12 December 2023

Pepco Group N.V.

Preliminary results for the year to 30 September 2023

Building a foundation for profitable growth

Pepco Group, the fast-growing pan-European variety discount retailer, today reports preliminary unaudited results for the 12 months ending 30 September 2023.[1]

KEY HIGHLIGHTS

- Record full year Group revenue of €5,649m, up 17.7% on a constant currency basis, driven by Pepco growth of 24.8% and Poundland Group growth of 8.4%
- FY23 underlying EBITDA (IFRS 16) of €753m, up 3.1% on a constant currency basis
- Refocused strategy launched to drive core profitability through a more disciplined approach to growth and investment
- Total number of stores at the end of FY23 of 4,629[2], with 668 net new stores equating to 16.9% year-on-year ("YoY"), driven by growth of Pepco
- Expected to open at least 400 net new stores across all formats in FY24 – with the Pepco brand accounting for the highest number

FINANCIAL PERFORMANCE

Pepco Group	FY23	FY22	YoY (reported)	YoY (constant)[2]
Revenue (€m)	**5,649**	4,823	17.1%	17.7%
Like-for-like revenue (%)[3]	**+6.0%**	+5.2%	n/a	0.8pp
Gross profit (€m)	**2,268**	1,968	15.3%	15.6%
Gross profit margin (%)	**40.1%**	40.8%	(0.7)pp	(0.7)pp
Underlying (IFRS 16) EBITDA[4] (€m)	**753**	731	3.1%	3.1%
Underlying (pre-IFRS 16) EBITDA[4] (€m)	**396**	439	-9.9%	-10.0%
Underlying PBT (€m)	**202**	300	-32.7%	-33.7%
Non-underlying items (€m)	**(55)**	(75)	26.3%	27.3%
Reported PBT (€m)	**147**	226	-34.9%	-35.8%
Reported PAT (€m)	**102**	174	-41.1%	-42.3%

	FY23	FY22	YoY (reported)
Net debt[5] (pre-IFRS 16, €m)	**411**	275	49.4%
Basic EPS (€ cents)	**17.8**	30.2	(12.4)

- FY23 Group revenue of €5,649m, growing +17.7% YoY at constant currency
- LFL revenue growth of +6.0% during the year
    - Pepco +6.3% and Poundland Group +5.6%
- Gross margin of 40.1% in full year, with an expected improvement in FY24 as cost input inflation eases
- Underlying EBITDA (IFRS 16) of €753m up 3.1% YoY at constant currency; EBITDA (pre-IFRS 16) declined 10.0% year-on-year reflecting higher rent costs as new store openings accelerated
- Underlying PBT of €202m down 33.7% YoY at constant currency, reflecting investment in stores, expansion and related supply chain costs, alongside higher inflation and higher interest costs
- Net debt at end of FY23 was €411m (pre-IFRS 16), representing 1.0x EBITDA (pre-IFRS 16) leverage

Commenting on the results, Andy Bond, Executive Chair of Pepco Group, said:

“Despite a challenging market backdrop, we delivered another year of strategic progress and record sales of €5,649m, against a strong prior year comparative. We opened a record number of 668 net new stores, primarily with the Pepco brand in Central and Eastern Europe, but also in Western Europe, with new store openings in the region approaching half of the total introduced – amid encouraging progress into Western Europe in countries such as Spain and Italy.

“That said, our overall performance was mixed with a disappointing profit outturn. As we laid out at our Capital Markets Day in October, we are acting decisively to address this, reaffirming our strategy to deliver more measured growth – doing less, to achieve more – with a greater focus on improving profitability and cash generation. This includes a more targeted approach to new store openings in existing markets, and our renewed focus on transitioning into one single business through a unified customer offer and sourcing strategy, helping us drive enhanced cost and operational efficiency.

“We also committed to the UK as the Group’s largest market. Our ambition is to continue the strong progress made by the team, such as the ongoing enhancement of Poundland’s proposition, including introducing clothing powered by Pepco in stores, alongside its extensive FMCG range that is appreciated by customers.

“The expertise and dedication of our colleagues are central to the Group’s progress, and I would like to take this opportunity to thank all of our colleagues for their hard work in working towards our strategic priorities.

“Looking ahead to 2024, while we expect industry-wide short-term sales challenges to continue, we are cautiously encouraged by recent third-party data pointing to an expected easing of certain pressures on household budgets, particularly in Central and Eastern Europe. We also continue to expect gross margin recovery throughout the year, and are already seeing encouraging signs here. The Group has a market-leading customer proposition, a strong balance sheet, and resilient operating cash flow to continue success across Europe. The opportunities in our core markets remain significant, and we will leverage them in a more targeted way, with an enhanced emphasis on capital, returns, and free cash flow, helping to grow the business in line with our renewed strategy.”

CONFERENCE CALL

Pepco Group will host a conference call for analysts and investors to discuss its FY23 preliminary results on Tuesday 12 December 2023 at 8.30am GMT (9.30am CET). Investors and analysts who would like to participate in the Q&A session can dial in using the relevant number below and quote "**Pepco Preliminary Results**".

Location	**Phone Number**
Poland	+48 22 397 9053
United Kingdom	+44 (0) 33 0551 0200 / +44 (0) 808 109 0700
United States	+1 786-697-3501

Alternatively, a live audio webcast of the call will be available via the following link:
https://brrmedia.news/PCO_PR23

FORTHCOMING DATES

The Group intends to issue the following update in the near future:

- Q1 FY24 trading update: 18 January 2024

ENQUIRIES

Investors and analysts

Tej Randhawa, Investor Relations	+44 (0) 203 735 9210
Joanna Kwak, Investor Relations	+44 (0) 203 735 9210

Media

Rollo Head, FGS Global	+44 (0) 7768 994 987
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EXPLANATORY NOTES

1. The Group financials are prepared on an unaudited basis for the 12-month period ending 30 September 2023. Within this Pepco operates on a calendar month basis with the 12-month period ending on 30 September 2023, and Poundland Group primarily operates on a trading week basis with the 53-week period ending on 1 October 2023.

2. Constant Currency variances re-translate the current year figures at prior year FX rates so that the year-on-year FX impact is negated (all other figures including Actual Currency variances are translated at the average FX rate for the month in which they are made).

3. LFL revenue growth is translated at constant currency and defined as year-on-year revenue growth for stores open beyond their trading anniversary.

4. Underlying EBITDA is defined as profit on ordinary activities (excluding non-underlying items) net of depreciation, amortisation, interest and taxation. Note that pre-IFRS 16 EBITDA differs to IFRS 16 EBITDA to reflect rental costs included in EBITDA.

5. Net financial debt represents borrowings from credit institutions and finance lease liabilities (pre-IFRS 16) net of cash and bank balances.

BUSINESS REVIEW

Our core strategy is outlined by the key pillars below:

- Optimising and expanding our store network
- Enhancing the customer offer
- Driving cost and operational efficiency
- Investing in infrastructure and people to support growth

Optimising and expanding our store network

The Group delivered a record 668 net new store openings in 2023 (826 store openings and 158 store closures). As previously announced, going forward, we will adopt a more disciplined approach to growth, with new store openings focused on our existing markets and an enhanced emphasis on maximising capital returns and free cash flow. We plan to open at least 400 net new stores across the Group in FY24.

Using our proven, profitable and scalable model, we will look to strengthen the Group's store profitability and customer positioning in key regions, with a particular focus on our core Central and Eastern European (CEE) business, as well as growing scale in Italy and Spain, our largest markets in Western Europe. We have also committed firmly to the UK as the Group's largest market by revenue, with an ambition for it to become the most profitable country over the medium term.

New store openings across FY23 by brand

	Pepco	**Poundland**	**Dealz**	**Total**
Store numbers at end of FY22	2,967	821	173	3,961
New openings	656	53	117	826
Closures	(100)	(51)	(7)	(158)
Store numbers at end of FY23	**3,523**	**823**	**283**	**4,629**
Net new openings	*556*	*2*	*110*	*668*

Note: The opening balance of 2,910 Pepco stores (as at 30 September 2022) has been restated to 2,967 to account for the Dealz Spain stores which were converted to Pepco stores. At the end of FY22, there were 57 Spanish Dealz stores included within the Poundland Group store total that are now included within the opening FY23 Pepco base 2,910 + 57 = 2,967. This includes 15 converted in FY22 and 42 in FY23. Converted stores are assumed to be LFL stores within the Pepco base. Dealz includes 5 Dealz Spain stores permanently closed and not converted to Pepco.

Pepco

The Group opened 556 net new Pepco stores during the 2023 financial year. This includes 294 net new stores in CEE and 262 net new stores in Western Europe, our fastest growing region.

There remains a significant white space opportunity in our core CEE markets, particularly outside Poland. In Poland, we had 1,256 stores in operation at the period end. We launched the Pepco brand in Bosnia and Herzegovina in September 2023, with nine stores operating at the period end and a strong entry into the region. In March, Pepco opened its 100th store in Serbia, where the brand continues to strengthen its presence and further capitalise on strong consumer demand in the country.

Western Europe remains an important area of growth for Pepco, with new store openings in the region approaching half of the total opened across the year. Italy and Spain remain our largest and fastest-growing Western Europe territories, and we will focus new openings in these countries in FY24 in order to create greater scale efficiencies through network density. At the year end, Pepco operated 205 stores in Spain and 157 in Italy. Revenue performance across the estate generally remains strong, particularly in our larger Pepco 'Plus' stores in Spain, which include FMCG categories, while we have work to do to improve the store contribution margins and investment returns. This will be a focus area in 2024.

During FY23, we opened in two new regions in Western Europe – Greece and Portugal. Having launched our first stores in Greece in October 2022, we currently operate 22 stores in the country with a positive customer reception and performance to date. In May 2023, Pepco launched its first stores in Portugal, following the successful rollout in Spain, and we currently have 14 stores with a plan to add sites selectively over the coming year. Going forward, the majority of new Pepco stores in Western Europe will combine the best of the Group's clothing, general merchandise ("GM") and FMCG ranges.

<u>Poundland</u>

We see strong potential in the UK discount space over the coming years, as one of the largest markets in Europe, which is forecast to grow quicker than Germany and France[1]. To take advantage of this, we will ensure that Poundland can leverage this growth by adapting our product ranges to Pepco's strength in clothing and GM over FY24. We will also accelerate the opening of new stores and selectively refresh our existing estate to deliver an enhanced customer experience.

Poundland opened 53 stores during FY23, while closing 51 underperforming stores as part of its long-term estate management plan. In September 2023, Poundland agreed to take control of up to 71 Wilko store leases in the UK. By early mid-December 2023, 64 former Wilko stores had already been reopened as Poundland stores, with 10 stores opening in the FY23 financial year and the balance at the start of FY24. The stores will trade through the important Christmas trading period of 2023, carrying the new range of Pepco clothing, alongside the extensive FMCG and general merchandise ranges that Poundland is known for.

We will selectively continue our store development programme, where we can deliver target return on investment. This includes upgrading both external and internal signage, upgrading lighting, new flooring and upgraded colleague areas. We will also look to deliver incremental store space growth which allows us to extend our ranges and drive existing store profitability.

<u>Dealz</u>

Following a strategic review of our operating brands, Dealz will now focus on developing its business in Poland over the next 12 months, with further expansion into Central and Eastern Europe contingent on delivering the appropriate level of profitability and returns.

Our Dealz stores complement the Pepco business in Poland, offering unique international FMCG brands and general merchandise with 3,000 products across 15 categories. Brand awareness is growing quickly for our key target customers aged between 19-45 years old, with over 750,000 customers shopping at Dealz every week.

Dealz Poland opened 110 net new stores during the period, reaching a landmark of 283 stores at the year end, with an expectation of reaching 300 stores by the end of the 2023 calendar year. The vision for Dealz is to become the largest value discounter in Poland, with a potential to operate 1,000 stores in Poland.

<u>Enhancing the customer offer</u>

The Group's ambition remains to be Europe's leading variety discount retailer. It will achieve this by offering quality clothing, general merchandise and FMCG products at the best prices, with stores conveniently located close to our customers, whether that is in high streets, retail parks or shopping malls. Maintaining our price leadership is critical in order to provide a compelling value proposition for our customers and grow market share.
As part of our commitment to provide value to our customers, we remain focused on providing sustainable and ethically produced products. One of the most impactful ways we can positively contribute to our customers and communities is through offering a larger range of affordable and sustainable products available in our stores.

[1] Source: Globaldata 5 Year Retail Market Forecast – August 2023

Store refits and renewals

At the start of 2023, we commenced our Pepco "New Look" programme, where we were initially targeting to re-fit all 2,500 Pepco stores in CEE by the end of 2025. Initial trading in refitted stores had been promising with early LFL performance up over 10 per cent against a control group of stores. However, as a result of a challenging market backdrop and weaker consumer environment in our core CEE markets, the programme has not delivered the required level of incremental sales and returns to justify the capital spend. As a result, the programme is currently under review while we evaluate its direction and understand the reasons behind the performance.

During FY23, we completed 715 conversions across Poland, Czechia, Romania, Slovakia and Hungary. As part of commitments with landlords, we expect around 220 conversions to take place in the above regions during the first quarter of FY24. Future conversions will be determined on a case-by-case basis.

Pepco 'Plus' (Western Europe)

Our Pepco 'Plus' format of stores that offer three categories (FMCG in addition to clothing and GM) continues to deliver the strongest revenue of all store formats in the Group, alongside Poundland. Following the conversion of all Dealz stores in Spain to the Pepco format, the Group currently operates 45 Pepco 'Plus' stores, mostly located in Spain. Like-for-like ("LFL") revenues for our Pepco 'Plus' stores during the year were up 5.7% compared to the same period last year. The Group remains committed to the Pepco 'Plus' format in our Western European markets.

Poundland development

As part of our drive to leverage the Group's scale and become a better business, Poundland is now sourcing its clothing from Pepco to bring new, exciting ranges into the UK market. The first Pepco-branded clothing items in Poundland were introduced in September 2023, helping to drive increased brand awareness and enhanced purchasing terms with suppliers, and to leverage the Group's fully integrated sourcing entity, PGS.

The initial customer reaction to the new Pepco clothing ranges has driven higher net promoter scores (NPS) and positive feedback. The Poundland business will start to source Pepco GM starting in early 2024, enhancing our customer proposition.

Poundland has also continued to explore the potential for its digital business. The online business remains small, but has grown rapidly following the 2022 acquisition of Poundshop.com, with orders more than doubling under Poundland ownership. The operation has used a picking and fulfilment operations centre in Wednesbury, West Midlands, and is well progressed in the transition of operations to a digital distribution hub at Darton, which gives the business extra capacity to expand its online operations at pace. The business recently combined its Poundshop.com with its principal Poundland.co.uk website as the natural next step to allow customers to shop an expanded Poundland range online for delivery to their homes. It is clear customers are using the online channel for a different shopping mission with a significantly higher average basket online versus in store.

Driving cost and operational efficiency

Transitioning at speed to one business, with a unified customer offer and a single sourcing strategy through PGS, will be central to the Group's ability to drive cost and operational efficiency over the next twelve months, particularly in light of current elevated inflationary pressures.

The business will continue to further leverage PGS, which we consider a key competitive advantage for the Group, as very few discount retailers have an integrated sourcing entity, instead relying on third-party agents.

To simplify our operations, PGS was fully integrated into the Pepco business during the year, which will help maximise and align the buying cycle, as well as help drive further operating efficiencies. In addition, PGS opened a near-shore sourcing operation in Poland, thereby increasing our sourcing flexibility out of countries such as Turkey, Poland and Romania. We are also continuing to diversify our Asian capabilities in countries such as Cambodia, Pakistan and Indonesia.

In addition to this, we have made good progress in our efforts to be part of a responsible and efficient supply chain in FY23, with the introduction of environmental guidelines which have been added to the existing social and ethical expectations.

Separately, we are driving improvements in operating costs primarily though a focus on labour scheduling and end-to-end supply chain efficiencies. Labour scheduling efficiencies are a focus area in both Pepco and Poundland, particularly against a backdrop of a sustained high wage inflation environment in Central Europe. Pepco has invested in technology such as self-service tills and enablement of more management activity on the shop floor, as well as changes in processes to reduce stock handling, to simplify the work for our colleagues and drive labour efficiencies.

The Group's work to offer a simpler business model continued with the most meaningful change during the period within Spain where we amalgamated two businesses (Dealz and Pepco) into one (Pepco). The integration creates a simpler operating model, with one brand, one range and one team. All Dealz stores in Spain have now been converted to Pepco stores, with a general focus on opening larger stores that incorporate an FMCG offer alongside clothing and general merchandise.

Investing in infrastructure and people to support growth

To enable us to meet our strategic objectives, we have clear plans to develop high quality, enterprise-grade, scalable infrastructure.

We also continue to invest in technology in stores to make our customers and colleagues lives easier, both in new stores and in our refits. Initiatives include the installation of self-scan tills, and the implementation of modern retail point-of-sale systems which improves the speed and quality of service to our customers and simplifies the work for our colleagues.

The rollout of a modern Oracle ERP (enterprise resource planning) IT platform across the Group is continuing, with Poundland successfully launching new modules during summer 2023. The Oracle solution gives Poundland a single, modern inventory management and finance solution, while introducing enhanced visibility and management of financial data, along with greater efficiency in managing accounts payable. Pepco is in the final stages of advanced planning and testing for an expected go live on the Oracle platform during 2024. These investments are fundamental to the future successful growth of the business, providing a robust system, while delivering operating efficiencies.

Within our distribution and supply chain the Group continued to deliver on process and technology efficiencies with Warehouse Management System (WMS) blueprinting now in place across all Pepco distribution centres, a second automated sorter live in our largest DC in Gyal, Hungary, and the commencement of an end-to-end supply chain review in Poundland. However, against these underlying improvements, fuel and labour inflation and higher levels of stock impacted the overall cost of operating our supply chain which was the primary driver of an increase in the period in operating cost to revenue ratio in the Pepco business.

We believe that the ability for colleagues to build rewarding careers enhances both the service we provide to our customers and our employment brand. We continue to invest in the capability of our people both in terms of developing our existing colleagues, while also attracting new, high-calibre recruits into the business to continue to support and drive our growth agenda. Reflecting our commitment to the development of our colleagues, 81% of our store managers across the Group were internally promoted and we promoted over 4,350 colleagues during FY23, which we believe demonstrates our strong commitment to internal development, especially against the challenging backdrop the past year.

PEOPLE

There have been a number of management changes during the year. We welcomed Neil Galloway into the role of Group CFO in April 2023. Neil joined from IWG plc, a leading provider of flexible workspace in 120 countries, where he was Executive Vice-President. Neil is an experienced public company CFO who has worked in senior finance and commercial roles at multinationals over the last 15 years, including in cross-border retail. Neil has already made a strong contribution to the Group as we set to improve processes and adopt best practices, along with helping to drive an acceleration towards a single business.

As reported on 12 September 2023, Trevor Masters informed the Board of Directors of Pepco Group N.V. of his decision to step down as Group CEO and leave the business with immediate effect. Andy Bond, Chair of the Board, stepped into the role of Executive Chair, leading the executive team and overall management of the company until a successor CEO is appointed.

As reported on 28 September 2023, the Group management team structure was reorientated, recognising the current business underperformance. Anand Patel, the Managing Director of the Pepco business, stepped down with immediate effect, replaced by Barry Williams, the Managing Director of Poundland. Austin Cooke, the previous Chief Operating Officer (COO) of Poundland, assumed the role of Managing Director of Poundland. In addition, a new Group Executive Committee was established to place greater focus on addressing costs and initiatives that are likely to generate appropriate returns in the near term, accelerate the transformation into a single business and refocus on our core markets.

CURRENT TRADING

Trading since the start of the new financial year has been mixed. Overall, the Group saw like-for-like revenues decline by 3.1% in the eight weeks to 26 November 2023, against a strong trading period in the prior year, although we are seeing sequential improvements week-on-week.

For Pepco, the impact of unusually warm weather conditions on trading carried through to the early weeks of October across some geographies. This, combined with a continued challenging macro and consumer backdrop, particularly in CEE where customers remain cautious on discretionary spend, has led to a slightly lower level of sales than anticipated. The Pepco business is also lapping a strong comparative period where like-for-like sales were up by c.+20% during the same period in the prior year.

For Poundland, like-for-like sales are slightly above the same period last year, reflecting a strong performance in FMCG and weaker performance in clothing, due to disruption as the business transitions from Pep&Co to Pepco-sourced apparel. For Dealz, like-for-like sales are behind last year, reflecting a tougher comparative in the same period last year.

OUTLOOK

While we expect the challenging trading conditions outlined above to continue in the near term, we are cautiously optimistic as we enter 2024. More disciplined control on operating costs and line-of-sight on easing input costs, including commodity and freight, is aimed at rebuilding our margins back to pre-pandemic levels. We are increasingly confident of the gross margin opportunity in FY24, evidenced by the 100 basis point improvement seen year-to-date versus the quarterly exit rate achieved at the end of FY23.

We have an attractive and unique product offer that resonates strongly with our core customer, supported by passionate colleagues, bringing service with a smile, and price leadership that enables us to maintain and grow market share through the structural advantages of our discount proposition.

The business has a significant whitespace opportunity to grow in our existing core markets, with over 400 net new store openings planned for FY24 – comfortably remaining one of the fastest growing retailers in Europe. We will leverage these opportunities in a more targeted and measured way, with an enhanced emphasis on capital, returns and free cash flow. We are confident we have the right strategy and leadership team to grow the business in line with our ambitious targets over the medium term.

FINANCIAL REVIEW

Pepco Group N.V. Consolidated Condensed Financial Statements for the 12-month period ending 30 September 2023 are shown on page 18 onwards.

FY23 financial performance

Highlights

Pepco Group	FY23	FY22	YoY (reported)	YoY (constant)
Revenue (€m)	**5,649**	4,823	17.1%	17.7%
Like-for-like revenue (%)	**6.0%**	5.2%	n/a	0.8pp
Gross profit (€m)	**2,268**	1,968	15.3%	15.6%
Gross profit margin (%)	**40.1%**	40.8%	(0.7)pp	(0.7)pp
Operating costs (IFRS 16)	**(1,514)**	(1,237)	22.4%	23.0%
Operating costs (IFRS 16) (%)	**26.8%**	25.6%	1.2pp	1.2pp
Underlying (IFRS 16) EBITDA (€m)	**753**	731	3.1%	3.1%
Underlying (IFRS 16) EBITDA margin (%)	**13.3%**	15.2%	(1.8)pp	(1.9)pp
Depreciation and amortisation (€m)	**(470)**	(378)	-24.3%	-24.4%
Net financial expense (€m)	**(82)**	(52)	-57.8%	-60.2%
Underlying PBT (€m)	**202**	300	-32.7%	-33.7%
Non-underlying items (€m)	**(55)**	(75)	26.3%	27.3%
Reported PBT (€m)	**147**	226	-34.9%	-35.8%
Tax (€m)	**(45)**	(52)	-13.8%	-13.9%
Reported PAT (€m)	**102**	174	-41.1%	-42.3%

	FY23	FY22	YoY (reported)	YoY (constant)
Underlying (pre-IFRS 16) EBITDA (€m)	**396**	439	-9.9%	-10.0%
Underlying (pre-IFRS 16) EBITDA (%)	**7.0%**	9.1%	(2.1)pp	(2.1)pp
Net debt (pre-IFRS 16)	**411**	275	49.4%	n/a
Leverage (pre-IFRS 16)	**1.0x**	0.6x	0.4x	n/a
Basic EPS (€ cents)	**17.8**	30.2	(12.4)	n/a

Group revenue of €5.6bn has grown materially in the year, up 17.1% on a reported basis driven by the continued delivery of our store expansion strategy where we opened a record 668 net new stores in the year. LFL revenue of +6.0% is also contributing to the revenue growth with Poundland benefitting from strong FMCG performance and Pepco supported by a very good first half sales performance.

Gross profit margin was a challenge having declined 0.7pps year-on-year to 40.1%, impacting profitability within the year. As a result of our relatively long buying cycle for clothing and GM ranges, products sold across FY23 still had the impact of high freight and commodity prices as they were purchased several months ago when input costs were at their historic peaks. In addition, unfavourable year-on-year hedge rates have only partially been offset by pricing. This was due to a strategic decision to ensure we retained our price leadership on entry price point items across Pepco – something that our customers recognise during these challenging times.

The weaker second half in Pepco also included a lower gross margin recovery as weaker sales in September – when weather remained warm – meant that sales run-rates on higher margin Autumn/Winter season product was lower than anticipated.

Nonetheless, the gross profit margin has improved materially within the year which supports management's positive outlook for margin as we see these freight and foreign exchange headwinds subside. Pepco's H2 gross margin was 1.5pps higher than H1, rising to over 43% in Q4 FY23, giving further confidence on recovery as we head into FY24.

A large proportion of the 23.0% increase in IFRS 16 operating costs year-on-year on a constant currency basis has been driven by the continued store expansion of the Group. However, with weaker than anticipated trade across Q4, particularly in August and September, the Group's operating leverage was degraded. Given that we saw this weaker trading towards the end of the financial year and that we have a relatively high fixed cost base, we were unable to adjust the cost base materially downwards to reflect lower sales run-rate. This, compounded with a number of non-core projects added cost to the business, resulting in operating cost percentage of 26.8%, an increase of 1.2pps on a constant currency basis versus the prior year.

Recognising these issues, we will take a more disciplined approach to both operating costs and capital investment as we go forward and look to increase the flexibility in the cost base. Our first priority will be halting peripheral projects.

As a consequence of the above challenges on gross profit margin and operating costs, whilst we have added over €800m (+17%) to the top line revenue in FY23, only a small portion has flowed through to profit with underlying (IFRS 16) EBITDA of €753m being +3.1% higher than the prior year on both an actual and constant basis.

Group underlying (IFRS16) EBITDA margin reduced by 1.9pps to 13.3% (FY22: 15.2%), largely operating cost-driven as operational leverage has been eroded. This clearly resets the focus going forward as we look to rationalise our efforts and refocus on driving the core business, delivering gross margin recovery and being more disciplined on cost.

Group underlying (pre-IFRS 16) EBITDA of €396m (7.0% of sales) represents a decline of 10.0% YoY as a result of increased rent costs. In absolute terms, rent costs of €358m have increased 23%, and on a percentage of sales basis they have increased 0.3pps to 6.3%. This was a result of inflation-driven indexation and because a large proportion of stores were opened late in the year so, whilst costs were incurred, the corresponding sales and profit contribution from new stores reaching maturity has not yet been delivered.

Geographic Segments

Below we have summarised some of our key trading metrics into the appropriate geographic segmental split.

Revenue	FY23 (€m)	FY22 (€m)	YoY (reported)	YoY (constant)
UK & ROI	2,001	1,890	5.9%	9.0%
Poland	1,414	1,192	18.6%	17.1%
Rest of Europe	2,235	1,741	28.3%	27.4%
Total	5,649	4,823	17.1%	17.7%

Like-for-like	FY23	FY22	YoY (constant)
UK & ROI	+5.5%	+2.1%	3.4pp
Poland	+4.9%	+4.2%	0.7pp
Rest of Europe	+7.4%	+10.3%	(2.9)pp
Total	+6.0%	+5.2%	0.8pp

Store Numbers (#)	FY23	FY22	YoY
UK & ROI	823	821	2
Poland	1,539	1,335	204
Rest of Europe	2,267	1,805	462
Total	4,629	3,961	668

Segmental summary

For reporting and operating purposes, the Group reports performance across two operating segments, Pepco and Poundland Group. The Pepco segment represents 60% (FY22: 56%) of total revenue and 73% (FY22: 71%) of underlying (IFRS 16) EBITDA with the Poundland Group segment contributing 40% (FY22: 44%) and 27% (FY22: 29%) respectively.

Revenue	FY23	FY22	YoY (reported)	YoY (constant)
Pepco (€m)	3,416	2,714	25.9%	24.8%
Like-for-like revenue (%)	+6.3%	+7.4%		(1.1)pp
Poundland Group (€m)	2,233	2,109	5.9%	8.4%
Like-for-like revenue (%)	+5.6%	+2.6%		3.0pp
Total Group (€m)	5,649	4,823	17.1%	17.7%
Like-for-like revenue (%)	+6.0%	+5.2%		0.8pp

Gross profit margin %	FY23	FY22	YoY (reported)	YoY (constant)
Pepco	41.8%	42.3%	(0.5)pp	(0.5)pp
Poundland Group	36.9%	37.6%	(0.7)pp	(0.7)pp
Total Group	40.1%	40.8%	(0.7)pp	(0.7)pp

Operating costs (IFRS 16) %	FY23	FY22	YoY (reported)	YoY (constant)
Pepco	**25.6%**	23.1%	2.5pp	2.5pp
Poundland Group	**27.7%**	27.5%	0.2pp	0.1pp
Total Group	**26.8%**	25.6%	1.2pp	1.2pp

Underlying (IFRS 16) EBITDA	FY23	FY22	YoY (reported)	YoY (constant)
Pepco (€m)	**552**	519	6.3%	5.4%
Poundland Group (€m)	**204**	214	-4.5%	-2.7%
Other (€m)	**(3)**	(3)	-11.8%	-12.1%
Total Group (€m)	**753**	731	3.1%	3.1%

Underlying (IFRS 16) EBITDA margin %	FY23	FY22	YoY (reported)	YoY (constant)
Pepco	**16.2%**	19.1%	(3.0)pp	(3.0)pp
Poundland Group	**9.2%**	10.2%	(1.0)pp	(1.0)pp
Total Group	**13.3%**	15.2%	(1.8)pp	(1.9)pp

Underlying (pre-IFRS 16) EBITDA	FY23	FY22	YoY (reported)	YoY (constant)
Pepco (€m)	**330**	348	-5.2%	-5.9%
Poundland Group (€m)	**69**	94	-26.3%	-25.2%
Other (€m)	**(4)**	(4)	-17.4%	-1.2%
Total Group (€m)	**396**	439	-9.9%	-10.0%

Underlying (pre-IFRS 16) EBITDA margin %	FY23	FY22	YoY (reported)	YoY (constant)
Pepco	**9.7%**	12.8%	(3.2)pp	(3.2)pp
Poundland Group	**3.1%**	4.5%	(1.4)pp	(1.4)pp
Total Group	**7.0%**	9.1%	(2.1)pp	(2.1)pp

Stores	FY23	FY22	YoY (#)	YoY (%)
Pepco	**3,523**	2,967	556	18.7%
Poundland Group	**1,106**	994	112	11.3%
Total Group	**4,629**	3,961	668	16.9%

Pepco performance

Pepco sales performance in FY23 has once again grown an impressive +25.9% with the majority of this driven by the annualisation of store openings in FY22 along with the in-year impact of the opening of 556 net new stores in FY23 taking the total number of Pepco stores to 3,523.

As we continue to expand our range and customer proposition, Pepco space growth of 22% is ahead of new store openings growth of 19% due to the opening of larger Pepco 'Plus' store format which also includes an FMCG offer alongside the Clothing and General Merchandise offer of a standard Pepco store.

Within our Pepco store opening programme, we entered new markets of Greece (22 stores), Portugal (14 stores) and Bosnia and Herzegovina (9 stores) in the year. In addition, we successfully completed our conversion of Dealz Spain stores to Pepco 'Plus' stores; a programme which began in FY22 with 15 conversions followed by 45 conversions in FY23. This complemented our expansion in Western Europe where we have added 257 net new stores in the year and now operate from 523 stores across Western Europe, building our scale and customer reach.

Pepco's LFL sales in FY23 of 6.3% also drove the overall revenue growth but the shape of delivery highlighted the trading challenges we have faced across the financial year. H1 performed well, benefitting from a strong Christmas period.

H2 LFL sales growth progressively weakened and despite some selected upsides from events like our excellent "Barbie" collaboration, the second half trading period delivered negative LFL.

In particular, the final weeks of August and into September weakened significantly, driven by a mixture of the impact of prolonged inflation and lagging wage growth impacting the customer's spending decisions, weaker than anticipated performance of 'Back-to-School', high levels of promotional activity from competition and the prolonged warm weather across Europe negatively impacting on Autumn transitional stock. To put this into context, Pepco's LFL sales in the month of September were down 10.7%, with some weeks in September down almost 20%. As we move into FY24, we are seeing some gradual signs of recovery as real wage growth in our core Pepco markets returns to positive.

Gross profit margin in FY23 declined 0.5pps year-on-year to 41.8%, reflecting the continuing drag from high freight and commodity costs and unfavourable FX, as a consequence of our relatively long buying cycle. Increases in average unit prices have only partially offset the FX and freight costs, a conscious decision to ensure we maintained our price leadership against competition; something we see as more important now than ever. Weak sales in Q4, have also hampered margin recovery as the challenging August and September highlighted above have resulted in lower-than-expected sales on higher margin Autumn/Winter season product.

As these macro headwinds begin to subside, we are already starting to realise a positive outlook on margin recovery, highlighted by the fact that Pepco's Q4 margin exited at 43%, giving us heightened confidence going into FY24.

Underlying (IFRS 16) operating costs in Pepco have increased by almost 40% year-on-year in absolute terms in FY23. A large portion of this relates to the expansion of the estate, with increases in costs being experienced due to inflation, greater store numbers, higher costs of expanding into Western Europe, the addition of a new warehouse in Romania and increased spend on IT infrastructure. Inflationary pressures have been a key feature of FY23 with core wage inflation of 13% putting pressure on the operating costs across the business. This, along with the drop off in sales in H2 for Pepco, has driven a step back in operational leverage meaning underlying (IFRS 16) operating costs as a percentage of sales are 25.6%, 2.5pps higher year-on-year. Going forward, costs will be a key focus in FY24. We will look to increase the flexibility of the cost base to ensure it can be more easily adjusted to sales performance. We have already cut any low value peripheral projects that add material cost to the company.

Pepco's underlying (IFRS 16) EBITDA of €552m (FY22: €519m) increased by 5.4% versus FY22, with the underlying EBITDA margin of 16.2% declining 3.0pps year-on-year, driven by operating cost headwinds and lack of recovery on gross margin. At a pre-IFRS 16 underlying EBITDA level, €330m in FY23 represents a decline of 5.9% versus FY22, driven by inflationary rent challenges and the significant expansion of the Pepco estate.

Poundland Group performance

In the face of inflationary pressures, the Poundland Group delivered a solid performance in FY23, increasing revenue by 8.4% on a constant currency basis through a mixture of new store roll-out, largely in Dealz Poland, and through strong FMCG-driven LFL performance in Poundland.

Poundland saw a significant customer switch to FMCG products in the year as squeeze on incomes resulted in our consumers choosing 'essential' items over more discretionary items. This was illustrated by Poundland's FMCG LFL sales tracking very strongly at +12.0% in FY23, materially higher than clothing which was broadly flat and general merchandise which was negative.

In Dealz Poland, LFL growth of +11.3% along with roll-out of an additional 115 net new stores took the total year end store count to 283 and helped support the overall revenue growth in this segment. As highlighted in the October 2023 capital markets day presentations, the focus on Dealz in the short term will be centred around Poland only as we look to refine the strategic positioning of the Dealz brand in CEE.

Poundland Group gross margin is marginally behind year-on-year at 36.9%, with the mix impact of the strong performance of the lower margin FMCG category and partially offset by some recovery of freight costs relative to prior year peaks.

From an operating costs perspective, IFRS 16 operating costs as a % of sales have increased marginally by 0.1pps to 27.7%. This is due to provision releases in FY22 compounded by inflationary pressures across FY23 with energy cost increases a key driver. These cost downsides were partially offset by covid-driven holdover leases being extended to longer-term leases and as such no longer being recognised as operating costs under IFRS16.

At an IFRS 16 level, Poundland Group EBITDA of €204m, is marginally down on the prior year of €214m. Pre-IFRS 16 EBITDA of €69m in FY23 has declined by 25.2% versus the prior year driven by provision movements and year-on-year inflationary cost increases as described above.

Profit before tax

Group statutory profit before tax of €147m (FY22: €226m) was down 35.8% on a constant currency basis. Whilst IFRS 16 EBITDA is marginally higher than the prior year, inflation and store expansion-driven rent costs (up 23% YoY) and depreciation related to new stores and the new look refit programme (up 24.4% YoY), coupled with higher interest rates driving an increase in external borrowing costs, have more than offset this.

At an underlying level, FY23 underlying PBT of €202m (FY22: €300m) represents a decline of 33.7% on constant currency basis, driven by the rent, depreciation and amortisation and external interest factors summarised above.

Tax

In FY23, the Group's tax charge was €44.7m (FY22: €51.9m), reflecting an effective tax rate of 30.4% (FY22: 23.0%). The increase in our effective tax rate is principally driven by the profile of Group performance in each operating territory. In FY24, we expect the Group's effective tax rate to more closely reflect the blended rate of tax in the countries in which we operate. In our principal operating markets of the UK and Poland, the tax rate is currently 25% and 19% respectively.

Non-Underlying Items

The Group manages performance on an underlying basis after adjusting for non-underlying items. In FY23 non-underlying items totalled €55m (FY22: €75m) and were:

- €43.5m relating to ERP Software-as-a-Service (SaaS) costs which are considered to be unusual and material costs by nature.
- €13.5m associated with restructure costs relating mainly to the retirement of the Dealz brand in Spain and conversion to Pepco 'Plus' stores, and closure of Fultons branded stores;
- €(1.9)m of credit relating to the Value Creation Plan (VCP) scheme which relates to adjustments to reflect leavers in the scheme, offset by charges for a new grant.

Financing

FY23 was an important and very successful year for the business in terms of financing. Triggered by the upcoming maturity in April 2024 of a €300m term loan facility, the Group undertook a process to replace and diversify this debt with a debut Euro bond issuance.

The process began with obtaining a public credit rating where in June 2023 all three major ratings agencies recognised the success of Pepco Group's compelling strategy and business model and issued positive ratings. Fitch issued a 'BB', Moody's a 'Ba3' and S&P Global issued a 'BB-' rating. This places Pepco Group in line with peers.

Following the ratings process, the Group received significant interest in the debut bond. Due to over-subscription, the quantum of the bond was increased from €300m initially sought, to €375m, taking the opportunity to increase liquidity.

In parallel with the successful debut bond process, we increased the size of our revolving credit facility (RCF) from €190m to €390m to provide additional liquidity given the ongoing growth and expanding scale of the business.

As at 30th September 2023, the Group's total gross financial debt of €741m is made up of:

- €375m 7.25% bond due 2028
- €250m Term Loan B due 2026
- €120m drawn RCF (total RCF facility of €390m)
- €11m finance leases
- Less €15m of debt issuance costs which have been capitalised

Whilst the re-financing activity in FY23 has been very positive, the global macro-economic factors have resulted in a significant increase in interest rates. External finance costs have increased from €52.6m in FY22 to €81.5m in FY23. Within external finance costs, €24m of the YoY increase relates to debt financing where our effective interest rate is 3.75%.

Investment activity (Capex)

Across FY23, we continued to invest in expansion and infrastructure to support our vision of becoming Europe's biggest and best discount variety business. Capital investment in the year accelerated from 4.7% of sales in FY22 (€225m) to 6.9% of sales in FY23 (€390m), with investment in new stores and the refit programme in Pepco the biggest driver of the increase.

Additions to property, plant and equipment and intangible assets in FY23 of €390m were €165m higher than the previous year (FY22: €225m). The key drivers of our capital investment in FY23 include:

- €210m was invested in the opening of a record 826 gross new stores in FY23 (668 net openings). This included entering three new markets in FY23, opening 22 stores in Greece, 14 stores in Portugal, and 9 stores in Bosnia and Herzegovina.

- €102m was invested in store refit programmes. This was primarily driven by Pepco's New Look programme, alongside Poundland's investments in store refits as we prepare to sell one clothing and GM range across the whole Group.
- €50m was invested in IT and supply chain infrastructure as we continue on the journey of underpinning the growth with core infrastructure to support this.
- €28m investment relates to maintenance capex, largely store upkeep.

In September 2023, Poundland announced a deal to acquire up to 71 Wilko store leases following the well-publicised liquidation of the Wilko business, a rival UK discount retailer. The first store opened on 30 September 2023 and by early mid-December 64 former Wilko stores had been opened, having received a light touch refit and re-branding under the Poundland banner. The integration of Wilko stores into the Poundland brand provides the Group with an exciting opportunity to accelerate the new store pipeline in the UK, with no additional central cost base increase. It also offers the ability to bring our Poundland proposition to new regions and customers, and provide job opportunities to some of the people who were unfortunately impacted by the Wilko collapse.

Cash and net debt

Pepco Group (€m)	FY23	FY22	YoY
Cash generated by operations (reported)	**723**	425	299
Lease payments (IFRS 16 Payments and Interest)	**(382)**	(292)	(91)
Tax paid	**(75)**	(61)	(14)
Net Cash from Operations (pre-Capex)	**266**	72	194
Capex	**(390)**	(225)	(164)
Net Cash from Operations (post Capex)	**(124)**	(154)	30
Funding and investment activities	**102**	(7)	108
Net cash flow	**(22)**	(161)	138
Effect of exchange rate fluctuations	**9**	(3)	12
Cash and cash equivalents at the beginning of the period	**344**	508	(164)
Cash and cash equivalents at the end of the period	**330**	344	(14)
Net debt (pre-IFRS 16)	**411**	275	136
Net debt: underlying EBITDA (pre-IFRS 16) multiple (leverage)	**1.0x**	0.6x	0.4x
Current ratio	**0.9**	1.1	(0.2)

Cash generated by operations of €723m, which has grown €299m year-on-year, reflects solid IFRS16 EBITDA generation of €753m in the year less a small cash outflow from net working capital (where an improved year on year payables position is offset by a higher inventory position).

Whilst inventory has naturally increased due to the growth of the business, the sales headwinds across Q4 have led to a higher stock build than originally planned with inventory days trending higher than the prior year. Going forward we will closely target stock days as a measure with a view to reduce it to more optimal levels.

Lease payments of €382m have grown +31% year-on-year reflecting the growth in the store portfolio. This, along with capex outflows of €390m, driven by store roll out and store refits and tax payments, partially offset by increased funding as a result of the €375m bond financing, have resulted in a net cash outflow of €22m in the year.

We see a significant opportunity to improve the Group's cash conversion cycle through focusing on optimising our supply chain to enable more efficient stock management, alongside a more disciplined approach to capital investment whereby we will look to reduce overall capex spend and be clearly focused on prioritising the highest returning investments.

The Group ended the year with net debt of €411m on a pre-IFRS 16 basis, representing an increase of €136m versus FY22 predominantly reflecting additional borrowings of €115m.

Our net debt to underlying EBITDA leverage ratios of 1.0x (pre-IFRS 16), whilst higher than the prior year, remains below the targets previously communicated at IPO and provides significant headroom against our external funding covenants.

Dividends

No dividends were proposed or paid in FY23. The initiation of a dividend remains under review by the Board whilst investment-led growth opportunities are fully explored.

Hedging and Foreign Exchange

The Group does not hedge the translation impact of profits generated in non-Euro countries, however, the impact on FY23 EBITDA is immaterial. The average and period end exchange rates relative to the Group were as follows:

	Average rate		**Period-end rate**	
	FY23	**FY22**	**FY23**	**FY22**
PLN/Euro	4.6181	4.6582	4.6283	4.8483
GBP/Euro	0.8704	0.8473	0.8646	0.8830
USD/Euro	1.0679	1.0840	1.0594	0.9748
CNY/Euro	7.7533	7.0930	7.7352	6.9368

The Group does hedge the transactional FX Risk for inventory purchased in Asia, and paid for in US Dollars (USD) and Chinese Yuan (CNY) against Pepco and Poundland's own operating currencies, in order to reduce the volatility on the gross margin. All of the Group's FX Contracts are accounted for in Cash Flow Hedge Relationships. During FY23 there has been general depreciation of USD and CNY against the Polish Zloty (PLN) in particular which is reflected in a reduction in the net liability balance sheet position for the Group's Derivative Financial Instruments.

TRUE AND FAIR STATEMENT

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

Financial statement extracts accompanying the preliminary results announcement

Contents

Consolidated income statement

for the year ended 30 September 2023

The results below are currently unaudited

	Note	**Year to 30 September 2023 €000**	Year to 30 September 2022 €000
Continuing operations			
Revenue	6	**5,648,885**	4,822,819
Cost of sales		**(3,381,068)**	(2,855,221)
Gross profit		**2,267,817**	1,967,598
Administrative expenses		**(2,039,332)**	(1,689,485)
Other operating income		**—**	116
Operating profit from continuing operations	8	**228,485**	278,229
Financial income	9	**10,220**	2,242
Financial expense	10	**(91,728)**	(54,856)
Profit before taxation from continuing operations for the year		**146,977**	225,615
Taxation		**(44,733)**	(51,900)
Profit from continuing operations for the year		**102,244**	173,715
Loss on discontinued operations		**—**	(110)
Profit for the year		**102,244**	173,605
Earnings per share			
Basic earnings per share from continuing operations		**17.8c**	30.2c
Basic earnings per share from discontinued operations		**—c**	—c
Basic earnings per share		**17.8c**	30.2c
Diluted earnings per share from continuing operations		**17.7c**	30.0c
Diluted earnings per share from discontinued operations		**—c**	—c
Diluted earnings per share		**17.7c**	30.0c

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

Consolidated statement of other comprehensive income

for year ended 30 September 2023

The results below are currently unaudited

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Profit for the year	**102,244**	173,605
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**44,532**	(55,513)
Effective portion of changes in fair value of cash flow hedges	**(38,060)**	23,783
Net change in fair value of cash flow hedges reclassified to profit or loss	**(128,442)**	41,425
Deferred tax on items that are or may be reclassified subsequently to profit or loss	**34,924**	(13,430)
Other comprehensive (loss)/income for the year, net of income tax	**(87,046)**	(3,735)
Total comprehensive income for the year	**15,198**	169,870

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

Consolidated statement of financial position

at 30 September 2023

The results below are currently unaudited

	30 September 2023 €000	30 September 2022 €000
Non-current assets		
Property, plant and equipment	**746,437**	524,550
Right-of-use asset	**1,249,460**	1,018,240
Goodwill and other intangible assets	**847,477**	814,238
Trade and other receivables	**46**	2,422
Derivative financial instruments	**6,232**	5,186
Deferred tax asset	**113,414**	91,296
	2,963,066	2,455,932
Current assets		
Inventories	**1,134,618**	959,094
Tax receivable	**865**	3,735
Trade and other receivables	**143,522**	71,418
Derivative financial instruments	**42,106**	165,216
Cash and cash equivalents	**330,417**	343,933
	1,651,528	1,543,396
Total assets	**4,614,594**	3,999,328
Current liabilities		
Trade and other payables	**1,266,195**	927,884
Current tax liabilities	**—**	47,944
Lease liabilities	**304,794**	310,484
Borrowings	**118,794**	68,339
Derivative financial instruments	**91,045**	37,040
Provisions	**2,254**	16,749
	1,783,082	1,408,440
Non-current liabilities		
Trade and other payables	**21,894**	37,733
Lease liabilities	**1,012,154**	823,060
Borrowings	**610,270**	546,203
Derivative financial instruments	**1,730**	8,122
Provisions	**28,319**	31,016
	1,674,367	1,446,134
Total liabilities	**3,457,449**	2,854,574
Net assets	**1,157,145**	1,144,754
Equity attributable to equity holders of the parent		
Share capital	**5,760**	5,750
Share premium reserve	**13**	13
Cash flow hedge reserve	**(32,391)**	99,187
Merger reserve	**(751)**	(751)
Translation reserve	**(25,784)**	(70,316)
Share-based payment reserve	**33,013**	35,830
Retained earnings	**1,177,285**	1,075,041
Total shareholders' equity	**1,157,145**	1,144,754

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

Consolidated statement of changes in equity

for the year ended 30 September 2023

The results below are currently unaudited

	Share capital €000	Share premium[4] €000	Cash flow hedge reserve[1] €000	Translation reserve[2] €000	Merger reserve[3] €000	Share-based payment reserve[4] €000	Retained earnings €000	Total equity €000
Balance at 1 October 2022	**5,750**	**13**	**99,187**	**(70,316)**	**(751)**	**35,830**	**1,075,041**	**1,144,754**
Total comprehensive income for the period								
Profit for the year	-	-	-	-	-	-	**102,244**	**102,244**
Other comprehensive income for the period	-	-	**(131,578)**	**44,532**	-	-	-	**(87,046)**
Total comprehensive income for the period	-	-	**(131,578)**	**44,352**	-	-	**102,224**	**15,198**
Transactions with owners, recorded directly in equity								
Issue of share capital	**10**	-	-	-	-	-	-	**10**
Equity-settled share-based payments	-	-	-	-	-	**(2,817)**	-	**(2,817)**
Total contributions by and distributions to owners	**10**	-	-	-	-	**(2,817)**	-	**(2,807)**
Balance at 30 September 2023	**5,760**	**13**	**(32,391)**	**(25,784)**	**(751)**	**33,013**	**1,177,285**	**1,157,,145**

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

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

Consolidated statement of cash flows

for the year ended 30 September 2023

The results below are currently unaudited

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Cash flows from operating activities		
Profit/(loss) for the period:		
Continuing operations	**102,244**	173,715
Discontinued operations	**—**	(110)
Adjustments for:		
Depreciation, amortisation and impairment	**164,509**	126,402
Right-of-use asset depreciation	**309,000**	260,284
Financial income	**(10,220)**	(2,242)
Financial expense	**91,728**	54,856
Loss on sale of property, plant and equipment	**(477)**	-
Equity-settled share-based payment expenses	**(2,817)**	13,988
Taxation	**44,733**	51,900
	698,700	678,793
Decrease/(increase) in trade and other receivables	**(66,858)**	(19,730)
Increase in inventories	**(175,524)**	(384,052)
Increase in trade and other payables	**322,472**	184,090
(Decrease)/increase in provisions and employee benefits	**(17,192)**	(21,841)
Settlement of derivatives	**(38,099)**	(12,566)
Cash generated by operations	**723,499**	424,694
Tax paid	**(75,424)**	(61,387)
Net cash inflow from operating activities	**648,075**	363,307
Cash flows used in investing activities		
Proceeds from sale of property, plant and equipment	**1,445**	626
Interest received	**2,897**	-
Additions to property, plant and equipment	**(363,823)**	(218,217)
Additions to other intangible assets	**(25,815)**	(6,764)
Net cash outflow used in investing activities	**(385,296)**	(224,355)
Cash flows from financing activities		
Proceeds from the issue of share capital	**10**	-
Proceeds from bank loan net of fees incurred	**431,215**	45,000
Repayment of borrowings	**(315,000)**	(43,193)
Interest paid	**(19,046)**	(9,642)
Payment of interest on lease liabilities	**(61,367)**	(46,052)
Repayment of lease liabilities	**(320,974)**	(245,598)
Net cash outflow from financing activities	**(285,162)**	(299,485)
Net (decrease) increase in cash and cash equivalents	**(22,383)**	(160,533)
Cash and cash equivalents at beginning of period	**343,933**	507,702
Effect of exchange rate fluctuations on cash held	**8,867**	(3,236)
Cash and cash equivalents at end of period	**330,417**	343,933

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

Notes to the consolidated financial statements

1. Basis of preparation

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

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

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

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

2. Going concern

In determining the appropriate basis of preparation of the 2023 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 publication, 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 publishing 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 FY25, beyond the minimum requirement of twelve months from the date of publishing 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 that historically the Group continued to meet its covenant obligations and maintain significant liquidity headroom throughout the extreme circumstances presented during the Covid-19 pandemic restrictions in 2020 and 2021. In addition, in June 2023 the Group has further strengthened its financial position through the completion of a €375m debut bond issuance, refinancing an existing €300m term loan, due to expire in April 2024 which would have fallen within the period under review for going concern. The Group also increased its Revolving Credit Facility from €190m to €390m to provide additional liquidity if required.

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 response to the current challenges faced by the tough macroeconomic environment and inflationary pressures, will be set out in the Executive Chair and CFO's reports. Since the going concern assessment uses a base case which has been built on the financial plan, careful consideration has been given to the current macroeconomic environment and the future implications and impacts it may have.

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.

3. New accounting standards and policies

No new standards, new interpretations or amendments to standards or interpretations have been published which are expected to have a significant impact on the Group's financial statements.

4. Accounting estimates and judgements

The preparation of these financial statements requires the exercise of judgement, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and various other factors, including expectations of the future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period impacted.

The Group makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The Directors continually evaluate the estimates, assumptions and judgements based on available information and experience.

Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Impairment of intangible assets (goodwill and other intangible assets) and right-of-use assets

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

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

Life of brand asset

The useful life is considered to be 40 years which represents management's best estimate of the period over which the brand will be utilised based on the trading history of the business, future financial projections and ongoing investment in the business, along with the retail segment occupied by Poundland and the active proposition development happening within the business. The brand is amortised on a straight-line basis.

Key judgements

The judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Lease discount rate

Where a rate implicit to the lease is not available, the selection of a discount rate for a lease is based upon the marginal cost of borrowing to the business in relation to the funding for a similar asset.

Management calculates appropriate discount rates based upon the marginal cost of borrowing currently available to the business as adjusted for several factors including the term of the lease, the location and type of asset and how often payments are made.

Management considers that these are the key details in determining the appropriate marginal cost of borrowing for each of these assets.

Leases

Management exercises judgement in determining the lease term on its lease contracts. Within its lease contracts, particularly those in respect of its retail business, break options are included to provide operational and financial security should store performance be different to expectations. At inception of a lease, management will typically assess the lease term as being the full lease term as such break options are not typically considered reasonably certain to be exercised.

As stated in the accounting policies, the discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined quarterly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including the risk-free rate based on government bond rates, country specific risk and entity specific risk.

5. Segmental analysis

Operating segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM), or decision-making group, in deciding how to allocate resources and in assessing performance.

The Group has identified two significant revenue-generating operating segments. One being businesses trading under the Pepco banner and under the second being business 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, along with relevant consolidation adjustments and eliminations are allocated to the relevant segment. Assets and liabilities included within the "other" segment relate to balances held by the Group's sourcing operations.

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
External revenue		
Pepco	**3,415,598**	2,714,003
Poundland Group	**2,233,287**	2,108,816
Group external revenue	**5,648,885**	4,822,819
Underlying EBITDA		
Pepco	**552,037**	519,382
Poundland Group	**204,406**	214,121
Other	**(3,091)**	(2,765)
Group underlying EBITDA	**753,353**	730,738
Reported EBITDA		
Pepco	**528,657**	501,843
Poundland Group	**171,196**	180,805
Other	**1,899**	(17,716)
Group EBITDA	**701,752**	664,932
Less reconciling items to operating profit		
Depreciation of right-of-use asset	**(309,000)**	(260,284)
Depreciation of property, plant and equipment	**(151,807)**	(108,740)
Impairment of property, plant and equipment	**(3,130)**	(8,401)
Amortisation of other intangibles	**(9,572)**	(9,261)
Impairment of other intangibles	**—**	-
Profit/(loss) on disposal of property, plant and equipment	**477**	227
Other expenses	**(235)**	(244)
Group operating profit from continuing operations	**228,485**	278,229

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 2023 €000	Year to 30 September 2022 €000
Depreciation and amortisation		
Pepco	**294,322**	226,486
Poundland Group	**174,582**	150,461
Other	**1,475**	1,338
Group depreciation and amortisation	**470,379**	378,285
Impairment of property, plant and equipment and intangible assets		
Pepco	**3,130**	(238)
Poundland Group	**—**	8,639
Group impairment of property, plant and equipment and intangible assets	**3,130**	8,401
Total assets		
Pepco	**2,630,890**	2,307,013
Poundland Group	**1,928,644**	1,478,781
Other	**55,060**	213,534
Group total assets	**4,614,594**	3,999,328
Total liabilities		
Pepco	**1,812,717**	1,377,556
Poundland Group	**883,163**	1,131,319
Other	**761,569**	345,699
Group total liabilities	3,457,449	2,854,574
Additions to non-current assets		
Pepco	**585,365**	376,369
Poundland Group	**267,101**	188,219
Other	**946**	7,905
Group additions to non-current assets	**853,411**	572,493

6. Revenue

Revenue comprises the consideration paid for products by external customers at the point of sale in stores, net of value added tax and promotional sales discounts. The Group's disaggregated revenue recognised relates to the following geographical segments:

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
UK and Republic of Ireland	**2,000,633**	1,889,610
Poland	**1,413,973**	1,191,826
Rest of Europe	**2,234,279**	1,741,383
	5,648,885	4,822,819

7. Non-underlying items

The Group believes underlying profit, an alternative profit measure, is a valuable way in which to present business performance as it provides the users of the accounts with a clear and more representative view of ongoing business performance. Non-underlying adjustments constitute material, exceptional, unusual and other items. In determining whether events or transactions are treated as non-underlying items, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Underlying performance measures should be considered in addition to IFRS measures and are not intended to be a substitute for them. The Group also uses underlying financial performance to improve the comparability of information between reporting periods and geographical units and to aid users in understanding the Group's performance. Consequently, the Group uses underlying financial performance for performance analysis, planning, reporting and incentive setting.

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Reported EBITDA from continuing operations	**701,752**	664,932
Group Value Creation Plan (VCP)	**(1,905)**	13,988
Impact of implementation of IFRIC interpretation on SaaS arrangements	**42,351**	35,354
Restructuring and Other costs	**11,155**	16,464
Underlying EBITDA from continuing operations	**753,353**	730,738
Reported operating profit from continuing operations	**228,485**	278,229
IPO-related expenses	—	1,230
Group Value Creation Plan (VCP)	**(1,905)**	13,988
Impact of implementation of IFRIC interpretation on SaaS arrangements	**43,493**	32,891
Restructuring costs	**14,285**	26,128
Underlying operating profit from continuing operations	**284,358**	352,466
Reported profit before taxation from continuing operations for the year	**146,977**	225,615
IPO-related expenses	—	1,230
Group Value Creation Plan (VCP)	**(1,905)**	13,988
Impact of implementation of IFRIC interpretation on SaaS arrangements	**43,493**	32,891
Restructuring costs	**13,473**	26,574
Underlying profit before tax from continuing operations	**202,038**	300,298

Group Value Creation Plan ("VCP"): A Value Creation Plan ("VCP"), which is accounted for as IFRS 2 charge, was approved by the Board of Directors in March 2020 as a reward tool to incentivise the top management of the Pepco Group and to retain them post an IPO. The Group treat the VCP associated costs as Non-Underlying Costs on the basis;

- The VCP was specific IPO related incentive which is not a typical share based payment scheme
- The scheme was implemented prior to the IPO and the total cost of the scheme (€45.3m) is already reflected in the share price achieved at IPO.

Management believe it is beneficial for the users of the financial statements to understand the underlying operational performance without it being skewed by the impact of the VCP charges.

Impact of implementation of IFRIC interpretation on SaaS arrangements and expensing significant ERP programme costs incurred: Following the IFRIC interpretation on accounting for SaaS costs, the Group has expensed previously capitalised costs in relation to certain SaaS projects as part of the retrospective application of the new accounting policy. In FY23, the Group has specifically expensed costs related to significant ERP programmes.

Restructuring costs: The Group undertook strategic decision to discontinue the Dealz business in Spain and stores acquired as part of the Fultons acquisition. The non-underlying costs relate to winding down of the operations and store closures. Prior year costs relate to head office cost reduction and strategic change to rationalise the supply chain network.

IPO-related expenses: IPO-related expenses relate to project costs associated with this listing of the Company on the Warsaw Stock Exchange.

8. Operating profit

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Operating profit for the period has been arrived at after charging/(crediting):		
Expense relating to short-term , low-value and variable leases	**53,704**	34,174
Depreciation of tangible fixed assets and other items:		
Owned	**151,807**	108,740
Depreciation of right-of-use assets	**309,000**	260,284
Impairment of property, plant and equipment	**3,130**	8,401
Amortisation of other intangibles	**9,572**	9,261
Cost of inventories recognised as an expense	**3,300,689**	2,856,523
Write downs of inventories recognised as an expense	**67,385**	33,630

Auditors' remuneration	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Total audit fees	2,611	2,353
Audit related services	147	148
Total assurance-related fees	147	148
Other services	132	-
Total auditors' remuneration	2,890	2,501

9. Financial Income

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Bank interest income	**2,897**	2,242
Other interest income	**7,323**	-
	10,220	2,242

10. Financial Expense

	Year to 30 September 2023 €000	Year to 30 September 2022 €000
Interest on bank loans and amortisation of capitalised finance costs	**35,684**	11,548
Interest on lease liabilities	**61,367**	46,052
Ineffective element of hedging	**1,918**	-
Unrealised foreign currency losses on borrowings	**(7,241)**	(3,190)
	91,728	54,410
Non-underlying financial expenses[1,]	**—**	446
	91,728	54,856

1: Non-underlying financial expenses relate to lease liability expensed in relation to stores closed as part of the restructure.