the Group has incurred €64.4m in SaaS-related implementation costs between 2019 and 2021 (FY21: €33.0m, FY20: €22.2m, FY19: €9.2m), costs which have been capitalised by the Group.

A pronouncement by the IFRS Interpretations Committee (IFRIC) in April 2021 to clarify the interpretation of the accounting standard IAS 38 has led to a significant change in the way that SaaS costs will be recognised going forward. Following this change in interpretation, Pepco Group is in the process of conducting a detailed exercise to consider the impact on the existing SaaS costs to determine whether they should be capitalised, expensed or prepaid, dependent upon the clarified IAS 38 criteria. Further details of this IFRIC interpretation are set out in note 1.28 to the financial statements; however, the Group expects that a significant portion of the €64.4m previously capitalised costs (which are then depreciated over the life of the asset, typically c. seven years) will need to be reclassified as expense or prepayment.

STRATEGIC REPORT

This is a significant departure from the previous application of IAS 38 by the market and one which creates an exceptionally complex set of analysis, which requires significant input and involvement from the Group's implementation partners. As such, we have deferred the implementation until such time that the Group's analysis is robustly complete and when there is further clarity and precedent with regards to the practical implementation of this change in accounting standard.

It should be noted, however, that the underlying substance of the SaaS development and ERP implementation programmes remains unchanged, the cash flows remain unchanged and the timetable by which we will undertake the work and realise the benefits remains the same.

On 8 October 2020 the Group (via Poundland Limited) completed the acquisition of 100% of the share capital of the Fultons frozen food business (Viewtone Trading Group Limited). Fultons operates a chain of discount frozen food stores across the North of England. Whilst the transaction resulted in Poundland taking on 82 Fultons stores (of which 23 were either closed or repurposed to Poundland stores across FY21), the primary purpose of the acquisition is to provide Poundland with operational and category knowledge and the capability to roll out a frozen food offering across the existing store estate. 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.

In June 2021 PEPCO (through Pepco Poland sp. z.o.o.) entered into a framework agreement for the takeover of up to 29 commercial store lease agreements from CCC Austria Ges.m.b.H, an apparel and footwear retailer. PEPCO will utilise this agreement to expand its store portfolio in Austria across the final quarter of calendar year 2021.

Net debt and cash flow

| Pepco Group (€m) | FY21 | FY20 | YoY |
|---|--------------|-------|-------|
| Cash generated by operations (reported) | 752 | 628 | 124 |
| Capex | (181) | (163) | (18) |
| Tax paid | (50) | (49) | (1) |
| Lease payments | (256) | (223) | (33) |
| Funding and investment activities | (162) | (22) | (140) |
| Net cash flow | 104 | 171 | (68) |
| Effect of exchange rate fluctuations | 4 | (18) | 22 |
| Cash and cash equivalents at the beginning of the period | 400 | 247 | 153 |
| Cash and cash equivalents at the end of the period | 508 | 400 | 107 |
| Net debt | 1,202 | 1,239 | 37 |
| Net debt: underlying EBITDA multiple (leverage) | 1.9x | 2.8x | 0.9x |
| Net debt (pre-IFRS 16) | 108 | 328 | 220 |
| Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage) | 0.3x | 1.4x | 1.2x |
| Impact of IFRS 16 on leverage | 1.6x | 1.4x | 0.2x |
| Current ratio | 1.1x | 1.2x | (0.0) |

The Group continues to be strongly cash generative with closing cash of €508m (FY20: €400m) and net debt of €1,202m (FY20: €1,239m) reflecting continued underlying business growth and actions developed across 2020 and 2021 with key suppliers alongside significant stock efficiency programmes which reduce the required stock levels and enhance the Group's working capital cycle. These actions allowed strategic capital investment in opening new stores and introducing new infrastructure to continue throughout another Covid-19-impacted year.

During the year, the Group refinanced or repaid all of its external and intergroup debt to twelve relationship banks at a considerably lower interest rate. The Group has deleveraged during the year, increasing headroom on financial covenants significantly.

Dividends

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

Nick Wharton

Pepco Group CFO

RISK MANAGEMENT

Our approach to risk management

Risk management and internal control framework

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

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

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

Group risk management is responsible for defining the risk management framework and driving consistent application across Pepco Group. It constructively challenges and supports businesses and functions in following the risk methodology outlined in the Group 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 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, Pepco Group's risk management process is structured into five steps to include:

1. understanding of the Group's reach, business context and financial criteria;
2. undertaking risk identification activities to determine risks and opportunities;
3. risk assessment to prioritise how the risks should be managed;
4. the selection, design and implementation of risk mitigation options that support achievement of intended outcomes and manage risks to an acceptable level; and
5. timely, accurate and informative risk reporting to enhance the quality of decision making and to support management and oversight bodies in meeting their responsibilities.

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

- Each business and functional area maintains detailed risk registers and mitigation plans which are approved by their respective leadership teams.
- Each of the business and functional leadership teams report risk and mitigating activities to the business-level Audit and Risk Committees.
- Internal audit reports on the effectiveness of internal control procedures are presented to the Audit and Risk Committees.
- A half-yearly review of risk registers, and a full review of the principal risks and uncertainties, is conducted at least annually by the local board of directors.

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

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 and Group Board of Directors.

The output of these assessments together with the consideration of risks existing at the Group level are aggregated to compile an overall Group-level view of risk.

Risk appetite

Risk appetite is an expression of the level and type of risk that Pepco Group is willing and able to accept in pursuit of its strategic objectives. Risk appetite is typically expressed as a statement of intent by risk category.

During the year management carried out an evaluation of the risk register and risk appetite and submitted a new Group risk framework to the Board. There will be a review of the effectiveness of the risk management and internal control systems for the Group conducted during FY22 which will be presented to the Board for approval.

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

Board review

During the year the Board, through delegation to the Audit Committee, carried out an evaluation of the effectiveness of the risk management and internal control systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they have been operating effectively for the financial year to September 2021 and up to and including the date of this report. The business will continue to review opportunities to mature, strengthen and improve the effectiveness of these systems.

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

Principal risks and uncertainties

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

Changes to risk profile

The Board is committed to ensuring that the key risks are managed on an ongoing basis and operate within the agreed Group risk appetite. Whilst these risks all have the potential to affect future performance, work is undertaken to mitigate and manage these risks such that they should not threaten the overall viability of the business.

The impact across a number of dimensions, including financial and reputational, and likelihood are considered for each risk, 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 Board, the most significant gross risks to the Group.

Topical and emerging risks

Covid-19

The Group has shown significant resilience despite the Covid-19-driven challenges and a backdrop of continued Covid-19-driven disruption. Performance has been strong, significantly growing profits and managing working capital and cash effectively whilst continuing at pace with the strategic roll-out of stores in existing and new territories.

As we look ahead in a continuingly uncertain and risky Covid-19 environment, the Group is now a stronger, more resilient and more agile business than it was before the pandemic.

Despite an ongoing challenging operating environment, the Group's three retail brands continue to recover well from the easing of Covid-19 restrictions in many of our operating markets.

Mitigating supply chain headwinds

Towards the end of FY21, the return of consumer demand and business activity placed increased pressure on supply chains where a reduction in raw material availability drove commodity inflation whilst constrained container capacity significantly increased shipping costs.

The Group acted quickly to alleviate these pressures, taking decisive action across our operating businesses. Our Asia-based direct sourcing operation, PGS, leveraged our strong direct relations with suppliers and factories, to re-engineer products to reduce input costs and closely co-ordinate the flow of goods to maximise container fill.

The Group also leveraged the teams we have on the ground to co-ordinate our response with local ports to reduce the disruption and ensure shipping capacity.

We are confident that the Group is well placed to weather the current global pressures and are committed to maintaining our attractive discount customer proposition.

Principal risks

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

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

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

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|-------------------------------------|----------|---|--|----------------------|
| Long-term expansion strategy | 1 | <p>Failure to implement the Group's growth strategy:</p> <ul style="list-style-type: none"> • to strengthen market-leading proposition in existing markets; and • implement long-term expansion into new markets. <p>The Group's strategy to strengthen its proposition in existing markets is based on concentrating on continued store roll-out. The Group's expansion strategy involves the continued expansion of its PEPCO and Dealz store networks across the whole of Europe. 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.</p> | <ul style="list-style-type: none"> • Group strategy is reviewed and refreshed periodically to ensure it delivers maximum focus and returns • Growth strategy targets markets with strong positive fundamentals • Market-leading brand positioning in existing territories • Store and category proposition refresh programme updating stores to our latest layout and environment • Delivering operating cost improvement across the individual operating companies • Executive management has strong consumer and business experience | Customer and markets |
| Legal and regulatory | 2 | <p>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 the Group's retail brands being severely damaged.</p> <p>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</p> | <ul style="list-style-type: none"> • Group Modern Slavery Act Statement, Anti-Bribery and Corruption, and Whistleblowing Policies agreed and external speak-up helpline established • Established Ethical Trading procedures to monitor suppliers for compliance with terms and conditions specified by PGS • Factory compliance audits performed using independent and experienced third parties • Strong established quality control procedures | Legal and regulatory |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|--|----------|--|--|-----------------------------|
| | | comply with applicable laws, rules and regulations may result in fines, penalties and adverse publicity, and reflect poorly on the Group's reputation or that of its PEPCO, Poundland and Dealz store brands. | <ul style="list-style-type: none"> Intellectual property protection in place and the Group operates in structured EU/European markets and can rely on trademark and copyright laws and contractual arrangements | |
| Competition | 3 | <p>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 will have a detrimental impact on the Group.</p> <p>The European discount retail sector is competitive. The Group competes at national and local levels with a wide variety of general and specialist retailers of varying sizes and product offerings across all the geographic markets in which it operates, including with respect to price, product selection and quality, store location and design, inventory, customer service, advertising and marketing. The Group's competitors include both small scale, independent stores and organised chains of multi-price discount and non-discount general merchandise retailers, fixed-price discount general merchandise retailers, grocery-led convenience stores and online retailers or specialty retailers in particular categories, such as homeware.</p> | <ul style="list-style-type: none"> Group continues to enter new markets/territories Competition is highly fragmented in many markets, limiting impact Market-leading brand positioning in existing territories Externally validated price advantage versus competition First-mover advantage provides scale advantage and limits competitive entry to small catchments Continued investment in infrastructure to support growth Ongoing consumer research programme monitors brand health | Customer and markets |
| IT systems, cyber security, data protection and business continuity | 4 | <p>Disruption/failure of the Group's IT systems, including failure to comply with applicable data protection requirements (e.g. GDPR).</p> <p>This includes the risk of unsuccessful or delayed go-live in delivery/implementation of new ERP.</p> <p>The Group depends on its IT systems and infrastructure for the efficient functioning of its business. A failure or disruption in information</p> | <ul style="list-style-type: none"> No reliance on single major supplier, port or logistics provider Resilient existing IT infrastructure with standard backup procedures Programme to replace legacy IT infrastructure with global ERP (Oracle) is live in Poundland and Dealz and well advanced in PEPCO Change freeze implemented during the | Impacts every risk category |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|--|----------|--|--|---------------|
| | | technology systems (e.g. due to a deliberate and/or targeted cyber-attack) may result in a loss of business-critical data, compromised data integrity, inability to manage operations, financial and regulatory penalties and reputational damage. The Group is also subject to expansive 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. | <p>Group's key trading periods</p> <ul style="list-style-type: none"> Limited transactional e-commerce reduces exposure to consumer data Ongoing data compliance/data integrity programme | |
| Supply chain disruption – sourcing | 5 | <p>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.</p> <p>The loss of, or a substantial decrease in, the availability of products from the Group's key vendor 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.</p> | <ul style="list-style-type: none"> Group represents a significant customer in a differentiated channel Long-standing relationships with both branded FMCG suppliers and own-brand factories Limited use of agencies/intermediaries provides a direct relationship with core suppliers Group buys from large number of factories across a number of countries with ability to quickly switch production sites | Supply chain |
| Supply chain disruption – logistics | 6 | <p>Disruption of the transportation/logistics network (including distribution centres/stores) and/or failure to identify, develop or maintain relationships with a significant number of reputable consumer-branded suppliers.</p> <p>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</p> | <ul style="list-style-type: none"> Multi-point distribution network introduces implicit resilience No reliance on single major supplier, port or logistics provider Expanding supplier base to decrease consolidation of supply chain in one country or region | Supply chain |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|---------------------------------------|----------|--|--|----------------------|
| | | Group's domestic suppliers also import their products or components of their products. | | |
| Consumer trends and behaviours | 7 | <p>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.</p> <p>This includes the ability of the Group to monitor and adapt to changing behaviours amongst its consumer base.</p> <p>The Group's business is subject to trading peaks and seasonality risk together with changing consumer trends and behaviours. The Group derives revenue from the sale of products that are seasonally/event related, and products that are subject to changing consumer preferences. 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.</p> <p>Failure to respond to these trends may result in weak sales during the Group's peak trading period. 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 inability to maintain competitive position and market share.</p> | <ul style="list-style-type: none"> Revenue and profit concentration is strongest in the first quarter but does not represent the majority of annual performance No single trading event (Halloween, Easter, etc.) is important to performance on an annual basis Exposure of the Group to fashion-led product is limited Strong category management and supplier capability ensures consumer trends are highlighted and referenced in stock selection Improving inventory planning capability enables better management of initial quantities, allocations and markdown | Customer and markets |
| Inventory management | 8 | <p>Group inability to maintain sufficient inventory levels to meet customers' demands without allowing those levels to increase to such an extent that the</p> | <ul style="list-style-type: none"> Exposure of the Group to fashion-led product is limited, with seasonal markdown investment therefore being low | Supply chain |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|---|----------|--|---|---------------|
| | | <p>Group may be forced to rely on additional promotional markdowns to dispose of excess or slow-moving inventory.</p> <p>As a multi-category discount retailer, efficient inventory management is a key component of the Group's success and profitability. To be successful, the Group must assess a product's 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.</p> | <ul style="list-style-type: none"> Improving inventory planning capability enables better management of initial quantities, allocations and markdown through the Group-wide-roll out of Oracle Fusion | |
| People | 9 | <p>Dependence on key personnel and inability to attract or retain the required knowledge and skills. There is a risk that failure to recruit or retain individuals with the required knowledge and skills, or a lack of succession planning for key roles, could impact the Group's performance and achievement of its strategy.</p> <p>The Group is dependent on key personnel at both the Group and business unit level who have extensive experience and knowledge of the discount retail industry in the markets in which the Group operates. There is a risk that failure to recruit or retain individuals with the required knowledge and skills, or a lack of succession planning for key roles, could impact the Group's performance and achievement of its strategy.</p> | <ul style="list-style-type: none"> Significant relevant experience in both executive and senior management Remuneration Policy provides strong reward linked to strong performance Talent management processes in place and continue to develop across the Group Investment in the capability of our people through developing our colleagues and bringing new, high-calibre recruits into the business to continue to support and drive our growth agenda 86% of our store managers are internally promoted | People |
| Political and macro-economic environment | 10 | <p>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.</p> <p>The Group's business is impacted by the prevailing</p> | <ul style="list-style-type: none"> Group operations are spread over 15 territories in both Western and Central Europe, reducing exposure to any single market and providing cyclical protection Diversified nature of the Group's operations | Financial |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|-----------------------|----------|---|---|----------------------|
| | | <p>political and economic climate in the countries in which it operates and globally, including political uncertainty, foreign exchange rates, interest rates, inflation rates, levels of employment, disposable income, salaries, wage rates (including any increase as a result of payroll cost inflation or governmental action to increase the statutory minimum wage or contributions to pension provisions) and consumer confidence. In relation to foreign exchange risk, the Group pays the majority of its overseas suppliers in US Dollars and in certain countries in which the Group is expanding it is customary for certain of the Group's costs, including leases, to be denominated in a foreign currency (such as Euros) rather than the local currency. However, the Group's customers pay for products in the local currency in each of the countries in which the Group operates.</p> | <p>introduces a portfolio of currency exposures, which can create a natural hedge</p> <ul style="list-style-type: none"> • Established FX hedging policies and practices provide near-term protection against currency fluctuations • Group debt has been refinanced at considerably better rates, and interest rate risk is limited to movements in EURIBOR above the zero floor • Currency deposits are maintained across a number of financial institutions to minimise counterparty risk | |
| Tax compliance | 11 | <p>Risk of subjective tax interpretation and challenge.</p> <p>This risk includes tax interpretation in new countries, potentially non-EU, with changing/unfamiliar tax environments.</p> <p>The Group is subject to many different forms of taxation including, but not limited to, corporation tax, withholding tax, value added tax, property tax and social security and other payroll-related taxes and has obligations to file tax returns and pay tax across several different jurisdictions. Although the Group considers that it complies with all relevant obligations, there is a risk that it may inadvertently fail to comply with applicable laws and regulations in any jurisdiction in which it does business. Additionally, the tax authorities may not</p> | <ul style="list-style-type: none"> • Group tax policy ensures high compliance with limited tax planning • KPMG engaged as Group's tax advisor • Expert advice sought before implementation of any changes in Group structures or operations • Programme to simplify the Group's legal entity structure in progress • Experienced and qualified colleagues employed in all key business units | Legal and regulatory |

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|---|----------|---|---|----------------|
| | | agree with the determinations that are made by the Group with respect to the application of tax law, leading to potentially lengthy and costly disputes which could potentially result in the payment of substantial amounts for tax, interest and penalties. | | |
| Credit default/liquidity | 12 | <p>Inability to meet obligations under credit facilities and/or inability to access further external financing in the future.</p> <p>The borrower is a holding company with no independent operations and is dependent on earnings and distributions of funds from its operating subsidiaries for cash, in order to pay interest obligations and dividends. Any failure to comply with the covenants or payment obligations contained in the Group's financing arrangements could result in a default thereunder. This would permit the acceleration of the maturity of the indebtedness under such agreements and, if the Group is unable to refinance in a timely fashion or on acceptable terms in the longer term, would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.</p> | <ul style="list-style-type: none"> • Strongly cash generative Group with no major structural blocks preventing payment of dividends or provision of loans within the Group • All external and intergroup debt refinanced to twelve relationship banks at a considerably lower interest rate during the year • Additional funding is available to the senior Group structure under the RCF if required • Group deleveraged during the year, increasing headroom on financial covenants significantly | Financial |
| Environmental, social and governance (ESG) | 13 | <p>Failure to conform to society's expectations in addressing ESG impact can lead to public scrutiny and significant reputational damage to the Group and its brands.</p> <p>This risk includes any medium to long-term physical impact of climate change on the Group's business operations/model.</p> <p>The Group recognises the impact that its rapidly growing business may have on the social and natural environment. There is a risk of failure to address the growing needs and</p> | <ul style="list-style-type: none"> • Board of Directors comprises an independent Chairman, two Executive Directors, three Non-Executive Directors, and four independent Non-Executive Directors • Independent Committees comprise (i) Audit Committee, (ii) Remuneration Committee and (iii) Nomination Committee • Management and the Board have reviewed the new corporate governance requirements, | Sustainability |

STRATEGIC REPORT

| Risk type | Risk no. | Description and potential impact | Risk mitigation | Risk category |
|-----------|----------|--|--|---------------|
| | | <p>expectations from society if the Group does not meet the Pepco Group priorities and objectives in relation to ESG. Pepco Group's ESG priorities and objectives include: sustainable materials, ethical work places and worker rights, elimination of hazardous chemicals, carbon emissions reductions, transparent engagement on sustainable development, transparent people development and diversity and inclusion, non-renewables reduction, and elimination of single use plastics.</p> | <p>including additional reporting requirements</p> <ul style="list-style-type: none"> • Established an ESG framework for operating businesses to drive positive initiatives and practices • Strategy Delivery Group (SDG) established for the day-to-day management of ESG objectives • Ongoing focus of the SDG is to oversee the progress of initiatives, identify key memberships with external bodies and set new targets | |

GOING CONCERN

Going concern statement

The FY21 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 shown significant resilience despite the Covid-19-driven challenges which continued throughout financial year 2021. Profit delivery has been strong and the Group's cash position of €508m is significantly higher than last year (FY20: €400m). This, coupled with a new financing structure and access to a revolving credit facility, provides the Group with significant headroom to protect against potential unforeseen liquidity challenges, and potentially even benefit from the volatility within the wider macro-economic environment.

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

CORPORATE SOCIAL RESPONSIBILITY

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

As a large, growing business we are aware of the impact we have on the environment and our communities. We are also aware of stakeholder expectations for us to operate in a sustainable and responsible manner. As such we are committed to delivering growth and long-term value for our stakeholders whilst also minimising our impact on the environment and enhancing our communities throughout our supply chain. We believe these commitments are absolutely aligned to the business model we operate, predicated on reducing waste, working with long-term suppliers to deliver sustainable, low-cost operations and serving the communities we operate within.

While our businesses were already active in minimising their environmental impact and contributing to the communities in which they operate, the Group recognised the need for a coherent Group-wide approach to sustainability. This has led to the creation and adoption of an environmental, social and governance (ESG) framework that aims to drive sustainability and consistency in key areas across all our businesses. This approach allows us to leverage our collective scale and share sustainability knowledge and initiatives across our retail brands.

Sustainable practices and progress are important to us as a quality, reputable business and are equally important to the Group's customers. Through this framework, we can build upon the environmental and social initiatives already in place and create meaningful, measurable performance indicators that drive our sustainability forward. Given this is the first year of the framework adoption we anticipate building on this framework and disclosure over time, both to meet obligations of the evolving regulatory landscape and demonstrate the commitment from the Group.

Strategy

In recognition of our social and environmental responsibilities, in FY21 the Group approved a strategic ESG framework that will build upon our current initiatives and drive the Group forward under a unified approach.

In developing the framework, we undertook materiality assessments and gathered feedback from operating businesses and colleagues in the Group. This process helped to shape our overall framework in terms of strategic approach, governance and key focus areas.

As part of our approach, we set and own the strategic framework which is then embedded within our operating companies. The operating companies are given freedom within this framework to incorporate it within their local strategies.

The Group has established a strategy delivery group (SDG) with a mix of newly appointed ESG specialist staff and existing staff to drive the adoption of the environmental and social (ES) frameworks throughout our businesses. This newly established group and the appointment of our COO will enable us to be more consistent across our businesses in the work we do in the future. Our progress will be reported to and monitored by our Board.

Our ES framework's vision is to democratise value by showing price is not a barrier to affordable, sustainable, and ethically produced products. To achieve this, the framework sets out the key areas of focus for ESG improvement. This section focuses on the environmental and social framework; for information on governance, see pages 42 to 74.

Our environmental focus is to support the world around us by:

- providing "Better Products" by working with our supply base to enhance the sustainability of our products through environmentally responsible production, product packaging and raw materials; and
- contributing to a "Greener Environment" by lowering our impacts on the environment year on year through our own operations.

Our social focus is to nurture our people and communities by:

- being an "Exceptional Employer" for every single colleague and developing them to be their best through cultivating dignity and respect, talent development and promoting wellbeing;
- contributing to a "Strong Society" through positively impacting the communities where we trade by providing our local communities and customers with affordable sustainable products and charitable support; and
- being a positive influence on our "Valued Supply Chains" through engagement and auditing of our suppliers.

Environment

Our business operations result in environmental impacts which we are committed to minimising through our policies and initiatives. Because of our scale, seemingly small actions can deliver measurable impacts. This means it is important that we accumulate positive practices year on year and continually evolve our business towards more sustainable practices and that our operational decision making considers the impact on the environment, for example the use of natural resources, recycling and energy efficiency.

We continued to build upon our sustainability initiatives in the year under review and are committed to expanding our responsible environmental practices. Our environmental focus is to provide “Better Products” for the environment by working with our supply base to enhance the sustainability of our products and contribute to a “Greener Environment” by lowering our operational impacts on the environment year on year. Some of our key priorities moving forward concentrate on environmentally responsible production, product packaging, use of raw materials, plastic bags, and energy and waste management.

Better Products

We work with our supply base to provide sustainable options to families on a budget. We aim to remove the myth that price is a barrier to affordable, sustainable and ethically produced products. Sustainable products are becoming increasingly important for value creation and risk mitigation as customers place more and more value on sustainability.

Environmentally responsible production

One way we aim to improve the sustainability of our products is through environmentally responsible production which is a key priority under the new framework. As part of our Code of Conduct for our supply chain and factories, we require supplier sites to carry out their activities in accordance with all applicable national laws, regulations, administrative practices, and policies relating to the preservation of the environment of the countries in which they operate as well as in accordance with relevant international agreements, principles, objectives, responsibilities, and standards regarding the environment. Pepco Group Compliance audits all active factories at least once per year in accordance with our Code of Conduct and local law. For more information on our “Valued Supply Chains”, see page 39.

Product packaging

We work with our suppliers to minimise packaging waste and to use customer packaging that is reusable or recyclable. We aim to minimise the use of plastic by employing alternative solutions such as cardboard, and where plastic is used, we opt for recycled over virgin.

For example, in FY21 PEPCO eliminated over 200 tonnes of plastic by changing packaging to 100% cardboard solutions in flipflop hangers, sock hooks, and accessories head cards. It also developed a new standard for its suppliers, expecting cardboard packaging to be free of additional plastics that can make it difficult to recycle.

Raw materials

In addition to improving our use of product packaging, we are also moving to more sustainable sources of raw materials in our products which is a key priority within our framework. For example, we are increasing our use of sustainably sourced cotton, which is our single largest commodity. In 2021 we were able to sustainably source over 10% of our cotton and over 50% had external certification such as Better Cotton Initiative (BCI) or the Global Organic Textile Standard (GOTS).

Greener Environment

We support a “Greener Environment” by aiming to lower our impacts on the environment year on year. We have energy and waste management strategies in place to help us reduce our carbon footprint and energy intensity. Poundland has expanded its tracking of energy and emissions data which will enable better management and provide insights for improvement. FY21 is PEPCO’s baseline year for energy and emissions data, which lays the foundation for future targets and management.

Energy and emissions

Our businesses have continued to build upon their strategies and initiatives to improve our carbon footprint. The Group is aware there is more to be done and we are committed to doing so. We have laid the foundations of our energy management and reporting, which will improve the robustness of our data and allow us to set targets. These improvements will enable us to comply with any future, mandatory or voluntary, disclosures under applicable reporting standards and frameworks. In this area, the role of our strategy delivery group is vital as cohesion between our businesses is required.

Group greenhouse gas and energy usage data

| FY21 | Energy usage (MWh) | Emissions (tCO ₂ e) | Intensity ratio (tCO ₂ e per €1m of turnover) |
|----------------|--------------------|--------------------------------|--|
| Transport | 64,301 | 15,491 | |
| Gas combustion | 4,283 | 809 | |
| Electricity | 204,441 | 75,480 | |
| Total | 273,025 | 91,780 | 22.27 |

Note: Energy and emissions were calculated using available scope 1 and scope 2 data. Emissions were calculated using recommended conversion factors for each country.

Energy and waste management

Through our energy and waste management strategies we aim to improve our carbon footprint. Efficient energy and waste management is not only beneficial for the environment but also for our businesses through process efficiencies and associated cost savings.

In Poundland all card and clear soft plastic is recycled. In the calendar year to date, Poundland has recycled c. 14,000 tonnes of card and over 800 tonnes of soft clear plastic. Poundland works with a waste partner and is aiming for zero operational waste to landfill by the end of 2022.

All newly opened stores are fitted with LED lighting and in existing stores, we continue to replace older, less efficient lighting with newer, more environmentally friendly technology. During the year, PEPCO replaced old lighting systems in 642 stores and thanks to this change it reduced CO₂ emissions by approximately 8,130 tCO₂ in one year. LED lighting is now in 94% of PEPCO stores.

Poundland has also been replacing inefficient open-fronted chiller units with full glass door alternatives. So far, it has seen a 70% reduction in the amount of energy required to run the new refrigeration units.

Fuel consumption and emissions from distribution are limited by efficient logistics and planning. In Poundland, vehicle utilisation is maximised by targeting collections direct from suppliers on return legs from store deliveries. Poundland has invested in double decker trailers which allow more goods to be moved with less trips and has already seen a reduction of c. 15,000 miles travelled per week by its distribution fleet. It is also looking at more environmentally friendly fuels to power its fleet from 2022. In addition, Poundland's company car fleet is now hybrid or fully electric.

All of our plastic carrier bags sold in PEPCO stores are "EcoLoop" bags, which are made from recycled plastic waste and contain at least 85% recycled material. They are certified "Blue Angel" eco-friendly bags, meaning they are contributing to a reduction in CO₂ emissions of up to 40% compared to bags made using fossil fuels. In FY21, PEPCO introduced reusable cotton bags in selected markets, encouraging customers to use the same bag multiple times. It plans to expand the reusable bag offering to all markets.

Social

Our stakeholders and the wider public expect us to operate in a responsible manner and to be a positive force for good in our local communities. We are committed to contributing to the communities in which we serve; for example, we provide clean and safe stores, we provide value for the "mum on a budget", we foster an ethical supply chain, we look after our workforce and we give back to our local communities.

Exceptional Employer

Our colleagues rely on us to provide stable employment and opportunities to realise their potential in a working environment where they can perform at their best. We work hard and aspire for each of our businesses to be a great place to work, to grow a career and to work alongside supportive colleagues.

Employee engagement

We prioritise workplace engagement in our businesses and seek to provide a positive workplace experience and environment where our employees can excel and have equal access to professional and personal development opportunities.

In a survey by Forbes Poland in collaboration with Statista, PEPCO was ranked as the best employer in the "Clothing, accessories and home appliances" category and ranked fourth overall in Poland. The survey through which these rankings were established covered topics such as company atmosphere, relations between employees and management, working conditions, and an assessment of how the company dealt with the reorganisation of work due to the pandemic.

A range of communication mediums are employed across our businesses to keep our colleagues up to date and engaged, for example communication boards, emails, online newsletters, social media platforms, team meetings, company updates and TV productions. We also get feedback from our colleagues through surveys. Poundland's survey in April 2021 had over 10,000 colleagues take part which is an engagement of 73%.

Diversity, inclusion, and wellbeing

We are committed to cultivating a workforce that reflects the diversity of the communities and customers that it serves. We strive to diversify our workforce both through recruitment and through active talent management and development of our existing workforce. We do not tolerate any discrimination based on ethnicity, religion, disability, gender or sexual orientation.

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

PEPCO has a zero-tolerance policy towards discrimination based on ethnicity, religion, gender or sexual orientation. Through its "Difficult Case" reporting procedure, PEPCO ensures that all employees are not only aware of the company's values of respect, team spirit, love the customer, simplicity and growth but also that their daily work is based on these values. The procedure makes it easier for employees to report possible violations of company values, unfair treatment, discrimination, harassment, sexual harassment or bullying.

We are working towards understanding the extent of the gender pay gap across our businesses and the actions needed to eliminate any pay gaps. We are also working towards satisfying the WSE Code provision for presenting the equal pay index.

Poundland partners with the Retail Trust to provide a comprehensive employee assistance programme to all colleagues. Mental Health UK (MHUK) is another partner that provides Poundland's workforce with access to mental health resources and training to managers. This partnership with MHUK is supported through trained Mental Health Champions within Poundland.

In FY21 PEPCO partnered with the National Disability Employer Database and implemented new procedures that support the recruitment of people with disabilities in Poland, which is its biggest market.

Developing our colleagues

We are committed to training and retaining our colleagues through learning and development programmes, the right remuneration and open and honest feedback. We have many talented and committed colleagues across our workforce and where possible we seek to promote internally. In FY21, we promoted over 2,000 of our people within our businesses.

As an example, PEPCO's efforts to support professional and personal development has resulted in 92% of store manager appointments coming from internal promotions across all markets. In Poland this was 99% and for Croatia and Slovenia was 100%.

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

As an example, PEPCO developed a new employee strategy, "Growing our People", which focuses on leadership development, creating development opportunities and supporting talent. As part of the strategy, a new leadership framework and values were agreed. In the coming months, the new leadership development programme, value activation programme and recognition programmes will be implemented. Also, a new performance and development process will be conducted for all employees.

Poundland introduced an apprenticeship programme and a senior leadership programme to provide training for colleagues that wish to progress to new roles within the organisation. As at 30 September 2021, Poundland had 213 colleagues on an apprenticeship programme with another 138 scheduled to start.

Strong Society

Our central mission is to offer value to families on a budget. That means that we are at the forefront of lowering the cost of living in our local communities, providing items that people buy week in, week out for their homes and families at an affordable price point. Understanding the needs of our customers informs every aspect of our business.

While that is our core mission, we must also contribute to a "Strong Society" through positively impacting the communities where we trade by providing our local communities and customers with affordable sustainable products and charitable support.

We are proud that our businesses make a real difference to the customers we serve and the communities in which we trade in many other ways and without fanfare. Our businesses are empowered to partner with local charities to provide direct support to their local communities.

In FY21, we have supported over 80,000 people in our communities across the Group.

Supporting charitable and community projects

For PEPCO, children are the priority in its social initiatives: organising their leisure time, development and education and equalising their life chances. The company works with charity organisations across Europe, creating its own outreach programmes and getting involved in volunteering. In each of the countries in which PEPCO operates, we undertake a variety of initiatives aimed at children.

In FY21, PEPCO successfully passed the due diligence process and obtained the status of an international partner of SOS Children's Villages. The partnership covers eleven markets where, together with local branches of the NGO, it supports children by getting involved in activities aimed at improving the quality of their free time, focusing on their development, strengthening their skills and competencies, and increasing their interest in art, culture and sport. Through charitable support in FY21, it managed to reach 60,000 disadvantaged children and young people.

This year, Poundland proudly launched its own charity, the Poundland Foundation. The Foundation brings together all of Poundland's charitable activity, including generous donations from customers, inspirational fundraising by colleagues and support from suppliers. It demonstrates Poundland's commitment to the communities it serves.

The Foundation builds on the existing partnerships with Make A Wish UK, Tommy's and Whizz Kidz and also develops Poundland's support of local communities across the UK. Alongside the national charity partnership, the Foundation awarded grants to community organisations close to Poundland stores. The first grant window focused on Kits 4 Kids, providing support to 150 sports clubs and organisations which help young people to stay active and enjoy the activities they love. Poundland also continued to provide reactive support to address local requirements at store level via the Buy One Give One scheme. Products were donated to local charities including food banks, care homes and hospitals.

Pepco Group sponsors the School of Hope in Bangladesh and India, with the help and supervision of PGS. The School of Hope is an organisation operated by Hope Worldwide. Through this partnership 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 as the Shanghai and Huangpu District Charity Foundations.

Our customers

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

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

In FY21, PEPCO once again received the Service Quality Star from the Polish Service Quality Programme. This award is given to companies in Poland for high-quality customer service. The Polish Service Quality Programme uses independent data to examine the level of consumer satisfaction throughout the year and this research clearly shows that PEPCO's customers recognise it as a friendly and trustworthy brand.

Valued Supply Chains

We strive to act responsibly and expect the same from all our associates and business partners. We continue to work with our "Valued Supply Chains" and strive to be a positive influence on them through engagement and auditing.

The scale and sourcing advantage afforded to the Group by our low-cost direct sourcing model is a key area of competitive advantage to the Group, and our competitive advantage can only be achieved through strong relationships with our suppliers. The Group's own vertically integrated sourcing business, PGS, is responsible for over 75% of the general merchandise and apparel items that we offer in our stores.

The Group has strong policies in place to protect to protect the integrity of our supply chain. We regularly engage with our suppliers and conduct audits. The Group operates a Supplier Code of Conduct for its supply chain and factories. All active factories are audited at least once per year by Pepco Group Compliance in accordance with local law and our Code of Conduct. In FY21, we conducted 1,574 factory audits with a pass rate of 78%. When a factory fails an audit, it is given a corrective action plan (CAP). When the factory provides sufficient evidence that CAP has been delivered, Pepco Group Compliance then performs a re-audit.

The Supplier Code of Conduct ensures colleagues in factories are treated fairly and lays out our position on bribery, transparency and unauthorised subcontracting. It is aligned with the Ethical Trading Initiative Base Code, an internationally recognised set of labour standards based on International Labour Organisation conventions.

STRATEGIC REPORT

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

We operate a zero-tolerance policy in relation to:

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

We work hand in hand with key suppliers and develop them as trusted and long-term partners. We also have a support programme with selected strategic suppliers to share skills and expertise on factory efficiency and end-to-end sourcing initiatives. Our PEPCO business works with key strategic suppliers to build long-term partnerships through which the supplier enters a joint business plan with PEPCO, providing the supplier with a secure foundation to grow with it. Poundland meets 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.

Poundland and PEPCO are members of Sedex, the world's largest collaborative platform for sharing responsible sourcing data on supply chains across its members. This enables us to make the right supplier choices and facilitates transparency amongst our retail peers. The overwhelming majority of FMCG products on sale in Poundland and Dealz are sourced from leading global suppliers such as Nestlé, Unilever and Procter & Gamble. These companies have established, robust and audited sourcing policies that allow customers to buy their brands with confidence.

Anti-bribery and anti-corruption

We are committed to high standards of ethics, honesty, and integrity. Our Anti-Bribery and Corruption Policy sets out the standards of conduct which we expect of our workforce and our business partners. The policy includes our procedure regarding hospitality and the giving and receiving of gifts, political donations, and the mechanisms through which our workforce can report concerns relating to misconduct, including confidential reporting. We will consider taking disciplinary action against anyone who fails to comply with the standards of behaviour set out in our anti-bribery and corruption policy, up to and including dismissal.

GOVERNANCE

Contents

| | |
|----|--------------------------------------|
| 42 | Introduction |
| 43 | Board of Directors |
| 49 | Audit Committee |
| 53 | Remuneration Committee |
| 56 | Nomination Committee |
| 58 | Board and Committee Attendance |
| 61 | Deviation from the DCGC and WSE Code |
| 63 | Directors' Report |
| 65 | Remuneration Report |



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).

As the Company was newly incorporated during the reporting period, certain information included in this report applies from the date of the Company's incorporation, rather than from commencement of the financial year.

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 Unit B, 120 Weston Street, London SE1 4GS.

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 WSE Code) and to the extent possible given that the Company is newly incorporated and the Board newly constituted during the reporting period, the Dutch Corporate Governance Code (DCGC).

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

BOARD OF DIRECTORS

General

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

The Board consists of ten members: two Executive Directors and eight Non-Executive Directors.

Five of the Non-Executive Directors, including the Chair, are considered to be independent in accordance with best practice provisions of the WSE Code and the DCGC. 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.

As the Company was incorporated and listed on the WSE during the reporting period, all members of the Board were newly appointed during the reporting period and are serving their initial terms on the Board.

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. 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.

Board members are appointed for an initial period of three years and may then be reappointed for two subsequent three-year terms.

The general meeting of shareholders can dismiss members of the Board upon a majority of two-thirds of the votes cast representing more than half of the Company's issued share capital.

The Chair of the Board is 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*), the Board has adopted a diversity policy committed to achieving at least 30% female representation. The Board currently consists of ten members, seven male (70%) and three female (30%).

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 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.

Biographies

Committee key

| | |
|----------|------------------------|
| | Committee Chair |
| A | Audit Committee |
| R | Remuneration Committee |
| N | Nomination Committee |

Richard Burrows

Independent Chair

Irish, Male, 75

(appointed 24 May 2021)

N

Richard's executive career was principally in the drinks industry where he was, successively, chief executive of Irish Distillers, 1978 to 2000, and co-chief executive of Pernod Ricard, 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.

Andy Bond

Chief Executive Officer

British, Male, 56

(appointed 4 May 2021)

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

Nick Wharton

Chief Financial Officer

British, Male, 55

(appointed 4 May 2021)

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

Pierre Bouchut**Independent Non-Executive Director****French, Male, 66***(appointed 24 May 2021)*

Pierre is the former chief executive officer of Casino, the French multi-national grocery group, and has extensive international experience in both senior executive and non-executive roles within finance, European retail 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 a non-executive director and chairman of the audit committee at Firmenich; independent director and chairman of the audit committee at Entain (formerly GVC Holdings); a director and chairman of the audit, accounts and risks committee of Albioma; and non-executive director of GeoPost.

María Fernanda Mejía**Independent Non-Executive Director****American, Female, 58***(appointed 24 May 2021)*

María Fernanda has deep experience and expertise in general management including strategy development, operations, supply chain and talent development. 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. María Fernanda is also a non-executive director of Bunzl, where she is a member of the audit, remuneration and nomination committees. In addition, she joined Grocery Outlet, a US discount retailer, in January 2021 as a non-executive director and member of the audit committee.

Brendan Connolly**Independent Non-Executive Director****British, Male, 65***(appointed 24 May 2021)*

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.

Grazyna Piotrowska-Oliwa**Independent Non-Executive Director****Polish, Female, 52***(appointed 24 May 2021)*

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 for Telekomunikacja Polska and PTK Centertel (now Orange Polska), PZU (on the supervisory board), PKN Orlen and PGNiG. Most recently, Grazyna was chief executive officer and president of the management board of Virgin Mobile Poland for five years, following a period advising private companies and private equity funds.

Neil Brown**Non-Executive Director****British, Male, 62***(appointed 17 February 2021)*

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, Islandsbanki and Pepco Group Limited. 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, 49***(appointed 4 May 2021)*

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, 72***(appointed 4 May 2021)*

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.

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.

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.

GOVERNANCE

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

Strategy and operational

- Considered operational and business performance in the context of the Company's long-term strategy, including recovery from disruptions caused by Covid-19 trading restrictions
- Considered, reviewed and approved revisions to the Pepco Group's five-year strategic plan
- Reviewed new store openings and entry into new territories
- Review of store footprints
- Considered optimisation of supply chain and logistics, including inflationary pressures
- Considered e-commerce options
- Monitored the implementation of a new ERP system within the Pepco Group
- Considered investor feedback
- Considered the establishment of a supply chain finance facility
- Reviewed the content of the Company's external announcements

Financial performance

- Reviewed financial performance and forecasts
- Considered and approved the FY22 budget
- Took guidance from the Audit Committee regarding the impact of changes to IAS 38 on the Company's 2021 financial accounts

Governance

- Appointed the Chair of the Board and Chairs of the Board Committees and constitution of the Board Committees
 - Approved of the terms of reference for the Board Committees
 - Approved Directors' external appointments
 - Considered the application of the WSE Code and DCGC governance requirements, including additional reporting requirements
 - Considered the effectiveness of the Pepco Group's overall risk management framework and controls
 - Ratified taxation, anti-bribery and corruption and whistleblowing policies and approved insider dealing policy and sanctions policy
 - Approved a policy for approval of Directors' expenses
-

Remuneration

In line with the Remuneration Policy of the Company, the remuneration of members of the Board is determined by the Board, upon recommendation of the Nomination 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 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.

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 FY21, the Group worked with EY to develop a Group risk management framework and update the Group risk register and will focus on key control effectiveness and delivering targeted Group assurance activities in FY22.

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 policies 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 33.

Board Committees

The Board has three 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 and the Remuneration Committee were independent within the meaning of the applicable best practice provisions of the WSE Code and DCGC.

Since IPO, in order to operate more efficiently, the membership of the Audit Committee and Nominations Committee has been reviewed and modified. Membership of the Audit Committee has been reduced from six members to five members, with Grazyna Piotrowska-Oliwa leaving the committee. Membership of the Nominations Committee has been reduced from four members to three members, with Paul Soldatos leaving the committee.

AUDIT COMMITTEE



Pierre Bouchut
Audit Committee Chair

Dear Shareholders,

As Chair of the Audit Committee, I am pleased to present the Committee's report for the year ended 30 September 2021, summarising the ongoing responsibilities and objectives of the Committee and the work that has been carried out during FY21.

Introduction

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

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

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

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, Pierre Bouchut, 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 DCGC. Helen Lee Bouygues and Neil Brown are Non-Executive Directors who are not considered to be independent. All members of the Audit Committee were appointed during FY21.

The Audit 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 Audit 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 Finance Director and the Group Director of Treasury, Tax and Risk 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 meets with the Group CFO. The Audit 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 will meet separately with the external auditors without management being present.

Responsibilities

The responsibilities of the Audit Committee, as delegated by the Board, are set out in its terms of reference and include the following:

- i) 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;
- ii) providing oversight of the Group's internal control and risk management systems and considering reports on their effectiveness from the Group CFO;
- iii) 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;
- iv) monitoring the scope of work, quality, effectiveness and independence of the external auditors and recommending to the Board their appointment, reappointment and fees; and
- v) reviewing the engagement of the external auditors to ensure that the provision of non-audit services by the external audit firm is in accordance with the Group's policy which seeks to ensure that their independence is not impaired.

Committee activities in FY21

In discharging its oversight of the responsibilities summarised above, the Committee was assisted by management, the Company Secretary and the external auditors.

The Committee considered the following matters during the year:

- i) consideration of the FY21 Annual Report and consolidated financial statements of the Group;
- ii) consideration of significant areas of accounting estimation or judgement, including items of income or expenditure classified as non-underlying, and the application of IAS 38 relating to software-as-a-service costs;
- iii) consideration of the significant risks included in the Annual Report, the Group's risk appetite and the Group's risk register;
- iv) approval of the external auditors' terms of engagement, audit plan and fees;
- v) consideration of the going concern statements;
- vi) review of the approach to and conclusions from impairment testing of goodwill and other assets within the Group;
- vii) review of the approach, status and external audit procedures relating to the cutover of Poundland entities to the new ERP system;
- viii) consideration of the accounting treatment and accounting framework to be applied to the new listing entity, Pepco Group N.V.;
- ix) consideration of the accounting treatment associated with the acquisition of the Fultons frozen food business (Viewtone Trading Group Limited);
- x) review of the status and provisions regarding any material litigation against the Group;
- xi) consideration of the Group's internal control environment;
- xii) review of the Group's ongoing response to the growing exposure to information security (including cyber) risks;
- xiii) within a broader consideration of treasury management, review of the appropriateness and execution of the Group's foreign currency hedging policy; and
- xiv) continuing to monitor the implementation of IFRS 16 with regard to leases.

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 and stakeholders.

The Board reviewed the Group's compliance procedures and the application of policies relating to insider trading and sanctions.

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

Internal control and risk management

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

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

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

- i) the risks and the impact they may have;
- ii) actions to mitigate risks; and
- iii) ownership of risks.

A description of the principal risks is set out on pages 26 to 33.

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 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.

Reviewing the Annual Report and Consolidated Financial Statements

The Committee reviewed, prior to publication, this Annual Report and Consolidated Financial Statements, the Interim Financial Statements and the Independent auditors' report. In particular, it considered the following:

- i) the accounting principles, policies and practices adopted and the adequacy of related disclosures in the reports;
- ii) the significant accounting issues, estimates and judgements of management in relation to financial reporting;
- iii) whether any significant adjustments were required as a result of the audit;
- iv) compliance with statutory tax obligations;
- v) 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
- vi) 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

GOVERNANCE

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.

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, is fair, balanced and understandable and whether it provides the necessary information to shareholders to assess the Group's position, performance, business model and strategy.

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

External auditors

Mazars LLP have been the auditor of the group headed by Pepco Group Ltd since 2019. As part of the IPO process Mazars Accountants NV were appointed as the auditor of Pepco Group NV and have therefore become the Group's independent auditor for the financial year ended 30 September 2021. The partner responsible for the group audit opinion is Nathalie Habers..

Supervision of the external auditors

The Committee oversees the external auditors by reviewing, challenging and approving the audit plan and ensuring that it is consistent with the scope of the audit engagement. During the review of the audit plan, the Committee discussed and agreed the financial statement risk areas identified by the auditors that required additional audit emphasis and discussed and challenged the auditors' assessment of materiality including the de minimis level for reporting unadjusted differences. The Committee also held an independent meeting with the Group auditors, without attendance of management.

The Independent auditors' report on pages 135 to 139 provides a full explanation of the scope of the audit, concept of materiality and key accounting and reporting judgements.

Independence of the external auditors

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

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

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 2021 for non-audit services.

Auditors' reappointment

On recommendation of the Committee, the Directors will be proposing the reappointment of Mazars at the AGM in January 2022.

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



Brendan Connolly
Remuneration Committee Chair

Dear Shareholders,

I would like to thank our shareholders for their support in 2021, during and post IPO. Our existing Remuneration Policy was originally approved just prior to the Company's listing on the WSE and is still current. No changes have been proposed or made during this reporting period. We will present this Policy for approval within the next three years, by the 2024 AGM.

As a Dutch company listed on the WSE we have various reporting requirements and have chosen to supplement these with additional information in the interests of transparency. This letter and the Remuneration report on pages 65 to 74 will also be presented for approval by an advisory vote 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 Pepco Group's vision and strategy, and to ensure that rewards are performance based, encourage long-term shareholder value creation and take account of 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 DCGC. 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 FY21

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

- reviewed remuneration for the Executive Directors and Company Secretary;
- approved new service contracts for the Executive Directors;
- reviewed performance against FY21 bonus targets for the Executive Directors and Company Secretary;
- approved performance targets for 2022 bonus plan for the Executive Directors and Company Secretary;
- approved certain amendments to the terms of reference to ensure alignment with the DGCG;
- approved remuneration package for Group Chief Operating Officer;
- approved principal terms of redundancy package for Divisional Managing Director, Poundland and Dealz;
- considered framework and rules for new Group Long Term Incentive Plan, for approval at the FY21 AGM;
- reviewed Non-Executive Director salaries for 2022;
- 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 2021 under the Value Creation Plan.

Remuneration outcomes in FY21

Base salaries

Our Executive Directors, being the Chief Executive Officer and Chief Financial Officer, are based in the UK and have been awarded an increase in their salaries of 2.5%, in line with the average increase awarded to our UK employee population.

The Chief Executive Officer's current base salary remains below the lower quartile compared to his peers. It should also be noted that any pension contributions made to the Executive Directors are included in their base salaries.

Variable pay outcomes

Bonus plan: 88.8% of maximum opportunity achieved.

The bonus plan for FY21 consisted of a single financial goal of €392m of underlying EBITDA (pre-IFRS 16 adjustments) with a maximum opportunity of 80% of base salary. 88.8% of the goal was achieved with an award of 71.0% of base salary.

For 2022 the bonus opportunity will be increased within the Remuneration Policy to 100% of salary for both the CEO and CFO. The bonus opportunity had been 80% of salary before the IPO and it was not felt appropriate to make a change mid-way through the year. Given the size and complexity of the Pepco Group, the Committee felt that an opportunity of 100% of salary and more balanced and challenging performance metrics would be better suited to the post-IPO listed environment and will apply with effect from the 2022 bonus. The 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.

Long-term incentive plans

Participation rights were awarded under the Value Creation Plan (VCP) to the CEO and Group CFO in 2020 and fully disclosed in the Listing Prospectus. No further participation rights have been awarded or are anticipated to be awarded to either individual under the VCP. Further details on how the VCP operates are included on page 72.

The number of shares to be awarded to participants in the VCP was not determined during the reporting period. This information will be included in the 2022 Annual Report. The amount of nil-cost options awarded if the relevant hurdles have been exceeded must be held for three years prior to vesting and are subject to a cap post vesting period.

No changes in the VCP are proposed for 2022.

GOVERNANCE

Bonus outcomes were approved at a Committee meeting following the FY21 year end, together with a proposal to establish a new Long Term Incentive Plan (LTIP) at the FY21 AGM. The new LTIP will not operate for the CEO and Group CFO until 1 April 2024 at the earliest, due to the operation of the VCP, but will provide flexibility to appropriately incentivise other members of the senior management team. It will form a part of the Directors' Remuneration Policy if approved at the FY21 AGM.

Chair and Non-Executive Director Fees

As the current Board was only constituted in May 2021, no changes are proposed to the level of fees paid to Board members in 2022.

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.

The Committee is of the view that the remuneration outcomes are fair in terms of alignment to the stakeholder experience and therefore no discretion was applied by the Committee.

Conclusion

After due consideration and debate, we believe the remuneration outcomes to be fair in terms of alignment to the stakeholder experience and 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 2022.

Brendan Connolly

Remuneration Committee Chair

NOMINATION COMMITTEE REPORT



Richard Burrows
Nomination Committee Chair

Dear Shareholders,

On behalf of the Board, I am pleased to present the Nomination Committee report for the period ended 30 September 2021.

The key purpose of the Nomination Committee is to advise the Board on the selection and appointment of Directors. 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 three members, each of whom is a Non-Executive Director of the Company. Two members constitutes a quorum. I, Richard Burrows, 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 DCGC. 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 Nomination Committee meets at least twice each year and its main duties are as follows:

- to assist the Board with the selection criteria and appointment procedures for Board members;
- to review the structure, size and composition of the Board and 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 FY21

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

- considered the restructure of the Pepco Group senior leadership team to optimise delivery of the Company's strategy;
- agreed on the process through which the Board, Board Committees and Board members would be evaluated for the reporting period; and
- agreed on the Board gender target and Board diversity policy.

Board profile

The Company has prepared a profile of the Board, which indicates the size and composition of the Board and the relevant activities, expertise and background of each Board member.

The composition of the Board is such that the combined experience, expertise and independence of its members meet its profile and enable the Board to effectively carry out its duties. 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 and Committee evaluation

At least once each year, the Board performs a functional evaluation of the Board as a whole, each Board Committee and each individual Board member. This year the evaluation of the Board, its Committees and Board members was undertaken by the Chair, who sought feedback directly from all Board members and the Company Secretary through a series of one-to-one virtual meetings.

I would like to take this opportunity to recognise and thank all colleagues for their valuable contributions during the year.

Richard Burrows

Nomination Committee Chair

BOARD AND COMMITTEE ATTENDANCE

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

The Board held five Board meetings during the 2020/21 financial year. The Board has predominantly attended Board meetings by video conference due to Covid-19 travel restrictions.

Attendance at Board and Committee meetings was as follows:

| Directors | Board (5) | Audit Committee (2) | Remuneration Committee (1) | Nomination Committee (3) |
|--------------------------|-----------|---------------------|----------------------------|--------------------------|
| Richard Burrows (Chair) | 4 | N/A | N/A | 3 |
| Neil Brown | 5 | 2 | 1 | N/A |
| Andy Bond | 4 | N/A | N/A | N/A |
| Nick Wharton | 3 | N/A | N/A | N/A |
| H. Helen Lee Bouygues | 3 | 2 | N/A | 3 |
| Paul Soldatos | 4 | N/A | 1 | N/A |
| Pierre Bouchut | 4 | 2 | N/A | N/A |
| Brendan Connolly | 4 | 2 | 1 | N/A |
| María Fernanda Mejía | 3 | 2 | N/A | 3 |
| Grazyna Piotrowska-Oliwa | 4 | 1 | 1 | N/A |
| Sandip Mahajan | 1 | N/A | N/A | N/A |

All Directors were appointed during the reporting period. Sandip Mahajan and Neil Brown were appointed as Directors upon incorporation of the Company and attended one Board meeting prior to any other Director appointments. Sandip Mahajan resigned as a Director on 4 May 2021.

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. As the Company was newly incorporated during the reporting period, the first AGM will be held by the Company in January 2022.

The Articles provide that the agenda for the AGM shall be as follows:

- advisory vote in respect of the Remuneration report;
- discussion of the Annual Report;
- discussion and adoption of the annual accounts;
- discharge of the Board members from their liability;
- designation of the Board as competent to issue shares
- 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 575,000,000. 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 predetermined record date are entitled to attend and vote at the AGM. The record date for the AGM of 27 January 2022 is 28 days before the AGM, i.e. on 30 December 2021.

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:

| | Shares | Percentage |
|--|-------------|------------|
| Total free float on WSE | 115,558,251 | 20.10 |
| Management shareholders | 5,869,483 | 1.02 |
| IBEX Retail Investments (Europe) Limited | 453,572,266 | 78.88 |
| Total | 575,000,000 | 100 |

78.88% of the Company's issued share capital is ultimately owned by Steinhoff International Holdings N.V. (SIHNV), with 1.02% owned by certain members of the Company's management team and the remaining 20.10% 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 DCGC.

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. 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 their 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.

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) issue shares. 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.

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

Company lock-up

Pursuant to the Underwriting Agreement agreed during the IPO process, the Company agreed that until 22 November 2021, it will not, without the prior written consent of the joint global co-ordinators (such consent not to be unreasonably withheld or delayed), directly or indirectly, offer, issue, allot, lend, mortgage, assign, charge, pledge, sell, or contract to sell or issue, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

Management Selling Shareholder lock-up

Each of Andy Bond, Mark Elliott and Sean Cardinaal (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.

Principal Selling Shareholder lock-up

Pursuant to the Underwriting Agreement, IBEX Retail Investments (Europe) Limited (IBEX) agreed that from 5 May 2021 until 22 November 2021, it will not, without the prior written consent of the joint global co-ordinators (such consent not to be unreasonably withheld or delayed), 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 (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, 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.

Cornerstone lender lock-up

Pursuant to agreements entered into on 4 May 2021 between (i) each cornerstone lender and (ii) the Company, Pepco Group Limited and IBEX, each of the cornerstone lenders has agreed that from the date of each agreement until 22 November 2021, it will not, without the prior written consent of each of the Company (unless IBEX has received a consent as described above) and the joint global co-ordinators (such consent not to be unreasonably withheld, conditioned or delayed), offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing, such lock-up restrictions being subject to certain customary exceptions.

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 and complies with the Dutch Corporate Governance Code (DCGC) 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 WSE Code are similar to the principles of the DCGC, the Company complies with a majority of the principles and best practice provisions of the DCGC.

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

| | |
|---|--|
| 2.1.7 Independence of the supervisory board | <p>The Company operates a one tier Board which complies with principles 2.1.7(i) and (ii).</p> <p>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.</p> <p>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.</p> |
| 2.2.2 Appointment and reappointment periods – supervisory board members | <p>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.</p> |
| 2.2.4 Succession | <p>Due to the recent establishment of the Company and its Board, with all members of the Board having been appointed during the current year, it is deemed too early to determine the retirement schedule for the Board. This subject will be evaluated again next year.</p> |
| 2.3.6 Chairman of the supervisory board | <p>The Company operates a one tier Board and therefore the requirements of this principle relating to interactions between supervisory and management boards do not apply.</p> <p>The Company applies the WSE Code and a vice-chair is not a requirement under the WSE Code. The Board has determined that it is not necessary at the current time to appoint a vice-chair.</p> <p>The Company complies with all other elements of this principle.</p> |
| 2.3.7 Vice-chairman of the supervisory board | <p>The Company applies the WSE Code and a vice-chair is not a requirement under the WSE Code. The Board has determined that it is not necessary at the current time to appoint a vice-chair.</p> |
| 2.5.2 Code of Conduct | <p>The Company does not currently have a 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 will evaluate on an ongoing basis whether there is a need to establish a formal Code of Conduct.</p> |
| 2.5.4 Accountability regarding culture | <p>The Company does not currently have a 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 will evaluate on an ongoing basis whether there is a need to establish a formal Code of Conduct.</p> |
| 3.3.2 Remuneration of supervisory board members | <p>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 Brown, 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).</p> <p>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.</p> |

GOVERNANCE

| | |
|---|---|
| 4.2.6 Outline of anti-takeover measures | The Company has no anti-takeover measures. |
| The Company currently does not apply the following provisions of the WSE Code: | |
| 1.3.1 Integration of ESG factors into business strategy | <p>The Company is committed to taking a responsible approach to environmental matters and examples of specific environmental and sustainable development initiatives can be found on pages 36 and 37 of the Annual Report.</p> <p>The Company is in the process of articulating its ESG strategy and defining targets which are consistent with the Company's values. Once completed, the Company's ESG strategy will be integrated into the Company's overall strategy.</p> |
| 1.4.1 integration of climate change into decision-making processes | The Company has adopted a framework for ensuring responsible business practices, a key segment of which relates to carbon emissions. The Company reports metrics relating to emissions through a strategy delivery group made up of managers from the PEPCO, Poundland Dealz and PGS businesses. We will progressively drive environmental considerations into operational and strategic decision making. |
| 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. |
| 1.5 and 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 Company does not currently report such expenses but plans to do so in the next financial year. |
| 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. |
| 3.6 Head of internal audit reporting line | The Senior Internal Auditor reports organisationally to the Group CFO, who is an Executive Director of the Company. The Senior Internal Auditor attends the meetings of the Company's Audit Committee. |
| 3.7 Group remuneration for risk, compliance and internal audit roles | <p>The remuneration of employees who work in risk and compliance roles and internal audit roles across the Company's 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.</p> <p>The risk, compliance and internal audit functions of businesses within the Company's 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.</p> |
| 6.3 Company incentive schemes | <p>The Company established an incentive scheme (the Value Creation Plan) for senior management of the Company's group in March 2020, which was twelve months prior to the Company's admission to the WSE.</p> <p>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.</p> <p>The Value Creation Plan is a one-off share incentive scheme which will end in FY24.</p> |

DIRECTORS' REPORT

The Board presents its report, together with the audited accounts for the year ended 30 September 2021.

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 5 to 40 contains certain information required to be included within this Directors' report. This relates to employee matters, future developments, risk management and how the Board considers the views of stakeholders.

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

Financial instruments

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

Share capital and major shareholders

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 34.

Additional information

Political donations

No political donations were made and no political expenditure was incurred during the year (FY20: £Nil).

Dividends

No dividends were recommended or paid.

Significant post-balance sheet events

There are no post-balance sheet events to report for FY21.

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.

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 2021 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 the result of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended 30 September 2021 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at 30 September 2021 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended 30 September 2021, 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.

Andy Bond

Chief Executive Officer

13 December 2021

Nick Wharton

Chief Financial Officer

13 December 2021

REMUNERATION REPORT

Remuneration report

The following section provides details of how Board members were paid during the financial year to 30 September 2021.

The Remuneration Committee members, activities and meetings during the year are set out on pages 53 and 54, along with the Committee's purpose, roles and responsibilities and is thereby included in this part of the report by reference.

The Remuneration Committee took scenario analyses into account when setting and 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. As the FY21 Remuneration report is the first Remuneration report that is subject to an advisory vote since the listing of the Company on the WSE, there is no previous advisory vote of the general meeting of shareholders to take into account this 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. Korn Ferry provides advice to the Committee on matters relating to executive remuneration.

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

Single total figure table

The following table shows a single total figure of remuneration in respect of qualifying services for the financial year ended 30 September 2021. For the independent Non-Executive Directors, remuneration has been split between the period prior to admission of the Company to the WSE (being 26 May 2021) and the period after.

| Director | Salary/fees € FY21 | Taxable benefits € FY21 | Pension € FY21 | Bonus € FY21 | LTIP € FY21 | Other € FY21 | Total remuneration € FY21 | Total fixed remuneration € FY21 | Total variable remuneration € FY21 |
|---|--------------------------|----------------------------------|----------------------|--------------------|-------------------|--------------------|--|--|---|
| Executive Directors | | | | | | | | | |
| Andy Bond | 457,836 | 18,856 | – | 325,278 | – | – | 801,970 | 476,692 | 325,278 |
| Nick Wharton | 560,849 | 5,127 | – | 398,466 | – | – | 964,442 | 565,976 | 398,466 |
| Non-Executive Directors (post-IPO) | | | | | | | | | |
| Richard Burrows (Chair) | 173,743 | – | – | – | – | – | 173,743 | 173,743 | – |
| María Fernanda Mejía | 26,061 | – | – | – | – | – | 26,061 | 26,061 | – |
| Grazyna Piotrowska-Oliwa | 26,061 | – | – | – | – | – | 26,061 | 26,061 | – |
| Pierre Bouchut* | 32,577 | – | – | – | – | – | 32,577 | 32,577 | – |
| Brendan Connolly* | 32,577 | – | – | – | – | – | 32,577 | 32,577 | – |
| Neil Brown | – | – | – | – | – | – | – | – | – |
| Helen Lee Bouygues | – | – | – | – | – | – | – | – | – |
| Paul Soldatos | – | – | – | – | – | – | – | – | – |
| Non-Executive Directors (pre-IPO) | | | | | | | | | |
| Richard Burrows | – | – | – | – | – | 2,747,016 | 2,747,016 | – | 2,747,016 |
| María Fernanda Mejía | – | – | – | – | – | 412,052 | 412,052 | – | 412,052 |
| Grazyna Piotrowska-Oliwa | – | – | – | – | – | 343,377 | 343,377 | – | 343,377 |
| Pierre Bouchut | – | – | – | – | – | 429,221 | 429,221 | – | 429,221 |
| Brendan Connolly | – | – | – | – | – | 429,221 | 429,221 | – | 429,221 |
| Sandip Mahajan | – | – | – | – | – | – | – | – | – |

*Committee Chair.

GOVERNANCE

Notes to the table

- 1 The Company has not revised or clawed back the remuneration of any Directors in the year.
- 2 Salary/fees, taxable benefits and bonus are all short-term employee benefits. The non-executive directors were not employed during the pre-IPO period. The fee is therefore classified as Other and not as short-term employee benefits.
- 3 Executive Director pension provisions are included in the base salary. No separate pension payments are made.
- 4 No loans, advances or guarantees have been provided to any Director.
- 5 No long-term incentives vested during the year, so there was no impact from share price appreciation.
- 6 "Other" payments in the table above relate to:
 - (i) A one-off "IPO delay" fee paid in February 2021 to the independent Non-Executive Directors in consideration for the continuing uncertainty regarding the admission caused by the ongoing Covid-19 pandemic. A payment of £400k (c. €458k) was made to Richard Burrows, £60k (c. €69k) to María Fernanda Mejía, and £75k (c. €86k) to Pierre Bouchut and Brendan Connolly.
 - (ii) A one-off "pre-IPO" fee paid in early May 2021 which was subject to the admission taking place and under the following conditions: (a) the after-tax amount must be used to subscribe for shares in the Company at admission (at the admission offer price); (b) subject to any marketing or other terms required by the banks, they may be required to subscribe for additional shares using their own funds; and (c) any shares acquired on admission are subject to retention until the later of (A) the third anniversary of admission and (B) the first anniversary of the date on which the Non-Executive Director ceases his or her directorship of the Company. The pre-IPO fee of £2,000k (c. €2,292k) was paid to Richard Burrows, and £300k (c. €344k) to Pierre Bouchut, María Fernanda Mejía, Brendan Connolly and Grazyna Piotrowska-Oliwa.
- 7 Sandip Mahajan, Neil Brown, Helen Lee Bouygues and Paul Soldatos did not receive payment from Pepco Group N.V. for the financial year 2021. Sandip Mahajan resigned as a Director on 4 May 2021.

FY21 annual bonus performance against targets

The targets set for the FY21 annual bonus and performance against them are set out below. As discussed above, the bonus is based entirely on EBITDA with a maximum payout of 80% of base salary. The Committee considered the formulaic outcome and considered this to be appropriate in the year, so did not apply discretion to adjust the overall bonus payment.

The measures and payments earned by the CEO and CFO are as follows:

| Measure and weighting | Threshold | Target | Maximum | Actual performance | Payment ² | Actual bonus paid – CEO | Actual bonus paid – CFO |
|-----------------------|------------|-------------|--------------|--------------------|----------------------|-------------------------|-------------------------|
| | (0% vests) | (50% vests) | (100% vests) | – % of maximum | | | |
| EBITDA ¹ | €372.4m | €392.0m | €411.6m | €407.2m | 88.8% | €325,278 | €398,466 |

1 EBITDA for STIP purposes is on an underlying basis, pre-IFRS 16 and on budgeted FX rates.

2 Bonus will be paid in the December 2021 payroll.

Non-Executive Directors are not eligible for bonuses.

LTIP awards vesting in the financial year to 30 September 2021

There were no share awards where vesting was determined based on performance periods ending during the financial year to 30 September 2021. There are no loans, advances or guarantees outstanding by the Company.

LTIP awards granted during the financial year to 30 September 2021

No awards have been granted under the VCP or Equity Award Plan (EAP) during the financial year to 30 September 2021, nor were there any rights exercised during this period. No loans, advances or guarantees have been provided by the Company.

Directors' interests in Pepco Group

The table below details outstanding share awards previously granted to the CFO. No share awards have been granted to the CEO or the Non-Executive Directors. Presently, the CFO is the only Director to hold outstanding awards.

| | Scheme | Award date | Exercise price | Share price used | Share awards held at 26 May 2021 | Awarded during the year | Vested during the year | Share awards lapsed during the year | Share awards held at 30 Sep 2021 | Total share value at award € | Vesting date | Exercise period ¹ |
|--------------|-------------------|------------|----------------|------------------|----------------------------------|-------------------------|------------------------|-------------------------------------|----------------------------------|------------------------------|--------------|------------------------------|
| 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 |

Notes to the table:

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

Statement of Directors' shareholding and share interests

Under the share ownership guidelines set out in the Directors' 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. At 30 September 2021, the Executive Directors each held shares in the Company as detailed below. Shares are valued using the Company's closing middle market share price on 30 September 2021 of 51.0 PLN, the PLN/EUR exchange rate of 0.2204 and the GBP/EUR exchange rate of 1.1446.

The table below shows how each Executive Director complies with the shareholding guidelines at 30 September 2021:

| | Shares held at 30 September 2021 | Shares held by connected persons | Unvested and subject to a service and performance requirement | Shareholding requirement | Current shareholding % of salary | Requirement met |
|--------------------------------|----------------------------------|----------------------------------|---|--------------------------|----------------------------------|-----------------|
| Executive Directors | | | | | | |
| Andy Bond* | 3,745,301 | – | – | 300% of salary | 9,195% | Yes |
| Nick Wharton | – | – | 359,209 | 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 | – | – | – | – | – | – |
| Sandip Mahajan | – | – | – | – | – | – |

* Shares held by Andy Bond include shares held by investment vehicles.

There were no changes in the Directors' shareholdings and share interests between 30 September 2021 and the date of this report.

Directors' and employees' remuneration table

The information below is in respect of the financial year ended 30 September 2021 and is shown with the split between the period prior to admission of the Company to the WSE (being 26 May 2021) and the period after. Also shown is the prior year comparison.

| | Remuneration pre-IPO (1 October 2020 to 25 May 2021) € | Remuneration post-IPO (26 May 2021 to 30 September 2021) € | Total remuneration 2021 € | Total remuneration 2020 € |
|------------------------------------|--|---|--|------------------------------------|
| Executive Directors | | | | |
| Andy Bond (CEO) | 520,731 | 281,239 | 801,970 | 584,918 |
| Nick Wharton (CFO) | 626,227 | 338,215 | 964,442 | 697,906 |
| Non-Executive Directors | | | | |
| Richard Burrows (Chair) | 2,747,016 | 173,743 | 2,920,759 | - |
| María Fernanda Mejía (NED) | 412,052 | 26,061 | 438,113 | - |
| Grazyna Piotrowska-Oliwa (NED) | 343,377 | 26,061 | 369,348 | - |
| Pierre Bouchut (Committee Chair) | 429,221 | 32,577 | 461,798 | - |
| Brendan Connolly (Committee Chair) | 429,221 | 32,577 | 461,798 | - |
| Neil Brown (NED) | - | - | - | - |
| Helen Lee Bouygues (NED) | - | - | - | - |
| Paul Soldatos (NED) | - | - | - | - |
| Sandip Mahajan | - | - | - | - |

Change in Director and employee remuneration

The Company listed on the WSE on 26 May 2021; therefore there is no comparable remuneration to disclose for the prior year. Full disclosure of the percentage change from one year to the next for Director and employee remuneration, in line with regulations, will be provided in future Annual Reports.

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 CEO and CFO are paid in GBP (their base salaries being £400,000 and £490,000 respectively) and have remained at that level across the five-year history shown below, with no salary increases in that period.

| | FY17 € | FY18 € | FY19 € | FY20 € | FY21 € |
|--|-----------|-----------|-----------|-----------|-------------------|
| CEO ¹ total remuneration (A) | 876,755 | 562,179 | 775,484 | 584,918 | 801,970 |
| YoY % | n/a | -36% | 38% | -25% | 37% |
| Group CFO ^{1,3} total remuneration | n/a | n/a | 388,767 | 697,906 | 964,442 |
| YoY % | n/a | n/a | n/a | 80% | 38% |
| Average employee (FTE) total remuneration costs ² (B) | 18,818 | 19,411 | 18,094 | 17,986 | 20,640 |
| YoY % | n/a | 3% | -7% | -1% | 15% |
| Ratio (A) versus ratio (B) | 47:1 | 29:1 | 43:1 | 33:1 | 39:1 |

- 1 Remuneration of the CEO and Group 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 total employee costs across the Group divided by average number of employees on a "full time equivalent" basis by year.
- 3 The Group CFO joined the Group in May 2019; therefore the 2019 figure reflects a partial year only.

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 2021.

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

Payments to past Directors

There were no payments to past Directors in the financial year to 30 September 2021.

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 2021.

Implementation of Policy from 1 October 2021 to 30 September 2022

| Policy element | Andy Bond (CEO) | Nick Wharton (Group CFO) |
|--|--|---|
| Base salary from 1 October 2021 (2.5% increase) | £410,000 | £502,250 |
| Benefits | £13,500 car allowance, medical insurance and life and critical illness insurance | Medical insurance and life and critical illness insurance |
| Annual bonus (payable in cash following completion of the annual audit) | Up to 100% of salary split (i) 80% based on Company performance measured by an underlying EBITDA ² target and (ii) 20% based on strategic goals. Payout range is 0% for threshold, increasing to 50% for target and 100% for a stretch level of performance. | |
| VCP ¹ | Participation percentage is 2.5% (with the value of Founder Shares offset) | Participation percentage is 0.6% |
| Malus and clawback | Apply to the bonus and VCP | |
| Shareholding requirement whilst employed | 300% of salary | 200% of salary |

¹ There is no intention to make grants under the new LTIP if it is approved at the FY21 AGM.

² Underlying EBITDA is on a post IFRS16 basis and at budgeted FX rates.

Directors' Remuneration Policy

This Remuneration Policy remains unchanged from the Policy adopted by the Board at the general meeting on 20 May 2021. The Committee's intention is that the current Policy will operate for the three-year period to the AGM in 2024, unless approval for a new policy is sought sooner. This section contains a summary of the key aspects of the Policy.

Introduction

The Policy is designed to incentivise and reward long-term, sustainable growth of the Company, and meet the WSE Corporate Governance Code and best practice and the guidelines of institutional shareholders and advisory bodies. The Policy is compliant with the Dutch Civil Code and takes into account the rules provided in the WSE Corporate Governance Code applicable to Directors.

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:

GOVERNANCE

- 1) **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.
- 2) **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.
- 3) **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 Executives are freely able to dispose of their shares.
- 4) **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 Policy.
- 5) **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.
- 6) **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 a number of 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 Group 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 taken into account.

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 with another as described below.

Base salary

Base salaries will be determined taking into account 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 Executive Directors currently receive a consolidated salary payment that includes a cash alternative for certain benefits, including pension benefit at rates consistent with the wider applicable workforce. To the extent any new Executive Directors join the Board in the future, their pension contribution rate will be in line with the applicable workforce rate at that time. Any changes in the workforce pension arrangements may be reflected in Executive Director remuneration. In addition, the Executive Directors receive benefits which include family private health cover, life assurance cover and car allowance. Executive Directors will be eligible for the same benefits offered to the general workforce.

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 the CEO and Group CFO is up to 100% 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 PBT, 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 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 2024.

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.

The Group may implement a new LTIP or amend existing plans subject to shareholder approval in a future general meeting.

To the extent a new LTIP is implemented, awards will not be made to the current Executive Directors until 1 April 2024 at the earliest. Any awards made under a new 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.

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 reaching an IPO. The VCP gives the participants a participation right in the plan which is then converted to a nil-cost option over Pepco Group N.V. shares 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.

Offset of existing awards

Where participants have received Founder Shares previously, the amount that may pay out under the VCP will be reduced to offset the value received under the 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. Each participant has been allocated their own share of the upside above the hurdle out of the total pool of 6.90%. The CEO is currently in receipt of 2.5% and the CFO of 0.6%. 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. 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 3, 4 and 5 any award of nil-cost options will start to vest as follows:

- At the end of year 3, 50% of the banked awards of nil-cost options from years 1, 2 and 3 will vest (Tranche 1).
- At the end of year 4, 50% of the remaining banked awards of nil-cost options from years 1 to 4 will vest (Tranche 2).
- All remaining parts of the awards of nil-cost options will vest at the end of year 5 (Tranche 3).
- To the extent the 10% pa hurdle is not reached in year 3, but is in year 4, Tranches 1 and 2 will vest. Additionally, if the hurdle is not reached at the end of years 3 and 4, but is in year 5, Tranches 1, 2 and 3 will vest.
- To the extent the hurdle at year 5 is not met, any unvested awards of nil-cost options will lapse but the vested awards are retained.

In relation to the next measurement date in January 2022, the hurdle will have increased since the start of the VCP on 1 October 2019 (EUR 4.0bn) by 10% pa to EUR 4.84bn. Any additional value created above the EUR 4.84bn hurdle is to be shared with all of those in the VCP plan, including the Chief Executive Officer and the Chief Financial Officer based on their participation percentages. 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 EUR 4.0bn value and (ii) all of the previous year's actual 30-day average value.

Malus and clawback

Malus and clawback provisions apply to the awards.

Annual cap

Vesting is also subject to an annual cap of EUR 20m for the CEO and EUR 10m for the CFO and some other senior staff members.

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 on the basis of 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

GOVERNANCE

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.

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 a 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.

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

GOVERNANCE

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.

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 as a result of reimbursement of those expenses. Fees are reviewed periodically.

Neither the Chair of the Board nor the Non-Executive Directors will 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 2021 is approximately 59% for fixed pay and 41% 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 2021 as the VCP has not created any value for the Executive Directors as performance against the hurdles has not yet been determined.

FINANCIAL STATEMENTS

Contents

- 76 Financial Statements
- 135 Independent Auditors' Report



CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2021

| €000 | Note | Year to 30 September 2021 | Year to 30 September 2020 |
|---|-------------|---------------------------------|------------------------------|
| Continuing operations | | | |
| Revenue | 3 | 4,121,801 | 3,517,879 |
| Cost of sales | | (2,352,908) | (2,084,755) |
| Gross profit | | 1,768,893 | 1,433,124 |
| Distribution costs | | (1,123,960) | (1,052,987) |
| Administrative expenses | | (345,859) | (253,432) |
| Other operating income | | 4,480 | 5,363 |
| Other expenses | 4 | (21,119) | (12,060) |
| Operating profit from continuing operations | 5 | 282,435 | 120,008 |
| Financial income | 6 | 1,000 | 1,601 |
| Financial expense | 7 | (87,098) | (105,957) |
| Gain on disposal of subsidiary | | - | 1,995 |
| Profit before taxation from continuing operations for the period | | 196,337 | 17,647 |
| Taxation | 9 | (41,367) | (17,245) |
| Profit from continuing operations for the period | | 154,970 | 402 |
| Loss from discontinued operations | 26 | (173) | (939) |
| Profit/(loss) for the period (attributable to equity holders of the company) | | 154,797 | (537) |
| | Note | 2021 | 2020 |
| | | Euro Cents | Euro Cents |
| Basic earnings per share from continuing operations | 30 | 27.0 | 0.1 |
| Basic earnings per share | 30 | 26.9 | (0.1) |
| Diluted earnings per share from continuing operations | 30 | 26.8 | 0.1 |
| Diluted earnings per share | 30 | 26.7 | (0.1) |

The notes on pages 82 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for year ended 30 September 2021

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Profit/(loss) for the year | 154,797 | (537) |
| Other comprehensive income | | |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | |
| Foreign currency translation differences – foreign operations | 34,828 | (40,216) |
| Effective portion of changes in fair value of cash flow hedges | 58,077 | (7,488) |
| Net change in fair value of cash flow hedges reclassified to profit or loss | 5,028 | (6,865) |
| Deferred tax on items that are or may be reclassified subsequently to profit or loss | (10,797) | 1,423 |
| Other comprehensive income/(expense) for the period, net of income tax | 87,136 | (53,146) |
| Total comprehensive income/(expense) for the year | 241,933 | (53,683) |

The notes on pages 82 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2021

| | Note | 30 September 2021 €000 | 30 September 2020 €000 |
|--|------|------------------------------|------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 439,506 | 378,968 |
| Right of Use Asset | 12 | 957,343 | 806,854 |
| Goodwill and other intangible assets | 11 | 889,809 | 810,117 |
| Trade and other receivables | 14 | 3,043 | 3,200 |
| Derivative financial instruments | 17 | 1,589 | 1,488 |
| Deferred tax asset | 18 | 58,053 | 49,741 |
| | | 2,349,343 | 2,050,368 |
| Current assets | | | |
| Inventories | 13 | 597,121 | 566,676 |
| Tax receivable | | 3,572 | 3,043 |
| Trade and other receivables | 14 | 57,803 | 45,689 |
| Derivative financial instruments | 17 | 66,235 | 3,961 |
| Cash and cash equivalents | | 507,702 | 400,167 |
| | | 1,232,433 | 1,019,536 |
| Total assets | | 3,581,776 | 3,069,904 |
| Current liabilities | | | |
| Trade and other payables | 15 | 744,190 | 610,564 |
| Current tax liabilities | | 19,012 | 5,196 |
| Lease liabilities | 12 | 260,020 | 247,345 |
| Borrowings | 15 | 65,758 | 4,135 |
| Derivative financial instruments | 17 | 5,232 | 5,630 |
| Provisions | 19 | 19,692 | 9,854 |
| | | 1,113,904 | 882,724 |
| Non-current liabilities | | | |
| Other non-current liabilities | 16 | 5,408 | 16,809 |
| Lease liabilities | 12 | 839,298 | 671,517 |
| Borrowings | 16 | 545,034 | 706,066 |
| Derivative financial instruments | 17 | 216 | 969 |
| Provisions | 19 | 70,265 | 38,168 |
| | | 1,460,221 | 1,433,529 |
| Total liabilities | | 2,574,125 | 2,316,253 |
| Net assets | | 1,007,651 | 753,651 |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 20 | 5,750 | 5,705 |
| Share premium reserve | 20 | 13 | – |
| Cash flow hedge reserve | | 47,409 | (4,899) |
| Merger reserve | | (751) | (751) |
| Translation reserve | | (14,803) | (49,631) |
| Share based payment reserve | | 23,809 | 11,800 |
| Retained earnings | | 946,224 | 791,427 |
| Total shareholders' equity | | 1,007,651 | 753,651 |

The notes on pages 82 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2021

| | Share capital €000 | Share premium €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 | 5,705 | – | (4,899) | (49,631) | (751) | 11,800 | 791,427 | 753,651 |
| Total comprehensive income for the year | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 154,797 | 154,797 |
| Other comprehensive income for the year | – | – | 52,308 | 34,828 | – | – | – | 87,136 |
| Total comprehensive income for the year | – | – | 52,308 | 34,828 | – | – | 154,797 | 241,933 |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Shares issued during the period | 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 | 946,224 | 1,007,651 |

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

The notes on pages 82 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**for the year ended 30 September 2020**

| | Share capital | Share premium | Cash flow hedge reserve ¹ | Translation reserve ² | Merger reserve ³ | Share-based payment reserve ⁴ | Retained earnings ⁵ | Total equity |
|--|---------------|---------------|--------------------------------------|----------------------------------|-----------------------------|--|--------------------------------|----------------|
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Balance at 1 October 2019 | 5,705 | – | 8,031 | (9,415) | (751) | – | 792,524 | 796,094 |
| Total comprehensive income for the year | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (537) | (537) |
| Other comprehensive income for the year | – | – | (12,930) | (40,216) | – | – | – | (53,146) |
| Total comprehensive income for the year | – | – | (12,930) | (40,216) | – | – | (537) | (53,683) |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Equity settled share-based payments (see note 21) | – | – | – | – | – | 11,800 | – | 11,800 |
| Distributions ⁵ | – | – | – | – | – | – | (560) | (560) |
| Total contributions by and distributions to owners | – | – | – | – | – | 11,800 | (560) | 11,240 |
| Balance at 30 September 2020 | 5,705 | – | (4,899) | (49,631) | (751) | 11,800 | 791,427 | 753,651 |

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

The notes on pages 82 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2021

| | Note | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|---|-------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Profit/(loss) for the period: | | | |
| Continuing operations | | 154,970 | 402 |
| Discontinued operations | | (173) | (939) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 10,11 | 103,385 | 90,561 |
| Right of use asset amortisation | 12 | 222,136 | 199,832 |
| Financial income | 6 | (1,000) | (1,601) |
| Financial expense | 7 | 87,098 | 105,996 |
| Gain on sale of non-current assets | | – | (1,995) |
| Loss/(profit) on sale of property, plant and equipment | | 204 | (45) |
| Equity settled share-based payment expenses | 21 | 15,426 | 13,300 |
| Taxation | 9 | 41,367 | 17,245 |
| | | 623,413 | 422,756 |
| (Increase)/decrease in trade and other receivables | | (21,435) | 19,570 |
| Increase in inventories | | (18,578) | (50,745) |
| Increase in trade and other payables | | 140,696 | 238,394 |
| Increase/(decrease) in provisions and employee benefits | | 29,413 | (11,907) |
| Settlement of derivatives | | (1,513) | 10,261 |
| Cash generated by operations | | 751,996 | 628,329 |
| Tax paid | | (49,580) | (48,758) |
| Net cash from operating activities | | 702,416 | 579,571 |
| Cash flows used in investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 161 | 729 |
| Interest received | | 3,153 | 1,367 |
| Acquisition of a subsidiary net of cash acquired | 22 | (6,034) | – |
| Disposal of a subsidiary net of cash disposed | | – | (3,510) |
| Additions to property, plant and equipment | 10 | (147,140) | (139,170) |
| Additions to other intangible assets | 11 | (33,753) | (24,774) |
| Net cash used in investing activities | | (183,613) | (165,358) |
| Cash flows from financing activities | | | |
| Proceeds from the issue of share capital | 20 | 58 | – |
| Proceeds from bank loan net of fees incurred | 17 | 606,897 | 53,000 |
| Repayment of borrowings | 17 | (489,152) | (53,000) |
| Interest paid | | (30,399) | (19,865) |
| Payment of interest on lease liabilities | 12 | (36,443) | (40,660) |
| Repayment of lease liabilities | | (219,669) | (182,669) |
| Repayment of loan to group undertakings | | (246,287) | – |
| Net cash from financing activities | | (414,995) | (243,194) |
| Net increase in cash and cash equivalents | | 103,808 | 171,019 |
| Cash and cash equivalents at beginning of period | | 400,167 | 246,974 |
| Effect of exchange rate fluctuations on cash held | | 3,727 | (17,826) |
| Cash and cash equivalents at end of period | | 507,702 | 400,167 |

The notes on pages 82 to 122 form part of these financial statement

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 Unit B, 120 Weston Street, London, England SE1 4GS.

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

The Group financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU (“Adopted IFRSs”), and also comply with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The Company has elected to prepare its parent company financial statements under the same standards as the Group financial statements; these are presented on pages 123 to 134

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

1.1 Measurement convention

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 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 2021 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 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 a 2-year period to the end of FY23, 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 management judge 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 2020 and 2021.

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 and the continued response to Covid-19, is set out in the CEO and CFO’s reports. Whilst Covid-19 continues to cause disruption across some of the markets the Group operates in, we expect that the impact will be lessened given the significant operational learnings the Group has acquired over the last 18 months alongside consumer behaviour adaption and vaccine rollout. Our robust performance in FY21 and conservation of cash to support any disruption gives us confidence that we will be able to navigate any future Covid-19 driven challenges.

As part of the IPO process the Group also signed a new Senior Facilities Agreement in May 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 the going concern assessment period.

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

1. Significant accounting policies (continued)

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 re-organisation as a business combination under common control, the following principles have been adopted:

- Where investments are acquired in exchange for consideration and the transactions has 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 transferror'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 separate 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 has undertaken a group reorganisation exercise during the period to 30 September 2021. 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).

On 26 May 2021, the Company was admitted for listing on the Warsaw Stock Exchange. No additional shares were issued as part of the listing.

This Annual Report and Accounts is the first set of annual financial statements presented for the newly formed Group and the prior period comparison is that of the former Pepco Group Limited. The underlying structure of the Group is unchanged and as such the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows have been presented on a consistent basis as if the group reorganisation had taken place at the start of the earliest period presented.

1. Significant accounting policies (continued)

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.

1.5 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, 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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the 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 at 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 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 profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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

1. Significant accounting policies (continued)

1.6 Non-derivative financial instruments (continued)

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.

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 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:

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

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

1.9 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. Significant accounting policies (continued)

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 intend 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.

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. Significant accounting policies (continued)

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" (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, net of outstanding bank overdrafts.

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 vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1. Significant accounting policies (continued)

1.15 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.

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 to return. The Group uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Group will be entitled. However, the level of returns is not considered material; therefore, no right of return asset or refund liability is recognised. On the basis of materiality revenue is therefore recognised at the full value of the consideration received. This is assessed on an ongoing basis.

The Group does not operate any loyalty programmes or 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, contributions to common marketing or advertising campaigns are measured based on contracts signed with suppliers 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 consists of cost incurred in operating and staffing distribution centres and stores and transporting inventory from distribution centres to stores. Consisting of warehousing and store employee salaries and wages, store expenses, advertising costs and other selling expenses. In addition, warehouse storage and associated costs are not incorporated into inventory valuation on the balance sheet but directly expensed through the income statement as distribution costs.

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 noncurrent 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), leases of low-value assets (such as personal computers, small items of office furniture and telephones) and variable lease agreements. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability – initial recognition

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted at the Group's incremental borrowing rate.

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

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

1. Significant accounting policies (continued)

1.20 Lease accounting (continued)

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 cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments' change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss.

Right-of-use asset – initial recognition

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

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

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

Right-of-use asset – subsequent measurement

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

Impairment

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

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. Significant accounting policies (continued)

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 historical financial information 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 deduction from cost of sales.

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

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

Promotional funding

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

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

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

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

1. Significant accounting policies (continued)

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. On expiry of the contract, the effective portion is recycled to the income statement.

Translation reserve

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

Merger reserve

The merger reserve arises on consolidation as a result of the acquisition of the Pepco Group companies and Pepkor Import BV on 4 May 2016 and also the acquisition of Fully Sun China Limited and its subsidiaries on 18 January 2018 and the share for share exchange transaction that took place this year described in note 20. It represents the difference between the consideration paid and the share capital and reserves of their entities.

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 2020:

- Amendment to IFRS 16, 'Leases' – COVID-19 Related Rent Concessions (and from 1 April 2021 COVID-19 Related Rent Concessions beyond 30 June 2021)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform' – Phase 1
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3, 'Definition of a Business'
- Amendments to IAS 1 and IAS 8, 'Definition of a Materiality'
- 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 2021 or later periods but which the Group has not early adopted:

- Amendments to IAS 16, 'Property, Plant and Equipment' – Proceeds Before Intended Use (effective 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (effective 1 January 2022)
- Amendments to IFRS 3, 'Reference to the Conceptual Framework' (effective 1 January 2022)
- Amendments to IAS 37, 'Onerous Contracts – Cost of Fulfilling a Contract' (effective 1 January 2022)
- Amendments to IAS 1, 'Classification of Liabilities as Current or Non-current' (effective 1 January 2023)
- Amendments to IAS 8, 'Definition of Accounting Estimates' (effective 1 January 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2, 'Disclosure of Accounting Policies' (effective 1 January 2023)
- Amendments to IAS 12, 'Deferred Tax Related to Assets and Liabilities arising from a Single Transaction' (effective 1 January 2023)

1. Significant accounting policies (continued)

1.28 New standards and amendments (continued)

IFRIC decision on Software-as-a-Service (“SaaS”) implementation costs

In March 2021, the IFRS Interpretations Committee (“IFRIC”) reached a decision (“the Decision”) on how a customer might be expected to account for costs it incurs in configuring or customising a supplier’s application software in a SaaS arrangement. The International Accounting Standards Board (“IASB”) then ratified that decision in April 2021. The 2021 Decision identified the relevant matters an entity should consider in determining whether such costs should be expensed and when they should be deferred (as either an intangible asset or a prepayment).

Between 2019 and 2021 the Group has, and continues to, undergo various software-as-a-service implementations (“SaaS”) developing its systems infrastructure to support growth, including the delivery of a major ERP change programme. These implementation projects also include the creation of proprietary coding, platforms and the creation of middleware products by third party providers and internal resource time spent on testing these middleware applications. Across the three-year time period to 30th September 2021 the Group has incurred €64.4m (FY21: €33.0m, FY20: €22.2m, FY19: €9.2m) of costs related to these projects, where, based on a previous interpretation of the accounting standards, these costs have been capitalised. In light of the pronouncement from the IFRIC, it is important that the Group appropriately review the detailed nature of the costs incurred to arrive at the right categorisation when implementing the IFRIC Decision.

A detailed analysis of the SaaS implementation costs is required to understand and identify:

- a) the supplier;
- b) the nature of the contractual relationship with the supplier (sub-contractor of the SaaS provider vs independent third-party supplier); and
- c) on which aspects of the implementation programme the costs have been incurred (e.g. middleware development vs SaaS software customisation).

In order to complete this review, the Group is highly reliant on the provision of data from its implementation partners. The SaaS implementation partners, and internal project management teams have not historically captured or allocated costs that would readily provide the categorisation of costs to meet the requirements of the IFRIC Decision. Therefore, a detailed review of the contracts with suppliers, analysis of deliverables of a SaaS implementation project and the associated costs is required to reliably identify and quantify the classification required to implement the IFRIC Decision.

To date, it has not been the customary practice in SaaS implementation projects to capture costs as required by the IFRIC Decision, the usual practice adopted by the Group and its partners has been to track costs on a milestone delivery basis.

However, in recognition of the decision by the IFRIC, and the potential impact that could have on the Group’s financial accounts, the Group is actively engaged in a detailed cost analysis exercise. At the point of preparing the financial statements for the year ended 30th September 2021, the analysis is ongoing requiring significant time investment from both the Group and its suppliers. As such the Group is not in a position to implement the IFRIC decision for the year ended 30 September 2021 and instead will continue to progress the analysis and embed any consequent changes in the financial statements for the first interims of the next financial year ending 30th September 2022.

The Group believes it is appropriate to defer the implementation of the IFRIC Decision to financial year 2022, which will provide sufficient time to complete the analysis required, recognising the complexity of the task and the reliance on the Group’s external partners to provide the required level of cost detail.

Given the uncertainty in both the accounting profession and industry regarding the treatment of third-party subcontractor costs between prepayment and expense the detailed impact analysis has not been completed. However, the Group has conducted an initial analysis of the potential impact of the IFRIC Decision. This analysis, based on the current accepted interpretation of the IFRIC decision, suggests that the SaaS related costs of €64.4m across the three-year period, which are currently classified as capital expenditure, could be reclassified as follows:

1. Costs recognisable as assets (capitalisable under IAS38): €5m to €15m
2. Cost to be recognised as a prepayment: €4m to €7m
3. Costs to be expensed as an operating expense: €43m to €55m

1. Significant accounting policies (continued)

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 right-of-use asset)

The Group assesses whether there are any indicators of impairment as at the reporting date for all intangible assets. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, the Directors must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key sources of estimation uncertainty are the future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. See note 11 for detailed disclosures.

Life of brand asset

Subject to initial recognition, prior to 2019 intangible assets with an indefinite useful life were measured at cost less accumulated impairment charges. Management had assessed the brand to have an indefinite useful life assessing the factors outlined in IAS 38; however, following a review of industry trends and best practice and in light of the ongoing challenges in the retail sector (wage and business rates inflation, weak consumer spending growth and the shifts in shopping habits to large online retailers), management considers a finite useful life to be more appropriate on an ongoing basis. The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on the trading history of the business, future financial projections and ongoing investment in the business, along with the retail segment occupied by Poundland and the active proposition development happening within the business. The brand will be amortised on a straight-line basis. See note 11 for detailed disclosures.

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. Significant accounting policies (continued)

1.30 Non-underlying items

Non-underlying adjustments constitute exceptional 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:

- business restructuring programmes;
- asset impairment and onerous property-related contract charges; and
- IFRS 2 charges in respect of management Value Creation Plan.

In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as non-underlying items. Further information about the determination of non-underlying and other items in financial year 2021 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 "eliminations". Inter-segment trade balances and borrowings are included within the relevant segment and the consolidation adjustments and eliminations are presented within "eliminations". Group external borrowings and other activities that do not meet the threshold requirements for individual reporting are included within the "other" segment.

2. Segmental analysis (continued)

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 2021 €000 | Year to 30 September 2020 €000 |
|---|---|---|
| External revenue | | |
| PEPCO (Apparel-led multi-price) | 2,166,247 | 1,737,956 |
| Poundland Group (FMCG-led price-anchored) | 1,955,554 | 1,779,923 |
| Group external revenue | 4,121,801 | 3,517,879 |
| Underlying EBITDA (see note 4) | | |
| PEPCO (Apparel-led multi-price) | 456,961 | 298,971 |
| Poundland Group (FMCG-led price-anchored) | 194,995 | 142,314 |
| Other | (5,414) | 1,038 |
| Group Underlying EBITDA | 646,542 | 442,323 |
| Reported EBITDA | | |
| PEPCO (Apparel-led multi-price) | 455,420 | 298,971 |
| Poundland Group (FMCG-led price-anchored) | 187,508 | 135,304 |
| Other | (13,649) | (11,651) |
| Group Reported EBITDA | 629,279 | 422,624 |
| Less reconciling items to operating profit* | | |
| Amortisation of right of use asset | (222,136) | (199,832) |
| Depreciation of property, plant and equipment | (91,270) | (80,263) |
| Impairment of property, plant and equipment | (419) | (53) |
| Amortisation of other intangibles | (11,407) | (10,245) |
| Impairment of other intangibles | (289) | – |
| Loss on disposal of property, plant and equipment | (204) | (163) |
| Other expenses (note 4) | (21,119) | (12,060) |
| Group operating profit | 282,435 | 120,008 |
| | | |
| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
| Depreciation and amortisation | | |
| PEPCO (Apparel-led multi-price) | 180,916 | 156,696 |
| Poundland Group (FMCG-led price-anchored) | 141,916 | 131,916 |
| Other | 1,981 | 1,728 |
| Group depreciation and amortisation | 324,813 | 290,340 |
| Impairment of property, plant and equipment and intangible assets | | |
| PEPCO (Apparel-led multi-price) | 708 | 53 |
| Group impairment of property, plant and equipment and intangible assets | 708 | 53 |
| Total assets | | |
| PEPCO (Apparel-led multi-price) | 3,059,440 | 2,574,490 |
| Poundland Group (FMCG-led price-anchored) | 1,474,222 | 1,319,994 |
| Other | 1,021,127 | 1,183,599 |
| Eliminations | (1,973,013) | (2,008,179) |
| Group total assets | 3,581,776 | 3,069,904 |
| Total liabilities | | |
| PEPCO (Apparel-led multi-price) | 1,062,779 | 766,668 |
| Poundland Group (FMCG-led price-anchored) | 1,091,645 | 1,002,335 |
| Other | 593,731 | 720,568 |
| Eliminations | (174,030) | (173,318) |
| Group total liabilities | 2,574,125 | 2,316,253 |
| Additions to non-current assets | | |
| PEPCO (Apparel-led multi-price) | 378,681 | 279,874 |
| Poundland Group (FMCG-led price-anchored) | 180,459 | 127,155 |
| Other | 1,729 | 1,923 |
| Group additions to non-current assets | 560,869 | 408,952 |

* 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 2021 €000 | Year to 30 September 2020 €000 |
|----------------|---|---|
| United Kingdom | 1,589,638 | 1,503,591 |
| Poland | 1,060,653 | 879,161 |
| Rest of Europe | 1,471,510 | 1,135,127 |
| | 4,121,801 | 3,517,879 |

4. Non-underlying items

The Group believe 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 items, which are removed from the reported IFRS measures, are defined as one-off, unusual and material in nature.

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 use underlying financial performance for performance analysis, planning, reporting and incentive-setting.

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Reported EBITDA from continuing operations | 629,279 | 422,624 |
| Group Value Creation Plan ("VCP") | 15,426 | 13,300 |
| Other non-underlying items | 1,837 | 6,399 |
| Underlying EBITDA from continuing operations | 646,542 | 442,323 |
| Reported Operating profit from continuing operations | 282,435 | 120,008 |
| IPO related expenses | 21,119 | 12,060 |
| Group Value Creation Plan ("VCP") | 15,426 | 13,300 |
| Other non-underlying items | 1,837 | 6,399 |
| Underlying operating profit from continuing operations | 320,817 | 151,767 |
| Reported Profit before taxation from continuing operations for the year | 196,337 | 17,647 |
| IPO related expenses | 21,119 | 12,060 |
| Group Value Creation Plan ("VCP") | 15,426 | 13,300 |
| Other non-underlying items | 1,837 | 6,399 |
| IPO related refinancing expenses | 9,122 | – |
| Underlying profit before tax from continuing operations | 243,841 | 49,406 |

IPO related expenses: IPO related expenses relate to project costs associated with this listing of the Company on the Warsaw stock exchange (prior year costs related to a previous aborted transaction).

IFRS 2 charge: A Value Creation Plan ("VCP") was approved by the Board of Directors in March 2020 as a reward tool to incentivise the top management of the Pepco Group. The scheme is one-off, material and unusual in nature; the awards will be granted once under the VCP to the management team. See note 21 for more details.

Other non-underlying items: During the year the Group undertook head office cost reduction and strategic change to rationalise the supply chain network. The €1.8m (2020: €6.4m) relates to costs associated with stock moves, short-term productivity under utilisations, third-party transitional storage and HR costs relating to redundancy and retention.

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

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|---|---|---|
| Operating profit for the period has been arrived at after charging: | | |
| Expense relating to short-term, low-value and variable leases | 21,351 | 45,532 |
| Depreciation of tangible fixed assets and other items: | | |
| Owned | 91,270 | 80,263 |
| Amortisation of right-of-use assets | 222,136 | 199,832 |
| Impairment of property, plant and equipment | 419 | 53 |
| Amortisation of other intangibles | 11,407 | 10,245 |
| Impairment of other intangible assets | 289 | – |
| Cost of inventories recognised as an expense | 2,146,101 | 2,043,978 |
| Write downs of inventories recognised as an expense | 23,935 | 18,441 |
| Auditors' remuneration | | |
| Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts ¹ | 216 | 216 |
| Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries ¹ | 1,215 | 649 |
| Fees payable to other auditors and their associates for the audit of the Company's subsidiaries | 591 | 251 |
| Fees payable to other auditors and their associates in the current year in relation to prior year audit | 451 | 68 |
| Total audit fees | 2,473 | 1,184 |
| Other services | 160 | 165 |
| Total assurance-related fees | 160 | 165 |
| Total auditors' remuneration | 2,633 | 1,349 |

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

6. Financial income

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|---------------------------|---|---|
| Bank interest receivable | 668 | 946 |
| Other interest receivable | 332 | 655 |
| | 1,000 | 1,601 |

7. Financial expense

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Interest on bank loans and amortisation of capitalised finance costs | 29,144 | 37,657 |
| Interest on lease liabilities | 36,443 | 40,660 |
| On amounts owed to Group undertakings | 11,570 | 18,251 |
| Ineffective element of hedging | 1,360 | – |
| Unrealised foreign currency losses on borrowings | (541) | 9,389 |
| | 77,976 | 105,957 |
| Non-underlying financial expenses ¹ | 9,122 | – |
| Total financial expense | 87,098 | 105,957 |
| Discontinued operations ² | – | 39 |

1 Non-underlying financial expenses relate to interest costs incurred on the early settlement of loans.

2 Finance expenses relating to discontinued operations.

8. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during each year was as follows:

| | Year to 30 September 2021 | Year to 30 September 2020 |
|--------------------------|---------------------------------|---------------------------------|
| Administration | 2,271 | 1,768 |
| Selling and distribution | 39,774 | 37,002 |
| | 42,045 | 38,770 |

The company does not have any staff employed in the Netherlands.

The aggregate payroll costs of these persons were as follows:

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Wages and salaries | 585,846 | 489,337 |
| Social security costs | 58,737 | 50,052 |
| Other pension costs (note 24) | 23,000 | 14,862 |
| Share-based payments expense (note 21) | 15,426 | 13,400 |
| | 683,009 | 567,651 |

In the year to 30 September 2021 the Group received Government grants relating to furloughed employees of €4.1m (2020: €20.5m). Government grants are recognised within administrative expenses in the Income Statement.

Key management remuneration

The amounts for remuneration include the following in respect of the Key management personnel:

| | Basic remuneration €000 | Short-term Annual bonus paid €000 | Other short term Company contributions €000 | Post employment pension contribution €000 | LTIP ¹ €000 | Total €000 |
|-------------|-------------------------------|--|--|---|---------------------------|---------------|
| 2021 | 7,175 | 3,051 | 45 | 2 | 7,591 | 17,864 |
| 2020 | 2,449 | 536 | 46 | 2 | 7,591 | 10,624 |

¹ Long term incentive plan, this includes VCP related IFRS 2 charges see note 21 for more details and see remuneration report (on pages 65 to 74) for Directors' remuneration details.

9. Taxation

Analysis of charge for the year

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Current tax (charge)/credit | | |
| Current tax on income for the period | (65,236) | (34,209) |
| Adjustments in respect of prior periods | 867 | 2,506 |
| Total current tax charge | (64,369) | (31,703) |
| Deferred tax (charge)/credit | | |
| Origination and reversal of temporary timing differences | 19,724 | 14,527 |
| Adjustments in respect of prior periods | (3,887) | (69) |
| Impact of change in tax rate | 7,165 | – |
| Total deferred tax credit | 23,002 | 14,458 |
| Total charge for the period | (41,367) | (17,245) |

Factors affecting the tax (charge)/credit for the year

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|---|---|---|
| Profit before tax – continuing operations | 196,337 | 17,647 |
| Loss before tax – discontinued operations | (173) | (939) |
| | 196,164 | 16,708 |
| Expected tax (charge)/credit at the UK statutory rate of 19.0% (2020: 19.0%) ¹ | (37,271) | (3,175) |
| Effects of: | | |
| Unrecognised temporary differences | (10,940) | (12,866) |
| Expenses not deductible for tax purposes | (5,065) | (10,770) |
| Overseas rate adjustment | 7,310 | 3,029 |
| Prior year adjustments | (3,020) | 2,437 |
| Change in tax rate | 7,619 | 4,100 |
| Total tax charge for the period | (41,367) | (17,245) |

¹ The company is UK tax resident based on the Company being managed and controlled in the UK as such is subject to UK corporation tax with the expected tax (charge)/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 Group's future UK current tax charge accordingly. The deferred tax asset relating to the UK at 30 September 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

10. Property, plant and equipment

| | Land and buildings €000 | Leasehold property improvements €000 | Fixtures and equipment €000 | Total €000 |
|--|----------------------------|--|-----------------------------------|----------------|
| Cost | | | | |
| Balance at 1 October 2019 | 39,119 | 184,904 | 295,981 | 520,004 |
| Additions | 27,237 | 33,883 | 78,089 | 139,209 |
| Disposals | – | (1,932) | (3,855) | (5,787) |
| Reclassifications ¹ | – | – | (19,110) | (19,110) |
| Differences on translation | (4,375) | (6,703) | (8,279) | (19,357) |
| Balance at 30 September 2020 | 61,981 | 210,152 | 342,826 | 614,959 |
| 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 ² | – | 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 |
| Depreciation | | | | |
| Balance at 1 October 2019 | – | 51,074 | 120,890 | 171,964 |
| Charge for the period | 820 | 22,483 | 56,960 | 80,263 |
| Disposals | – | (1,613) | (3,483) | (5,096) |
| Impairment | – | 53 | – | 53 |
| Reclassifications ¹ | – | – | (5,529) | (5,529) |
| Differences on translation | (106) | (1,582) | (3,976) | (5,664) |
| Balance at 30 September 2020 | 714 | 70,415 | 164,862 | 235,991 |
| 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 |
| Differences on translation | (458) | (275) | 4,658 | 3,925 |
| Balance at 30 September 2021 | 863 | 99,545 | 216,378 | 316,786 |
| Net book value | | | | |
| 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 |
| Balance at 30 September 2019 | 39,119 | 133,830 | 175,091 | 348,040 |

1 The reclassifications during the prior year primarily relate to previously existing finance lease assets which have now been included in the right-of-use assets.

2 The reclassifications during the current year related to ERP development costs transferred to intangible assets.

11. Intangible assets

| | Goodwill ¹ €000 | Brand ¹ €000 | Favourable leases property €000 | Software and trademarks €000 | Total €000 |
|--------------------------------|-------------------------------|----------------------------|--|------------------------------------|------------------|
| Cost | | | | | |
| Balance at 1 October 2019 | 787,877 | 124,049 | 6,788 | 37,806 | 956,520 |
| Additions | – | – | – | 24,774 | 24,774 |
| Disposals | – | – | – | (3) | (3) |
| Reclassifications ² | – | – | (6,788) | 4,475 | (2,313) |
| Differences on translation | (22,943) | (3,635) | – | (5,122) | (31,700) |
| Balance at 30 September 2020 | 764,934 | 120,414 | – | 61,930 | 947,278 |
| Balance at 1 October 2020 | 764,934 | 120,414 | – | 61,930 | 947,278 |
| Additions | 9,084 | – | – | 33,753 | 42,837 |
| Disposals | – | – | – | (3) | (3) |
| Reclassifications ³ | – | – | – | 349 | 349 |
| Differences on translation | 47,805 | 7,258 | – | 1,446 | 56,509 |
| Balance at 30 September 2021 | 821,823 | 127,672 | – | 97,475 | 1,046,970 |
| Amortisation | | | | | |
| Balance at 1 October 2019 | 112,578 | 3,102 | 4,188 | 18,316 | 138,184 |
| Amortisation for the period | – | 3,184 | – | 7,061 | 10,245 |
| Reclassifications ² | – | – | (4,188) | – | (4,188) |
| Disposals | – | – | – | (11) | (11) |
| Differences on translation | (3,153) | (265) | – | (3,651) | (7,069) |
| Balance at 30 September 2020 | 109,425 | 6,021 | – | 21,715 | 137,161 |
| Balance at 1 October 2020 | 109,425 | 6,021 | – | 21,715 | 137,161 |
| Amortisation for the period | – | 3,145 | – | 8,262 | 11,407 |
| Impairments | – | – | – | 289 | 289 |
| Differences on translation | 7,745 | 411 | – | 148 | 8,304 |
| Balance at 30 September 2021 | 117,170 | 9,577 | – | 30,414 | 157,161 |
| Net Book Value | | | | | |
| Balance at 30 September 2021 | 704,653 | 118,095 | – | 67,061 | 889,809 |
| Balance at 30 September 2020 | 655,509 | 114,393 | – | 40,215 | 810,117 |
| Balance at 30 September 2019 | 675,299 | 120,947 | 2,600 | 19,490 | 818,336 |

1 Brand and goodwill relate to the acquisition of the Poundland Group and Fulton's Group. For details on additions to goodwill during the year please refer to note 22.

2 The reclassifications during the prior year primarily relate to the previously existing market rent assets which have now been included within the right-of-use asset.

3 The reclassifications during the current year relate to ERP development costs previously capitalised within property, plant and equipment.

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.

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 (2020: €Nil).

11. Intangible assets (continued)

Impairment (continued)

The key assumptions on which the value in use calculations are based relate to future business performance over the forecast period (five years), projected long-term growth rates and the discount rates applied. The forecast cash flows include the Directors' latest estimates on future revenue, pricing and other operating costs, which underlie EBITDA. Management has reviewed and approved the assumptions inherent in the model as part of the annual budget process using historical experience and considering economic and business risks facing the Group.

In assessing Poundland Group's value in use a pre-tax discount rate of 9.2% (2020: 9.8%) was used.

In assessing future EBITDA growth the Group has modelled the underlying movements in the constituents of EBITDA and has used a growth rate of the constituent elements ranging from 0% to 13.2% (2020: 0.5%-31.5%) in the first five years which has resulted in an average growth rate of 4.7% (2020: 8.1%) in the first five years and a terminal-term growth rate of 1.2% (2020: 1.2%). The 13.2% EBITDA Growth rate reflects EBITDA recovery post Covid-19 in 2022. EBITDA % conversion of net sales to profit is projected to grow through product range (product mix) and the introduction of multiple price anchoring (move away from under £1.00 to eight new price points ranging £0.50 - £10.00) to 11.3% of net sales in the terminal year from the current rate of 10.5%. The resulting growth in EBITDA is projected at a CAGR rate of 4.5% (2020:11.6%). The Group have also chosen to increase its WACC by 1% (2020: 0.9%) to reflect any cash flow uncertainties.

Management has considered reasonable possible changes in the key assumptions underpinning EBITDA growth and the pre-tax discount rate and has identified the following instances that could cause changes in available headroom of €327m (2020: €101m). 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 €234m; 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 €95m. Should the projected long-term growth rate applied to the cash flow projections of Poundland reduce to 0.2%, the headroom would reduce to €83m.

A 10% increase in EBITDA in the terminal year will result in an increase in recoverable amount of €234m; 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 €655m. 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 €344m.

Reduction in EBITDA in the terminal year of 14%, an increase in the pre-tax discount rate of 1.5% or a reduction in the long-term growth rate to -1.4% will reduce the recoverable amount to €Nil.

Cash EBITDA is significantly impacted by product mix, shrinkage rates and future rent reductions.

- **Product mix:** The roll-out of the Pep&Co clothing range in Poundland stores and product mix improvements in general merchandise together with further buying efficiencies from increased intergroup trading are driving improvements in margin.
- **ERP:** The Group is in the process of implementing an ERP system which is expected improve shrinkage rates and also improve inventory management. The business plan included a reduction in the shrinkage rate and working capital improvements as a result of this.
- **Rent reduction rate:** There is an opportunity to renegotiate lease costs to current market-related rentals upon expiry of existing leases.

12. Leases

Right-of-use assets

| | Buildings €000 | Equipment €000 | Vehicles €000 | Total €000 |
|-------------------------------------|-------------------|-------------------|------------------|----------------|
| Cost | | | | |
| Balance at 1 October 2019 | 777,756 | 20,291 | 7,555 | 805,602 |
| Additions | 232,658 | 6,345 | 5,966 | 244,969 |
| Disposals | – | (86) | – | (86) |
| Differences on translation | (31,940) | (781) | (495) | (33,216) |
| Balance at 30 September 2020 | 978,474 | 25,769 | 13,026 | 1,017,269 |
| 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 |
| Amortisation | | | | |
| Balance at 1 October 2019 | – | 5,782 | – | 5,782 |
| Amortisation for the period | 190,255 | 4,902 | 4,675 | 199,832 |
| Differences on translation | 4,366 | (40) | 475 | 4,801 |
| Balance at 30 September 2020 | 194,621 | 10,644 | 5,150 | 210,415 |
| Balance at 1 October 2020 | 194,621 | 10,644 | 5,150 | 210,415 |
| Amortisation 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 |
| Net Book Value | | | | |
| 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 |
| Balance at 30 September 2019 | 777,756 | 14,509 | 7,555 | 799,820 |

Lease liabilities

| | 30 September 2021 €000 | 30 September 2020 €000 |
|------------------------------|------------------------------|------------------------------|
| At beginning of period | 918,862 | 860,191 |
| Additions | 370,670 | 242,595 |
| Interest on lease liability | 36,443 | 40,660 |
| Repayment of lease liability | (256,112) | (223,329) |
| Differences on translation | 29,455 | (1,255) |
| At end of period | 1,099,318 | 918,862 |
| Current | 260,020 | 247,345 |
| Non-current | 839,298 | 671,517 |
| | 1,099,318 | 918,862 |

12. Leases (continued)

Amounts recognised in the income statement

| | 30 September 2021 €000 | 30 September 2020 €000 |
|--|------------------------------|------------------------------|
| Interest expenses (included in finance cost) | 36,443 | 40,660 |
| Expense relating to short-term leases (included in cost of goods sold and administrative expenses) | 411 | 23,477 |
| Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) | 135 | 373 |
| Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses) | 20,805 | 21,682 |
| Unrealised foreign exchange loss on revaluation of lease liabilities | 253 | 7,825 |

The Group leases various retail stores, offices and vehicles under non-cancellable operating leases. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 October 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

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

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

13. Inventories

| | 30 September 2021 €000 | 30 September 2020 €000 |
|----------------------------|------------------------------|------------------------------|
| Goods purchased for resale | 410,415 | 412,361 |
| Goods in transit | 186,706 | 154,315 |
| | 597,121 | 566,676 |

There is no material difference between the carrying value of inventory and its replacement cost.

14. Trade and other receivables

| | 30 September 2021 €000 | 30 September 2020 €000 |
|--|------------------------------|------------------------------|
| Non-current trade and other receivables | | |
| Other receivables | 3,043 | 3,200 |
| | 3,043 | 3,200 |
| Current trade and other receivables | | |
| Trade receivables | 742 | – |
| Other receivables | 9,689 | 10,226 |
| Amounts owed by Group undertakings | 913 | 902 |
| Prepayments | 46,459 | 34,561 |
| | 57,803 | 45,689 |

Current amounts owed by Group undertakings of €0.9m (2019: €0.9m) are non-interest bearing and are repayable on demand. These amounts were recovered in full post year end.

As the principal business of the Group is retail sales made in cash or with major credit cards, the Group's trade receivables are small and therefore credit risk primarily consists of accrued income and cash and cash equivalents. Accordingly, the Group does not systematically report outstanding receivables analysed by credit quality, in particular with respect to the credit quality of financial assets that are neither past due nor impaired.

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers that are widely dispersed. As such, any further detailed analysis of the credit risk of the Group's financial assets by category is not considered meaningful.

The carrying amount of trade and other receivables recorded in the financial statements represents the Group's maximum exposure to credit risk and any associated impairments are immaterial.

Non-current other receivables relate to cash collateralised landlord guarantees, these amounts are presented at amortised cost.

15. Trade and other payables

| | 30 September 2021 €000 | 30 September 2020 €000 |
|-------------------------------------|------------------------------|------------------------------|
| Trade payables | 301,022 | 280,631 |
| Other taxation and social security | 73,316 | 62,671 |
| Amounts owed to Group undertakings | – | 1,696 |
| Other payables | 89,707 | 78,274 |
| Accruals | 280,145 | 187,292 |
| Trade and other payables | 744,190 | 610,564 |
| Borrowings from credit institutions | 65,758 | 4,135 |
| Borrowings | 65,758 | 4,135 |
| | 809,948 | 614,699 |

Amounts owed to Group undertakings are repayable on demand and non-interest bearing at 30 September 2021 and 30 September 2020, respectively.

16. Non-current liabilities

| | 30 September 2021 €000 | 30 September 2020 €000 |
|-------------------------------------|------------------------------|------------------------------|
| Accruals and deferred income | 4,903 | 16,333 |
| Amounts owed to Group undertakings | 505 | 476 |
| Trade and other payables | 5,408 | 16,809 |
| Borrowings from credit institutions | 545,034 | 481,893 |
| Loans from Group undertakings | – | 224,173 |
| Borrowings | 545,034 | 706,066 |
| | 550,442 | 722,875 |

Included within non-current liabilities are loans from credit institutions of €550.0m (2020: €489.2m). 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 2021 borrowings are stated net of unamortised issue costs of €7.4m (2020: €10.5m). 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 2021.

The loans from credit institutions are secured over the shares of material overseas subsidiaries and debentures over other assets of the Group.

Prior year includes, within non-current liabilities, loans from Group undertakings of €224.2m which were interest bearing at a margin above LIBOR per annum repayable in 2027. This loan was fully repaid as part of the IPO led refinancing.

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.

17. Financial instruments and related disclosures (continued)

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Group's income. The Group's exposure to market risk predominantly relates to interest and currency risk.

Interest rate risk

The Group's external borrowings comprise loans which incur variable interest rate charges linked to Euribor which are added to the loan. The Group's policy aims to manage the interest cost of the Group within the business plan.

Foreign currency risk

The Group has a significant transaction exposure to directly sourced purchases from its suppliers in the Far East, with most of the trade being in US Dollars 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 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 2021 | | | | 30 September 2020 | | | |
|-----------------------------|-------------------|-------------|-------------|----------------|-------------------|-------------|-------------|----------------|
| | GBP €000 | EUR €000 | PLN €000 | Others €000 | GBP €000 | EUR €000 | PLN €000 | Others €000 |
| Cash and cash equivalents | 71,470 | 43,492 | 311,100 | 81,640 | 79,854 | 44,680 | 222,085 | 53,548 |
| Trade and other receivables | 4,785 | 4,349 | 4,678 | 575 | 3,633 | 4,013 | 3,050 | 431 |
| Borrowings | - | (606,815) | (3,977) | - | (224,173) | (481,217) | (4,811) | - |
| Trade and other payables | (326,816) | (13,068) | (262,325) | (98,566) | (298,284) | (17,348) | (239,136) | (7,762) |
| Provisions | (28,417) | (965) | (48,245) | (12,330) | (18,085) | - | (29,937) | - |
| Finance lease liabilities | (362,698) | (576,151) | (126,189) | (34,280) | (368,891) | (397,780) | (121,697) | (30,494) |
| | (641,676) | (1,149,158) | (124,958) | (62,961) | (825,946) | (847,652) | (170,446) | 15,723 |

Significant exchange rates used

| | Year to 30 September 2021 | Year to 30 September 2020 |
|--|---------------------------------|---------------------------------|
| Average rate for the year | | |
| Polish Zloty | 4.54 | 4.39 |
| Pound Sterling | 0.86 | 0.88 |
| Statement of financial position rates | | |
| Polish Zloty | 4.62 | 4.55 |
| Pound Sterling | 0.86 | 0.91 |

Pension liability risk

The Group has no association with any defined benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group personal pension plans for its 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 Directors regularly monitor the level of capital in the Group to ensure that this can be achieved. Refer to note 16 for loan covenant requirements.

17. Financial instruments and related disclosures (continued)

Fair value disclosures

The fair value of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

| | |
|---|--|
| Trade receivables, trade payables, short-term deposits and borrowings | The fair value approximates to the carrying value because of the short maturity of these instruments. |
| Long-term borrowings | The fair value of bank loans and other loans approximates to the carrying value reported in the statement of financial position. |
| Forward currency contracts | The fair value is determined using the market forward rates at the reporting date and the outright contract rate. |

Fair value hierarchy

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured using a Level 2 valuation method.

The fair value of financial assets and liabilities are as follows:

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|---|---|---|
| Cash and cash equivalents | 507,702 | 400,167 |
| Trade and other receivables | 14,387 | 11,128 |
| Derivative contracts used for hedging (assets) | 67,824 | 5,449 |
| Total financial assets | 589,913 | 416,744 |
| Trade and other payables | 700,775 | 562,530 |
| Borrowings at amortised cost | 610,792 | 710,201 |
| Finance lease liabilities | 1,099,318 | 918,862 |
| Derivative contracts used for hedging (liabilities) | 5,448 | 6,599 |
| Total financial liabilities | 2,416,333 | 2,198,192 |

Financial instrument sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on its earnings. At the end of each reporting period, the effects of hypothetical changes in interest and currency rates are as follows:

Interest rate sensitivity analysis

The table below shows the Group's sensitivity to interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) if interest rates were to change by +/-1%. The impact on net assets (gross of tax) would be:

| | 2021 (decrease)/ increase in equity €000 | 2020 (decrease) /increase in equity €000 |
|--------------------------------|--|--|
| +1% movement in interest rates | (6,076) | (7,132) |
| -1% movement in interest rates | 6,076 | 7,132 |

17. Financial instruments and related disclosures (continued)

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:

| | 2021 increase/ (decrease) in equity €000 | 2020 increase/ (decrease) in equity €000 |
|---|---|---|
| 10% appreciation of the Euro against the Polish Zloty | 11,770 | 17,045 |
| 10% depreciation of the Euro against the Polish Zloty | (11,770) | (17,045) |
| 10% appreciation of the Euro against Pound Sterling | 60,248 | 82,595 |
| 10% depreciation of the Euro against Pound Sterling | (60,248) | (82,595) |

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 and trade payables, excluding the impact of netting agreements is shown below:

| | 30 September 2021 | | | Total €000 |
|--------------------------|--------------------------------------|---|--------------------------------------|------------------|
| | Due in less than one year €000 | Expiring between one to five years €000 | Expiring after five years €000 | |
| Borrowings | 65,758 | 581,351 | – | 647,109 |
| Trade and other payables | 672,096 | 28,679 | – | 700,775 |
| Lease liabilities | 275,443 | 756,093 | 195,620 | 1,227,156 |
| | 1,013,297 | 1,366,123 | 195,620 | 2,575,040 |

| | 30 September 2020 | | | Total €000 |
|---------------------------|--------------------------------------|---|--------------------------------------|---------------|
| | Due in less than one year €000 | Expiring between one to five years €000 | Expiring after five years €000 | |
| Borrowings | 29,376 | 504,933 | 429,839 | 964,148 |
| Trade and other payables | 547,715 | 6,827 | 7,988 | 562,530 |
| Finance lease liabilities | 261,142 | 808,739 | 39,008 | 1,108,889 |
| | 838,233 | 1,320,499 | 476,835 | 2,635,567 |

Derivatives and Hedge Accounting

The group uses foreign currency forward contracts and commodity hedges are used to manage risks arising from changes in foreign currency exchange rates (relating to the purchase of overseas sourced products) and fuel price fluctuations. 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.

17. Financial instruments and related disclosures (continued)

Hedge ineffectiveness may occur due to:

- The fair value of the hedging instrument on the hedge relationship designation date if the fair value is not nil;
- Changes in the contractual terms or timing of the payments on the hedged item; and
- 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 2021 | 30 September 2020 |
|---|------------------------------|----------------------|
| Derivative financial (liabilities)/assets at beginning of period | (1,150) | 20,017 |
| Recognised in the income statement ¹ | 1,512 | (6,867) |
| Recognised in other comprehensive income | 63,105 | (14,353) |
| Translation differences | (1,091) | 53 |
| Derivative financial assets/(liabilities) at end of period | 62,376 | (1,150) |

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 2021 | | | | Total €000 |
|--------------------------------|-------------------|----------------|----------------|-----------------|------------------|
| | EUR €000 | USD €000 | CNY €000 | Other €000 | |
| Maturing less than one year | 229,000 | 636,247 | 538,165 | (25,759) | 1,377,653 |
| Maturing 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 |

| | 30 September 2020 | | | | Total €000 |
|--------------------------------|-------------------|----------------|----------------|------------------|------------------|
| | EUR €000 | USD €000 | CNY €000 | Other €000 | |
| Maturing less than one year | 155,500 | 563,071 | 663,578 | (117,193) | 1,264,956 |
| Maturing greater than one year | 32,000 | 59,788 | – | – | 91,788 |
| Total | 187,500 | 622,860 | 663,578 | (117,193) | 1,356,745 |

The following tables provide an analysis of the anticipated contractual cash flows for the Group's derivative contracts:

| EUR | 30 September 2021 | | 30 September 2020 | |
|------------------------------------|-------------------|--------------------|-------------------|--------------------|
| | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| Due in less than one year | (5,378) | – | (3,089) | – |
| Expiring between one and two years | – | – | (415) | – |
| Contractual cash flows | (5,378) | – | (3,504) | – |
| Fair value | (5,378) | – | (3,504) | – |

17. Financial instruments and related disclosures (continued)

| | 30 September 2021 | | 30 September 2020 | |
|------------------------------------|-------------------|--------------------|-------------------|--------------------|
| | Payable €000 | Receivable €000 | Payable €000 | Receivable €000 |
| USD | | | | |
| Due in less than one year | – | 33,240 | (4,575) | – |
| Expiring between one and two years | – | – | (935) | – |
| Contractual cash flows | – | 33,240 | (5,510) | – |
| Fair value | – | 33,240 | (5,510) | – |
| CNY | | | | |
| Due in less than one year | – | 40,010 | (5,149) | – |
| Expiring between one and two years | – | – | – | – |
| Contractual cash flows | – | 40,010 | (5,149) | – |
| Fair value | – | 40,010 | (5,149) | – |
| Other | | | | |
| Due in less than one year | (6,863) | – | (463) | – |
| Expiring between one and two years | – | – | – | – |
| Contractual cash flows | (6,863) | – | (463) | – |
| Fair value | (6,863) | – | (463) | – |
| Total | | | | |
| Due in less than one year | (12,241) | 73,250 | (13,276) | – |
| Expiring between one and two years | – | – | (1,350) | – |
| Contractual cash flows | (12,241) | 73,250 | (14,626) | – |
| Fair value | (12,241) | 73,250 | (14,626) | – |

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 2020 | (918,862) | (224,173) | (486,028) | (1,629,063) |
| Financing cash flows¹ | 219,669 | 246,287 | (117,745) | 348,211 |
| Interest cash flows¹ | 36,443 | 662 | 29,737 | 66,842 |
| Other changes² | (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.

17. Financial instruments and related disclosures (continued)

Changes in liabilities arising from financing activities continued

| | Lease liabilities €000 | Loans from Group undertakings €000 | Borrowings from credit institutions €000 | Total liabilities from financing activities €000 |
|-----------------------------------|---------------------------|--|--|--|
| At 30 September 2019 | – | (212,933) | (465,815) | (678,748) |
| Financing cash flows ¹ | 182,669 | – | – | 182,669 |
| Interest cash flows ¹ | 40,660 | – | 19,865 | 60,525 |
| Set-off | – | – | – | – |
| Other changes ² | (1,142,191) | (18,251) | (40,078) | (1,200,520) |
| Foreign exchange | – | 7,011 | – | 7,011 |
| At 30 September 2020 | (918,862) | (224,173) | (486,028) | (1,629,063) |

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 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.

17. Financial instruments and related disclosures (continued)

Financial assets and liabilities by category as at 30 September 2020

| | Amortised cost | Fair value through OCI | Fair value through income statement |
|--|----------------|------------------------|-------------------------------------|
| Non-current financial assets | | | |
| Derivative financial instruments | - | 1,488 | - |
| | - | 1,488 | - |
| Current financial assets | | | |
| Trade receivables | 11,128 | - | - |
| Derivative financial instruments | - | 3,961 | - |
| Cash and cash equivalents | 400,167 | - | - |
| | 411,295 | 3,961 | - |
| Non-current financial liabilities | | | |
| Interest bearing long term borrowings | 706,066 | - | - |
| Lease liabilities | 671,517 | - | - |
| Derivative financial instruments | - | 969 | - |
| Other non-current liabilities | 16,809 | - | - |
| | 1,394,392 | 969 | - |
| Current financial liabilities | | | |
| Current portion of long-term borrowings | 4,135 | - | - |
| Lease liabilities | 247,345 | - | - |
| Derivative financial instruments | - | 5,630 | - |
| Trade and other payables | 546,197 | - | - |
| | 797,677 | 5,630 | - |

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and (liabilities) are attributable to the following:

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Net deferred tax assets and liabilities at beginning of period | 49,741 | 32,958 |
| Recognised in the income statement (note 9) | 23,002 | 14,458 |
| Recognised in other comprehensive income | (10,797) | 1,437 |
| Exchange differences | (3,893) | 888 |
| Net deferred tax assets and liabilities at end of period | 58,053 | 49,741 |

| | Deferred tax assets | | Deferred tax liabilities | | Net | |
|--------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 30 September 2021 €000 | 30 September 2020 €000 | 30 September 2021 €000 | 30 September 2020 €000 | 30 September 2021 €000 | 30 September 2020 €000 |
| Property, plant and equipment | 35,731 | 15,837 | (2,742) | (2,104) | 32,989 | 13,733 |
| Intangible assets | - | - | (29,235) | (20,469) | (29,235) | (20,469) |
| Provisions | 22,847 | 15,290 | - | - | 22,847 | 15,290 |
| Financial assets | 1,373 | 16,221 | (12,351) | (229) | (10,978) | 15,992 |
| Tax losses and temporary differences | 42,430 | 25,195 | - | - | 42,430 | 25,195 |
| | 102,381 | 72,543 | (44,328) | (22,802) | 58,053 | 49,741 |

18. Deferred tax (continued)

The deferred tax asset is available for offset against future taxable profits, which are expected to be sufficient to recover the asset's value.

| | 1 October 2020 €000 | Recognised in income statement €000 | Recognised in equity €000 | Exchange differences €000 | 30 September 2021 €000 |
|--------------------------------------|---------------------------|---|---------------------------------|---------------------------------|------------------------------|
| Property, plant and equipment | 13,733 | 1,252 | – | 18,004 | 32,989 |
| Intangible assets | (20,469) | 6,440 | – | (15,206) | (29,235) |
| Provisions | 15,290 | 8,087 | – | (530) | 22,847 |
| Financial assets | 15,992 | 14,353 | (10,797) | (30,526) | (10,978) |
| Tax losses and temporary differences | 25,195 | (7,130) | – | 24,365 | 42,430 |
| | 49,741 | 23,002 | (10,797) | (3,893) | 58,053 |

| | 1 October 2019 €000 | Recognised in income statement €000 | Recognised in equity €000 | Exchange differences €000 | 30 September 2020 €000 |
|-------------------------------|---------------------------|---|---------------------------------|---------------------------------|------------------------------|
| Property, plant and equipment | 13,311 | 708 | – | (286) | 13,733 |
| Intangible assets | (20,956) | – | – | 487 | (20,469) |
| Provisions | 14,625 | 1,346 | – | (681) | 15,290 |
| Financial assets | 9,465 | 4,137 | 1,437 | 953 | 15,992 |
| Tax losses and other | 16,513 | 8,267 | – | 415 | 25,195 |
| | 32,958 | 14,458 | 1,437 | 888 | 49,741 |

| | 30 September 2021 | 30 September 2020 |
|---|----------------------|----------------------|
| Unrecognised tax losses | | |
| Deferred tax assets have not been recognised in respect of the following items: | 134,050 | 108,464 |
| Total unrecognised tax losses | 134,050 | 108,464 |

Unrecognised tax losses

Deferred tax assets have not been recognised in respect of gross temporary differences of €134.1m. These temporary differences relate to tax losses and disallowed interest amounts under the Corporate Interest Restriction rules in the UK which are not expected to be recoverable and do not have an expiry date.

19. Provisions

| | Property provisions | | Other provisions | | Total | |
|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 September 2021 €000 | 30 September 2020 €000 | 30 September 2021 €000 | 30 September 2020 €000 | 30 September 2021 €000 | 30 September 2020 €000 |
| At beginning of period | 18,085 | 81,040 | 29,937 | 41,664 | 48,022 | 122,704 |
| Re-classifications | - | (60,259) | - | - | - | (60,259) |
| Provisions made during the period | 3,348 | 79 | 39,074 | 17,978 | 42,422 | 18,057 |
| Arising from acquisition | 4,867 | - | - | - | 4,867 | - |
| Provisions utilised during the period | (3,755) | - | (2,723) | (28,388) | (6,478) | (28,388) |
| Provisions reversed during the period | (274) | (982) | - | (191) | (274) | (1,173) |
| Translation differences | 3,673 | (1,793) | (2,275) | (1,126) | 1,398 | (2,919) |
| | 25,944 | 18,085 | 64,013 | 29,937 | 89,957 | 48,022 |
| Current | 8,206 | 6,199 | 11,486 | 3,655 | 19,692 | 9,854 |
| Non-current | 17,738 | 11,886 | 52,527 | 26,282 | 70,265 | 38,168 |
| | 25,944 | 18,085 | 64,013 | 29,937 | 89,957 | 48,022 |

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 (2020: 3.1 years).

Reclassifications in the prior year related to adjustments made on transition to IFRS 16.

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 2021 €000 | 30 September 2020 €000 |
|---|---------------------------|---------------------------|
| Ordinary share capital | | |
| Issued and fully paid | | |
| 575,000,000 A ordinary shares of €0.01 each | 5,750 | - |
| Allotted for issue | | |
| 2020: 5,705,000 A ordinary shares of €1.00 each | - | 5,705 |
| | 5,750 | 5,705 |

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 Pepco Group N.V. 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 €000 | Merger reserve €000 |
|---|----------------------|----------------|--------------|-----------------------|------------------------|
| | | Shares ('000) | €000 | | |
| At 1 October 2020 per Annual Report and Accounts (Pepco Group Limited) | £0.01 | 1,763 | 2 | - | 4,952 |
| Group reorganisation | | | | | |
| Elimination of Share capital of Pepco Group Limited | £0.01 | (1,763) | (2) | - | 2 |
| Shares issued pursuant to share for share exchange | € 1.00 | 5,705 | 5,705 | - | (5,705) |
| Share division | - | 569,250 | - | - | - |
| Restated at 1 October 2019 and 1 October 2020 | €0.01 | 574,955 | 5,705 | - | (751) |
| Shares issued in the period | €1.00 | 45 | 45 | 13 | - |
| At 30 September 2021 | €0.01 | 575,000 | 5,750 | 13 | (751) |

The shares issue during the period were issued prior to the IPO to meet the minimum capital requirements for conversion of a Company from B.V. to N.V. status.

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 Executive Directors 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 the 13 of May 2021. On acquisition the VCP plan was novated up from Pepco Group Limited to Pepco Group N.V., the novation also included the 2020 VCP charged recognised in Pepco Group limited for 2020 (€11.8 million).

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 Measurement Date will be in January 2022, 30 days after publication of the 2021 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 the fifth anniversary of the date of the implementation of the VCP; 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 €15.4m was recognised during the period (2020: €13.3m). The expense recognised consisted of €12.0m in relation to share awards and €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.

Linked JOE awards

Under the terms of the VCP, at the time a VCP award is made, the participant may acquire a linked jointly owned equity (JOE) award with Estera Trust (Jersey) Limited, the Trustee of the Employee Benefit Trust. The JOE award permits participants to benefit from the increase (if any) in the value of a number of ordinary shares above a hurdle of 10% p.a. cumulative annual growth rate (which reflects the VCP Threshold Total Shareholder Return) over a time period matching the performance period of the VCP. The value of these JOE awards (if any) will be applied to deliver part of the total value of the participants’ VCP awards on realisation of the VCP awards.

JOE award participants paid an initial cost for the JOE awards which is not repayable to them even if no value is delivered under the JOE awards.

22. Business combinations

On 8 October 2020 the Group acquired 100% of the share capital of Viewtone Trading Group Limited, the parent company of a group (Fulton's 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 are as follows:

| | Book value €000 | Adjustments €000 | Fair value €000 |
|-------------------------------|--------------------|---------------------|--------------------|
| Property, plant and equipment | 1,458 | (370) | 1,088 |
| Trade and other receivables | 1,212 | – | 1,212 |
| Cash and cash equivalents | (539) | – | (539) |
| Inventories | 3,770 | (38) | 3,732 |
| Trade and other payables | (4,251) | – | (4,251) |
| Provisions | (197) | (4,290) | (4,487) |
| Borrowings | (344) | – | (344) |
| | 1,109 | (4,698) | (3,589) |

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 cashflows, an impairment has been recognised. Where the lease payments for a store are in excess of its expected future cash flows a provisions 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

| | €000 |
|--|--------------|
| Cash consideration paid on acquisition | 2,959 |
| Settlement of existing borrowings | 344 |
| Deferred cash consideration payable | 2,192 |
| Total consideration | 5,495 |
| Goodwill | 9,084 |

The effect of discounting the deferred consideration payable is not material. The deferred consideration has therefore been recognised at its fair value of the future cash outflows of €2,192k.

Net cashflows

| | €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 transaction.

The deferred consideration is not contingent on business performance and is payable over the two years following the acquisition date.

The main factor leading to the recognition of goodwill 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.

The goodwill recognised will not be deductible for tax purposes.

Since the acquisition date, Fulton's Group has contributed €38.2m to Group revenues and €(4.1)m to Group profit. The acquisition date was not substantially different to the first day of the reporting period, therefore the contribution to Group revenues and profits would not have been materially different if the acquisition had occurred on 1st October 2020.

23. Capital commitments

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

| | 2021 | 2020 |
|--|---------------|--------|
| | €000 | €000 |
| Acquisition of property, plant and equipment and intangible assets | 91,689 | 11,830 |

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 €23.0m (2020: €14.9m). Contributions amounting to €0.9m (30 September 2020: €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.

| | 2021 | 2020 |
|-------------------------|-----------------|-----------|
| | €000 | €000 |
| Financial expense | (11,570) | (18,251) |
| Revenue received | 4,981 | 5,714 |
| Receivables outstanding | 913 | 902 |
| Payables outstanding | (505) | (226,345) |

Interest payable to Steinhoff companies relates to loans from Group undertakings as described in note 16.

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, 15 and 16.

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

Financial performance and cash flow information

| | Year to 30 September 2021 | Year to 30 September 2020 |
|--|---------------------------------|---------------------------------|
| | €000 | €000 |
| Revenue | - | 1,136 |
| Expenses | (173) | (2,075) |
| Loss before taxation | (173) | (939) |
| Income tax | - | - |
| Loss from discontinued operation | (173) | (939) |
| Net cash inflow/(outflow) from operating activities | (666) | 940 |
| Net cash inflow/(outflow) from investing activities | - | - |
| Net cash inflow/(outflow) from financing activities | - | - |
| Net increase/(decrease) in cash generated by discontinued operation | (666) | 940 |

27. Alternative Performance Measures (APM)

Introduction

The Directors assess the performance of the Group using a variety of performance measures; some are IFRS and some are adjusted and therefore termed “non-GAAP” measures or “Alternative Performance Measures” (APMs). The rationale for using adjusted measures is explained below. The Directors principally discuss the Group’s results on an “underlying” basis. Results on an underlying basis are presented before non-underlying items (large and unusual items).

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 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 2021; see note 4 for more details:

- business restructuring programmes;
- project costs associated with listing the Company;
- IFRS 2 charges in relation to Value Creation Plan award to the management team; and
- cost incurred on refinancing as result of the IPO.

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 2021 €000 | Year to 30 September 2020 €000 |
|------------------------------|---|---|
| Reported revenue growth | 17.2% | 3.0% |
| Like-for-Like revenue growth | 6.5% | (5.2%) |

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 Sapphire 117 Limited and Vaucluse Diffusion SAS.

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|--------------------------|---|---|
| Reported EBITDA | 629,279 | 422,624 |
| Non-underlying items | 17,263 | 19,699 |
| Underlying EBITDA | 646,542 | 442,323 |

27. Alternative Performance Measures (APM) (continued)

Underlying profit before-tax

Underlying profit before tax is defined as reported profit before tax excluding the impact of non-underlying items. Prior year underlying profit before tax also excludes the impact of the discontinued operations Sapphire 117 Limited.

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|-------------------------------------|---|---|
| Reported profit before tax | 196,337 | 17,647 |
| Other non-underlying items | 47,504 | 31,759 |
| Underlying profit before tax | 243,841 | 49,406 |

Cash generated by operations

Cash generated by operations is defined as net cash from operating activities excluding tax.

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|-------------------------------------|---|---|
| Net cash from operating activities | 702,416 | 579,571 |
| Tax paid | 49,580 | 48,758 |
| Cash Generated by Operations | 751,996 | 628,329 |

Underlying EBITDA per store

The Group uses underlying store EBITDA to assess the profitability of its portfolio of stores. This measure is calculated by dividing the Underlying EBITDA for the reporting period by the total number for stores open at the end of the reporting period.

| | Year to 30 September 2021 €000 | Year to 30 September 2020 €000 |
|------------------------------------|---|---|
| Underlying EBITDA | 646,542 | 442,323 |
| Stores | 3,504 | 3,021 |
| Underlying EBITDA per store | 184.52 | 146.42 |

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 2021 €000 | Year to 30 September 2020 €000 |
|-----------------------|---|---|
| Gross profit | 1,768,893 | 1,433,124 |
| Revenue | 4,121,801 | 3,517,879 |
| Gross margin % | 42.9% | 40.7% |

27. Alternative Performance Measures (APM) (continued)

Net Debt (Frozen GAAP)

The Group uses Net Debt because the Group believes this measure provide 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 Groups financing agreements.

| | Year to 30 September 2021 | Year to 30 September 2020 |
|---|---------------------------------|---------------------------------|
| | €000 | €000 |
| Borrowings from credit institutions | 610,792 | 486,028 |
| Capitalised OID add back | – | 10,500 |
| Loans from related parties | – | 224,173 |
| Obligations under finance leases | 4,969 | 7,724 |
| Gross debt (excluding IFRS 16 lease liabilities) | 615,761 | 728,425 |
| Closing cash balance | (507,702) | (400,167) |
| Net debt (excluding IFRS 16 lease liabilities) | 108,059 | 328,258 |

1 IFRS 16 lease liability is excluded from the Gross debt definition under the Groups 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 Sapphire 117 Limited and Vaucluse Diffusion SAS.

| | Year to 30 September 2021 | Year to 30 September 2020 |
|--|---------------------------------|---------------------------------|
| | €000 | €000 |
| Reported EBITDA | 629,279 | 422,624 |
| Non-underlying items | 17,263 | 19,699 |
| IFRS 16 adjustments | (246,124) | (213,412) |
| Underlying EBITDA (pre-IFRS 16) | 400,418 | 228,911 |

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 operations Sapphire 117 Limited.

| | Year to 30 September 2021 | Year to 30 September 2020 |
|---|---------------------------------|---------------------------------|
| | €000 | €000 |
| Reported profit before tax | 196,337 | 17,647 |
| Non-underlying items | 47,504 | 31,759 |
| IFRS 16 adjustments | 13,151 | 34,316 |
| Underlying profit before tax (pre-IFRS 16) | 256,992 | 83,722 |

28. Subsequent events

There are no reportable subsequent events.

29. 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 4th Floor Pall Mall Works, 17-19 Cockspur Street, London, United Kingdom, SW1Y 5BL.

At the reporting date, the Company's ultimate parent company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange. The most senior parent entity producing publicly available financial statements is Steinhoff International Holdings N.V. These financial statements are available upon request at www.steinhoffinternational.com.

30. Earnings per share

| | Year to 30 September 2021 € | Year to 30 September 2020 € |
|---|--------------------------------------|--------------------------------------|
| Basic earnings per share | | |
| Earnings per share from continuing operations | 27.0 | 0.1 |
| Earnings per share from discontinued operations | (0.0) | (0.2) |
| Earnings per share | 26.9 | (0.1) |
| Earnings per share from continuing operations adjusted for non-underlying items | 35.2 | 5.6 |
| Diluted earnings per share | | |
| Diluted earnings per share from continuing operations | 26.8 | 0.1 |
| Diluted earnings per share from discontinued operations | (0.0) | (0.2) |
| Diluted earnings per share | 26.7 | 0.1 |
| Diluted earnings per share from continuing operations adjusted for non-underlying items | 35.0 | 5.6 |

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 2021 €000 | Year to 30 September 2020 €000 |
|--|---|---|
| Profit(loss) from continuing operations attributable to the ordinary equity holders of the company | 154,970 | 402 |
| Add back non-underlying items: | | |
| IPO related expenses | 21,119 | 12,060 |
| Group Value Creation Plan ("VCP") | 15,426 | 13,300 |
| Other non-underlying items | 1,837 | 6,399 |
| IPO related refinancing expenses | 9,122 | – |
| Adjusted profit attributable to the ordinary equity holders of the company | 202,474 | 32,161 |

The following table reflects the share data used in the basic and diluted earnings per share calculations:

| | Year to 30 September 2021 '000 | Year to 30 September 2020 '000 |
|---|---|---|
| Weighted average number of shares | | |
| Weighted average number of ordinary shares in issue | 575,000 | 570,500 |
| Weighted average number of shares for basic earnings per share | 575,000 | 570,500 |
| Weighted average of dilutive potential shares | 4,113 | 4,113 |
| Weighted average number of shares for diluted earnings per share | 579,113 | 574,613 |

31. Other information

Distribution of profit

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.

Amounts of net income not paid in the form of dividends will be added to the retained earnings.

Distribution of profit

No dividends were declared by Pepco Group N.V. for the 2021 Reporting Period.

Approval and signatories

London (United Kingdom), 13 December 2021

Executive Directors

Andy Bond, Chief Executive Officer
Nick Wharton, 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
H Helen Lee Bouygues, Non-Executive Director
Paul Soldatos, Non-Executive Director



PEPCO GROUP N.V.
SEPARATE FINANCIAL STATEMENTS

September 2021
Registered number: 81928491

SEPARATE INCOME STATEMENT

for the period ended 30 September 2021

| €000 | Note | Period to 30 September 2021 |
|--|------|-----------------------------------|
| Administrative expenses | | (287) |
| Operating loss for the period | 2 | (287) |
| Financial income | 3 | 665 |
| Financial expense | 4 | (662) |
| Loss before taxation for the period | | (284) |
| Taxation | 5 | - |
| Loss for the period | | (284) |

There was no other comprehensive income for the period.

The notes on pages 128 to 134 form part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

at 30 September 2021

| | Note | 30 September 2021 €000 | 17 February 2021 ¹ €000 |
|-------------------------------------|------|------------------------------|--|
| Non-current assets | | | |
| Investment in subsidiary companies | 6 | 693,100 | – |
| Trade and other receivables | 7 | 55 | – |
| | | 693,155 | – |
| Current assets | | | |
| Trade and other receivables | 7 | 1 | – |
| Cash and cash equivalents | | 3 | – |
| | | 4 | – |
| Total assets | | 693,159 | – |
| Equity and liabilities | | | |
| Capital and reserves | | | |
| Share capital | 9 | 5,750 | – |
| Share premium reserve | 9 | 663,599 | – |
| Share based payment reserve | 9 | 23,809 | – |
| Accumulated losses | | (284) | – |
| Total shareholders' equity | | 692,874 | – |
| Current liabilities | | | |
| Trade and other payables | 8 | 285 | – |
| Total equity and liabilities | | 693,159 | – |

The notes on pages 128 to 134 form part of these financial statements.

- 1 The Company was incorporated on 17 February 2021. The initial share capital issued was 1 share of €1.00 with consideration left outstanding on the date of incorporation.

SEPARATE STATEMENT OF CHANGES IN EQUITY**for the period ended 30 September 2021**

| | Share capital €000 | Share premium reserve €000 | Share based payment reserve €000 | Retained earnings €000 | Total equity €000 |
|--|-----------------------|----------------------------------|--|---------------------------|-------------------------|
| 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 | 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 |

Refer to note 9 for a description of each reserve held within equity and details of movements in the period.

The notes on pages 128 to 134 form part of these financial statements.

- 1 The Company was incorporated on 17 February 2021. The initial share capital issued was 1 share of €1.00 with consideration left outstanding on the date of incorporation.

SEPARATE STATEMENT OF CASH FLOWS

for the period ended 30 September 2021

| | Note | 30 September 2021 €000 |
|--|------|------------------------------|
| Cash flows from operating activities | | |
| Cash utilised in operations | 10 | - |
| Net cash outflow from operating activities | | |
| Cash flows from investing activities | | |
| Loans made to Group undertakings | | (246,346) |
| Proceeds from repayment of loans to Group undertakings | | 246,291 |
| Interest received | | 662 |
| Net cash inflow from investing activities | | |
| 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 | | |
| Net increase in cash and cash equivalents | | |
| Cash and cash equivalents at end of period | | |
| | | 3 |
| | | 3 |

The notes on pages 128 to 134 form part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. Significant accounting policies

Pepco Group N.V. is a public limited company which is listed on the Warsaw Stock Exchange and incorporated on 17 February 2021 as a UK tax resident entity.

As part of a group reorganisation undertaken during the year, the Company acquired the entire shareholding of Pepco Group Limited from Steinhoff Holdings Limited on 13 May 2021 ("acquisition date"), in a share for share exchange by issuing its ordinary shares. Consequently the Company became the immediate holding company for Pepco Group Limited. The Company is a United Kingdom tax resident.

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 20 of The Consolidated Financial Statements 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.

Since these are the first separate financial statements for the company, the comparative period has not been presented.

Unless otherwise stated, the accounting policies applied are the same as those in the Consolidated Financial Statements.

1.1 Measurement convention

The 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.

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. Fair value for measurement and/or disclosure purposes in these separate 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.

a. Going concern

The separate financial statements have been prepared on a going concern basis.

In the 2021 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.

b. Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment provisions as per IAS 27. 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 20 of the Consolidated Financial Statements for more details surrounding the common control acquisition made during the period.

c. Shareholders' equity

The reserves are recognised in accordance with the Dutch Civil Code.

d. 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.

e. 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.

SEPARATE FINANCIAL STATEMENTS

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.

f. 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

| | Year to 30 September 2021 €000 |
|---------------------------------|---|
| Administrative expenses: | |
| Staff costs | (287) |
| | (287) |

The Company does not have any employees. Staff costs relate to the cost of non-executive directors borne by another Group entity and recharged to the Company. Details of directors' remuneration can be found in the remuneration report on pages 65 to 74.

Auditor's remuneration, payable to the company's auditors Mazars, 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 2021 €000 |
|--|---|
| Interest receivable on loans to Group undertakings | 663 |
| Other financial income | 2 |
| | 665 |

4. Financial expense

| | Year to 30 September 2021 €000 |
|---|---|
| Interest expense on loans from Group undertakings | 662 |
| | 662 |

5. Taxation

Analysis of charge for the year

| | Year to 30 September 2021 €000 |
|--|---|
| Current tax | |
| Current tax on income for the period | – |
| Adjustments in respect of prior periods | – |
| Total current tax charge | – |
| Deferred tax | |
| Origination and reversal of temporary timing differences | – |
| Total deferred tax credit | – |
| Total charge for the period | – |

5. Taxation (continued)**Factors affecting the tax credit for the year**

| | Year to 30 September 2021 €000 |
|---|---|
| Loss before tax | (284) |
| | (284) |
| Current tax at 19% (United Kingdom corporate taxation rate) | (54) |
| Effect of: | |
| Unrecognised deferred tax | 54 |
| Income tax charge | - |

Factors that may affect future current and total tax charges

The corporation tax rate for the year ended 30 September 2021 was 19%. On 03 March 2021, using the Provisional Collection of Taxes Act 1968, the UK Government proposed increase in corporation tax rate to 25% from 1 April 2023.

6. Investments in subsidiaries

| | Country of Incorporation | Issued share capital | Shareholding % | Total carrying value €000 |
|---------------------|-----------------------------|-------------------------|-------------------|---------------------------------|
| Pepco Group Limited | United Kingdom | £1,801 | 100 | 693,100 |

On 13th 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 2021 €000 |
|---|---------------------------|
| Historical cost | 669,291 |
| Contributions to subsidiaries | |
| Group share based payments ¹ | 23,809 |
| | 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, These are 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 2021 €000 |
|--|---------------------------|
| Non-current trade and other receivables | |
| Loans to Group undertakings | 55 |
| Current trade and other receivables | |
| Interest due from Group undertakings | 1 |

8. Trade and other payables

| | 30 September 2021 €000 |
|---|---------------------------|
| Current trade and other payables | |
| Amounts due to Group undertakings | 285 |

9. Share capital and reserves30 September 2021
€000

| | |
|---|---------------|
| Authorised share capital | |
| 1,725,000,000 Ordinary shares of €0.01 each | 17,250 |
| Issued share capital | |
| 575,000,000 Ordinary shares of €0.01 each | 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.

On incorporation, the Company issued 1 share for consideration of €1. On 8th March 2021, the Company issued an additional 44,999 shares for consideration of €58,000. The difference between the nominal value of the shares and the consideration received of €13,000 was recognised in share premium.

On 13th May 2021, the Company acquired the entire share capital of Pepco Group Limited in exchange for 5,115,318 'A' Ordinary shares, 48,060 'B' Ordinary shares and 15,225 'C' Ordinary shares. The deemed consideration on the transaction was the net asset value of Pepco Group Limited on 13th May 2021 of €669,291,000, therefore the difference between the nominal value of the shares and the consideration received of €664,112,000 was recognised in share premium.

On 14th May 2021, the existing 48,060 'B' Ordinary and 15,225 'C' Ordinary shares were converted into 589,682 'A' Ordinary shares. The difference between the nominal value of the converted shares and the new shares of €526,000 was deducted from the existing share premium.

Share premium reserve

The closing share premium reserve on 30th September 2021 was €663,599,000.

Share based payment reserve

This reserve comprises the cumulative value of shares to be issued as a result of 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 2021 €000 |
| Loss before tax | (284) |
| Adjusted for: | |
| Net foreign exchange gains | (2) |
| Financial income | (663) |
| Financial expense | 662 |
| Cash generated from operations before changes in working capital | (287) |
| Changes in working capital: | |
| Increase in trade and other payables | 287 |
| Net changes in working capital | 287 |
| Cash generated from operations | - |

Net debt reconciliation

| | |
|--|------------------------------|
| | 30 September 2021 €000 |
| Cash and cash equivalents | 3 |
| Loans receivable from Group undertakings | 55 |
| | 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 2021 €000 |
|-------------------------------|---|
| Interest income: | |
| Pepco Group Limited | 662 |
| Peu (Fin) Limited | 1 |
| | 663 |
| Finance cost: | |
| Steinhoff UK Holdings Limited | 662 |
| Loans receivable: | |
| Peu (Fin) Limited | 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 2021 €000 |
|--------------------------------------|---------------------------|
| Related party loans receivable | 55 |
| Non-current financial assets | 55 |
| Related party loans receivable | 1 |
| Cash and cash equivalents | 3 |
| Current financial assets | 4 |
| Amounts owed to Group undertakings | (285) |
| Current financial liabilities | (285) |

No items were classified as "at fair value through profit or loss" or "at fair value through other comprehensive income" during the 2021 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 pounds denominated related party loans receivable, cash and cash equivalents and amounts owed to Group undertakings.

| | 30 September 2021 €000 |
|------------------------------------|---------------------------|
| Related party loans receivable | 56 |
| Cash and cash equivalents | 3 |
| Amounts owed to Group undertakings | (285) |
| | (226) |

12. Financial risk management (continued)**Sensitivity analysis**

The table below indicates the Company's sensitivity at the Reporting Date to the movements in the British pound that the Company is exposed to on its financial instruments.

| | 30 September 2021 |
|--|-------------------|
| | €000 |
| Through profit/(loss) | |
| British pound strengthening by 10% to the euro | (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:

| | Variable LIBOR €000 | Non-interest bearing €000 | Total €000 |
|-------------------------------|---------------------------|---------------------------------|---------------|
| Non-current financial assets | 55 | – | 55 |
| Current financial assets | – | 4 | 4 |
| Current financial liabilities | – | (285) | (285) |
| | 55 | (281) | (226) |

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 2021, 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

| | Total equity €000 | Net profit For the period €000 |
|---|----------------------|--------------------------------------|
| Shareholders' Common equity and net profit for the period according to separate income statement | 692,874 | (284) |
| Share of subsidiaries consolidated profit for the period | 155,081 | 155,081 |
| Share of subsidiaries consolidated other comprehensive income for the period | 87,136 | – |
| Prior period share of subsidiaries consolidated total comprehensive income for the period and other reserve movements | 72,562 | – |
| Group equity and profit after tax for the period according to consolidated income statement | 1,007,651 | 154,797 |

The board of directors propose to transfer the profit for the year to the retained earnings

14. Subsequent events

There are no reportable subsequent events.

15. 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 4th Floor Pall Mall Works, 17-19 Cockspur Street, London, United Kingdom, SW1Y 5BL.

At the reporting date, the Company's ultimate parent company was Steinhoff International Holdings N.V., an entity listed on the Frankfurt Stock Exchange. The most senior parent entity producing publicly available financial statements is Steinhoff International Holdings N.V. These financial statements are available upon request at www.steinhoffinternational.com.

16. Approval and signatories

London (United Kingdom), 13 December 2021

Executive Directors

Andy Bond, Chief Executive Officer
Nick Wharton, 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
H Helen Lee Bouygues, Non-Executive Director
Paul Soldatos, Non-Executive Director

INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of Directors of Pepco Group N.V.

Report on the audit of the financial statements for the year ended 30 September 2021 included in the Annual Report

Our opinion

We have audited the financial statements for the year ended 30 September 2021 of Pepco Group N.V. based in Amsterdam. The financial statements include the consolidated financial statements and the separate financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Pepco Group N.V. as at 30 September 2021, and of its result and its cash flows for the year then ended 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 accompanying separate financial statements give a true and fair view of the financial position of Pepco Group N.V. as at 30 September 2021 and of its result and its cash flow for the year then ended 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 consolidated financial statements comprise:

1. the consolidated statement of financial position as at 30 September 2021;
2. the following statements for the year ended 30 September 2021: the consolidated statement of profit and loss, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The separate financial statements comprise:

1. the separate statement of financial position as at 30 September 2021;
2. the following statements for the year ended 30 September 2021: the separate statement of profit and loss, the separate statements of comprehensive income, changes in shareholders' equity and cash flows; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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.

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 opinion.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 17.0 million. The materiality is based on 7.5% of the profit before tax, adjusted for non-recurring items. 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 Board of Directors that we would report to them misstatements identified during our audit above € 509k, as well as misstatements below these amounts that in our view must be reported on qualitative grounds

Scope of the group audit

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of Pepco Group N.V., its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

We involved component auditors from the Mazars network, who are familiar with local laws and regulations and who applied full scope audits. These component auditors are located in Poland and the United Kingdom. In order to take responsibility as Group auditor in line with auditing standards, we visited our component auditors, performed a file review on their files and discussed with them the outcome of audit procedures.

By performing the procedures mentioned above, 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 about the consolidated financial statements.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of an international retail company. We included specialists in the areas of IT, tax and valuations in our team.

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 have 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 |
|---|--|
| <p>Carrying Value of Goodwill</p> <p>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 intangible assets (goodwill) is set out in Note 1.29 of the consolidated financial statements.</p> <p>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.</p> <p>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.</p> | <ul style="list-style-type: none"> • 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. • 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. • 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; • 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; • We have audited the directors' sensitivity analysis to assess the impact of potential changes in assumptions; • We verified the mathematical accuracy of the models and agreed these models with relevant data; • We evaluated the reasonableness of the disclosures made in the financial statements in relation to the carrying value of goodwill. |

OTHER INFORMATION

| | |
|---|--|
| | <p>Our observations</p> <p>Based on the procedures performed, we are satisfied that the carrying value of the goodwill in the financial statements is reasonable.</p> |
| <p>Valuation of Right of Use Assets</p> <p>The group's accounting policy in respect of lease accounting is set out in the accounting policy notes of the consolidated financial statements (Note 1.20). The directors' disclosure on the 'Accounting estimates and judgements' in relation to impairment of intangible assets (right-of-use asset) is set out in Note 1.29 of the consolidated financial statements.</p> <p>The carrying value of Right-of-Use assets at 30 September 2021 is € 958.8m (2020: € 806.9m).</p> <p>The Group has material operational retail asset base (retail stores) subject to impairment dependent on trading performance. Due to the significant impact of the Covid-19 pandemic on the retail sector, and judgements used in assessing the recoverable amount of each retail store classed as a CGU, we considered the valuation of ROU assets to be a key audit matter.</p> | <ul style="list-style-type: none"> • We evaluated the design effectiveness of controls related to the valuation of the rights of use assets; • We obtained and audited management's impairment assessment; • We assessed the underlying assumptions behind the impairment model to ensure these are reasonable; • We obtained an understanding of how management had developed their forecast for future trading conditions, comparing the forecasts used in the impairment review with those used for assessment of goodwill and going concern, and considered the impact of any differences identified; and • We reviewed the disclosures made in the financial statements to ensure they cover the requirements under IFRS 16 and IAS 36. <p>Our observations</p> <p>Based on the procedures performed, we are satisfied that the carrying value of ROU assets in the financial statements is reasonable.</p> |

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- Directors' Report;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code; and
- other information included in the sections: Strategic Report, Governance and Remuneration Report.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code and articles 2:135b and 2:145 paragraph 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, article 2:135b paragraph 7 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 the Directors' Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, the Remuneration Report in accordance with the articles 2:135b and 2:145 paragraph 2 of the Dutch Civil Code, and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Board of Directors as auditor of Pepco Group N.V. on 26 May 2021 for the audit of the year ended at 30 September 2021 and have operated as statutory auditor ever since that date.

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.

Description of responsibilities regarding the financial statements

Responsibilities of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management 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 Board of Directors 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 assignment 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 skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- 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 company'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 Board of Directors 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.

OTHER INFORMATION

We provided the Board of Directors 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 Board of Directors, 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, 13 December 2021

Mazars Accountants N.V.

drs. N. Habers 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 2021 Reporting Period.

OTHER INFORMATION

List of branches

The table below lists all branches of the Company as well as of 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 (HK) | China (Hong Kong) |
| Fully Sun China Limited – Taiwan | Taiwan | Taiwan | Reg no 53665194 | Fully Sun China Limited (HK) | China (Hong Kong) |
| Isle of Man | Isle of Man | UK (Isle of Man) | Tax reference No: C145894-73 | Poundland Limited | UK |
| Ireland | Ireland | UK (Ireland) | Tax reference: 9798866A | Poundland Limited | UK |

Statutory list of all subsidiaries and affiliated companies

as at 30 September 2021

This list forms part of the notes to the 2021 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% | Unit B, 120 Weston Street, London, SE1 4GS |
| Peu (Fin) Limited | UK | 11808114 | 100% | Unit B, 120 Weston Street, London, SE1 4GS |
| Peu (Tre) Limited | UK | 11808312 | 100% | Unit B, 120 Weston Street, London, SE1 4GS |
| Pepco Group Services Limited | UK | 10972213 | 100% | Unit B, 120 Weston Street, London, SE1 4GS |
| Poundland UK & Europe Limited | UK | 09127615 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Group Limited | UK | 08861243 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Group Holdings Limited | UK | 07036164 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Holdings Limited | UK | 04386329 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Trustee Limited | UK | 05018557 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Value Retailing Limited | UK | 07115506 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Retail Limited | UK | 07115540 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Poundland Willenhall Limited | UK | 04386315 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Family Bargains (Retail) Limited | UK | 07248690 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| M&O Business Systems Limited | UK | 01317353 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Bargain Limited | UK | 03856013 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Sheptonview Limited | UK | 01721545 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| Homes & More Limited | UK | 03501298 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |

OTHER INFORMATION

| | | | | |
|---------------------------------|-------------|-----------------|------|---|
| Dealz Retailing (Ireland) | Ireland | 541977 | 100% | Unit 3 Westend Retail Park, Blanchardstown, Dublin 15 |
| Poundland Stores Limited | UK | 02376949 | 100% | Poundland Csc, Midland Road, Walsall, United Kingdom, WS1 3TX |
| 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 |
| Poundland Elgin Limited | UK | 12111238 | 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, Mòdulo A, Planta Baja Par No., Esc. P, El Prat de Llobregat |

OTHER INFORMATION

| | | | | |
|---------------------------------------|-------------------|-----------------------|------|--|
| 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 | U74999HR2018FTC073537 | 100% | 10 th Floor, Unit Nr 1004, Magnum Towers, Sector 58, Gurgaon, 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 | IřãO 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 | IřãO 46 868 674 | 100% | Nevádzova 6, Ružinov, Bratislava, 821 01, Slovakia |
| Pepco Croatia d.o.o. | Croatia | MBS 081038164 | 100% | Zagreb (Grad Zagreb), Damira Tomljanovića Gavrana 11 |

OTHER INFORMATION

| | | | | |
|-----------------------------------|-----------|-------------|------|---|
| 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 | Alternative Performance Measure |
| 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 |
| 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 | Pepeco 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 |
| DCGC | Dutch Corporate Governance Code |
| Dealz | FMCG-led price-anchored retailer (non-UK) |
| EAP | Equity Award Plan |

OTHER INFORMATION

| | |
|-------------------------------|--|
| EBITDA | Operating profit or loss before depreciation and amortisation adjusted for capital and reclassification items |
| 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 |
| FVOCI | Fair Value through Other Comprehensive Income |
| FVTPL | Fair Value Through Profit and Loss |
| FY20 | 1 st October 2019 to 30 th September 2020 |
| FY21 | 1 st October 2020 to 30 th September 2021 |
| 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 the 26 May 2021 the Company was admitted for listing on the Warsaw Stock Exchange |
| LFL | Like-for-like |
| LTIP | Long Term Incentive Plan |
| Mazars | Mazars Accountants N.V., the Company's external auditor |
| NED | Non-executive director |
| NPS | Net promoter score |
| 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 |
| PwC | PricewaterhouseCoopers |
| 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 |
| VCP | Value Creation Plan |
| WE | Western Europe |
| WSE | Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie) |
| WSE Code | Code of Best Practice for GPW Listed Companies 2021 |
| YOY | Year on year |