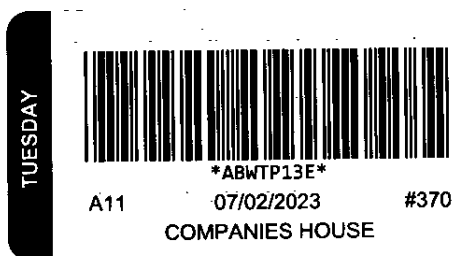


# Coffee #1 Ltd

## Report and Financial Statements

31 May 2022



## Company Information

### **Directors**

G W Ford  
B J Price  
G M House  
B Newman

### **Secretary**

J H Stewart

### **Auditor**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

### **Registered Office**

9-15 Neal Street  
London  
United Kingdom  
WC2H 9QL

## Strategic Report

The directors present their Strategic Report, Directors' Report and financial statements of Coffee #1 Limited ('the Company') for the year ended 31 May 2022. The results of Coffee #1 Limited are also reported within the wider Group accounts of The Nero Group Ltd ('the Group') and Caffè Nero Group Holdings Ltd.

### Principal activity

Coffee #1 is a distinctive brand of successful coffee houses operating principally in Wales, south west, southern England and the Midlands and is seen as one of the leading brands in the regions in which it operates.

During the year ended 31 May 2022, two new stores both of which had contractual lease agreements in place prior to the Covid-19 pandemic were opened.

One store was closed in the year ended 31 May 2022, resulting in 101 operating stores trading at the end of the year.

### Business review

The directors retain confidence in the distinct positioning of the Coffee#1 brand, affording customers a carefully designed product offer and a comfortable, relaxed store environment to enjoy. This unique combination firmly differentiates the brand from many other High Street coffee shop brands and drives a business model which is largely built upon a strong drink-in / eat-in market. Customer usage of Coffee#1 has remained strong after the Covid-19 pandemic with the brands locations well placed to take advantage of changes in consumer behaviour including working from home. The brand has also benefited from a bounce in take away sales with more customers discovering Coffee#1 as a take-away offer and total sales from Take Away accelerating from 10% to 15% post pandemic.

Through the course of the year, and most notably in the first half of the year to end November 21, the company sought to ensure cash reserves post pandemic were rebuilt. With the benefit of strong sales recovery, aggressive cost control management, business rates holiday and a temporary cut in VAT rate the company was able to build cash which it used to repay the debt facility in full during the financial year.

In February 2022, Storm Equity Co Ltd acquired SA Brains' minority 33% holding in Storm Holdco Ltd taking its ownership of Storm Holdco Ltd, and therefore indirectly of the Company, to 100%.

A full review of performance is included in the KPI section below.

### Key performance indicators

The directors use a number of key performance indicators to manage the business, examples of which are shown below.

#### *Like for like sales*

The Company defines like for like sales as the growth in sales of stores open for more than 12 months compared to the previous year. The Company usually targets an annual range of 3-5% growth in like for like sales. Following the forced temporary store closures and ongoing trading restrictions throughout the whole year the Company did not use like for like sales as a key performance measure in the last year. Instead, it assessed trading by comparing sales to the year before the pandemic (FY19) to derive a percentage of 'normal'.

As the company entered the start of the year, a strong sales recovery post the Covid-pandemic had begun with gross sales at c. 95% of their pre-pandemic level. The company's existing locations, which pre-dominate in sub-urban and market town locations were well placed to take advantage in changes in consumer behaviour including more incidents of home working.

Performance recovery continued between September and November with gross sales at 103% of their pre-pandemic levels and were only checked by the emergence of the Omicron Covid variant in December 2021 and the subsequent impact of government guidance on customer behaviour.

## Strategic Report

Undermined customer confidence during December 2022 resulted in gross sales moderating to c. 101% of pre-pandemic levels in the third quarter (December 21 to February 22) before accelerating to c. 103% to 105% of pre-pandemic level in the final quarter of the year.

### Store Openings

The success of the Company in its store opening programme and like for like sales growth is ultimately displayed by increasing store numbers in absolute terms. With the recovery of the business materialising, previously contracted sites were opened in Bath (an addition to an already successful site in the City) and Witney.

At the end of the financial year, operating store numbers stood at 101, a net increase of +1, once the closure of the loss-making site is accounted for.

### Store Expansion

The Company's strategy is to increase revenue by increasing in scale through opening new stores, however, openings were largely suspended during the Covid-19 crisis as part of a drive to preserve cash with only contractually binding openings made in FY22. Coffee#1 expects to return to a more substantive program of store opening during the year to 31 May 2023 with the directors having strong confidence in the relevance of the Coffee#1 brand and offer and its potential to trade profitably in additional, unpenetrated locations.

### Principal risks and uncertainties

The directors continually identify, evaluate and manage material risks and uncertainties faced by the Company which could adversely affect the Company's business, operating results and financial condition. The directors consider the principal risks and uncertainties facing the business to comprise the following:

#### Company specific risks

Risk	Mitigation
<p>Covid-19 (risk of further waves)</p> <ul style="list-style-type: none"> <li>Risk of reduced staff levels due to a resurgence of infection levels.</li> <li>Risk of falling customer confidence in safety due to rising infections, leading to reduced footfall.</li> </ul>	<ul style="list-style-type: none"> <li>Operational processes developed and rolled out to react to any Covid-19 infections among team members.</li> <li>All stores able to re-activate in-store Covid safety measures to protect staff and customers quickly. Including social distancing, Perspex screens, PPE for teams, hand sanitiser stations, enhanced cleaning regimes and clear signage for customers.</li> <li>High-level plans able to be activated to manage local or national closures if necessary. Covenants with lenders can be temporarily halted if a lockdown is initiated.</li> <li>Strong cash management processes and cost cutting at group level to mitigate any further national lockdowns.</li> </ul>
<p>Brand reputation</p> <ul style="list-style-type: none"> <li>Damage to the brand image due to failures in environmental health in the stores or contamination of products.</li> <li>Risk of guests suffering from failure to deliver our allergens policies and procedures, or inaccurate or insufficient information provided to guests concerning allergens.</li> </ul>	<ul style="list-style-type: none"> <li>Strict cleaning and store maintenance procedures continuously reviewed and enforced at store level in conjunction with the business Health and Safety officer and with review by the business primary authority.</li> <li>Clear Allergen policies and procedures established across all brands.</li> <li>Detailed database built up by ingredient/supplier and testing of database including physical verification.</li> </ul>

## Strategic Report

Risk	Mitigation
Brand reputation (continued)	<ul style="list-style-type: none"> <li>• Allergen training continuously reviewed and regularly completed by all restaurant employees across all businesses.</li> <li>• Constantly updated Allergen manual and information available to all customers both on the company website and in physical form in each store.</li> <li>• </li> </ul>
People attraction and retention <ul style="list-style-type: none"> <li>• Failure to attract, retain, or develop store teams and key head office individuals.</li> <li>• Availability of baristas</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of robust recruitment process to ensure the quantity of hires is sufficient but to also protect the quality of hiring.</li> <li>• Continual review and updating of onboarding and induction process focused on core skills and employee engagement.</li> <li>• Career pathway plans discussed with all above store level employees.</li> <li>• Competitive employment propositions.</li> </ul>
Supply chain management <ul style="list-style-type: none"> <li>• Risk of loss of key suppliers, jeopardising supply, and availability.</li> <li>• Risk that the distribution network is unable to meet the demands of our stores.</li> <li>• Brexit risk to supply chain due to product shortages and/or delays causing loss of revenue, customer's satisfaction, and reputation.</li> <li>• Risk that the effects of climate change will disrupt the supply of coffee from overseas.</li> </ul>	<ul style="list-style-type: none"> <li>• Products are sourced from multiple suppliers to mitigate risk.</li> <li>• Regular communication and dialogue with all logistics partners and key suppliers to review performance and assess risk.</li> <li>• Supply contracts in place with all key suppliers.</li> <li>• Regular supplier visits by Technical and Buying teams to check operations and procedures.</li> <li>• Contingency planograms and menus to mitigate for adjusted availability and to protect core product availability for customers.</li> </ul>
Breakdowns in internal controls through fraud or error	<ul style="list-style-type: none"> <li>• Strong internal control processes in place throughout the business.</li> <li>• Regular review of processes and systems to ensure a robust control environment is maintained.</li> <li>• Designated members responsible for communicating instances of fraud including how these were prevented and actions taken to ensure no repeat offences.</li> <li>• Regular team updates with the internal audit team to further highlight instances of fraud/error in the business and necessary actions taken.</li> </ul>

## Strategic Report

Risk	Mitigation
<p>Increases in costs</p> <ul style="list-style-type: none"> <li>• Risk of inflationary pressure on the Group's costs and the current cost of living crisis and rising inflation.</li> </ul>	<ul style="list-style-type: none"> <li>• Work collaboratively with our suppliers to find effective cost savings.</li> <li>• Revision of range of products being sold and ways to reengineer pricing of those products whilst maintaining brand standard.</li> <li>• Increase in price of products where appropriate.</li> </ul>

### Broader sector or macroeconomic risks

- Adverse economic conditions in the UK markets;
- Inflation, principally on energy and cost of goods sold;
- Increased competition in the markets in which Caffè Nero brands operate;
- A rise in interest rates which will affect the amount of interest payable on the Group's loans; and

The Company continually monitors exposure to these risks and has developed policies and appointed qualified personnel to mitigate exposure to these risks.

### Financial instruments and risk management

The use of financial instruments exposes the Company to risk. The resultant risk and procedures in place to manage such risks are summarised below:

#### Interest rate risk

The Company has interest-bearing liabilities with its immediate parent undertaking Storm Equity Limited. Interest rate risk is minimised with a fixed at rates of 4% and do not expose the Company to cash flow interest rate risk.

#### Liquidity risk

Exposure to liquidity risk arises on trade and other payables due to third parties, amounts due to other group companies and amounts owed to the former parent company. Exposure to liquidity risk is managed through regular review of the maturity of liabilities. The Company regularly reviews its exposure and ensures funds are available as required.

#### Credit risk

The Company monitors its exposure to third party credit risk through detailed checks on customers and regular review of outstanding receivables. The Company mitigates its exposure to related party credit risk by only lending to undertakings from the same Group of which it is a member.

#### Price risk

The Company is exposed to commodity price risk. The Company does not manage its exposure to commodity price risk as the costs of managing this exposure exceed any potential benefits. Although coffee prices are subject to considerable volatility, this is minimised as the Company makes use of the

## Strategic Report

wider Group's roastery to produce the brands coffee requirements in house which trade on a negotiated long-term basis at a substantial premium above commodity coffee prices.

### Section 172 statement

Section 172 of the Companies Act 2006 requires Directors to act in a way they consider would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard, to broader matters including:

- (a) The likely consequences of any decision in the long term
- (b) The interests of the Company's employees
- (c) The need to foster the Company's business relationships with suppliers, customers and others
- (d) The impact of the Company's operations on the community and the environment
- (e) The desirability of the Company maintaining a reputation for high standards of business conduct, and
- (f) The need to act fairly as between members of the Company.

The table below summarises how the directors have met their obligations:

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY23
Shareholders / Lenders	<ul style="list-style-type: none"> <li>▪ Long-term profitability</li> <li>▪ Sustainable growth, including entry to new markets and technology development to match consumer trends.</li> <li>▪ Receiving accurate and reliable information on the business</li> <li>▪ Maintaining high brand standards and reputation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lenders receive monthly financial updates and regular meetings.</li> <li>▪ A lender representative sits as an Observer on the Group Supervisory Board</li> <li>▪ Regular calls are held with shareholder groups by the CEO to gain direct feedback and to maintain clear dialogue.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Group maintained weekly/regular reporting to lenders to provide cash forecasts as well as monthly updates on trading and progress of the CVA and the challenge to it.</li> </ul>

## Strategic Report

Employees	<ul style="list-style-type: none"> <li>▪ Regular quality communication and engagement.</li> <li>▪ Up to date information on the business.</li> <li>▪ Feeling valued by the business and part of the community.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular weekly and monthly newsletters in addition to an internal social media platform.</li> <li>▪ Regular store manager engagement through listening groups, and regular Store Manager conference calls with Q&amp;A sessions.</li> <li>▪ Weekly calls at board level with each territory in the group to provide business support and ensure key decision making in each country is visible and overseen.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weekly CEO Company calls are maintained each Monday.</li> <li>▪ CEO update video calls have also taken place at regular intervals throughout the year with Store Managers.</li> <li>▪ Focus group meetings were also held across the country to gain feedback on satisfaction and focus areas for Store Managers and teams.</li> <li>• Company communications documents provide key ops focuses on a weekly and monthly basis. Culture communications channels including print magazines and internal social media channels are utilised daily to engage all levels of teams.</li> </ul>
Customers	<ul style="list-style-type: none"> <li>▪ Clean well-maintained stores which are safe and Covid compliant.</li> <li>▪ Quality Coffee and a good range of tasty products, including healthy/vegan choices, at good value.</li> <li>▪ Convenience when using the brand.</li> <li>▪ Well trained, friendly, welcoming team members.</li> <li>• Strong communication and engagement from the brand.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer App with integrated loyalty programme and payment options.</li> <li>▪ Weekly e-mail and online communication.</li> <li>• Customer feedback forums – which reinforced the brands perception of demand for an updated, <i>relaunched</i> food offering, the ability to buy our product through other, non-store, channels and great service.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The business ensured availability of its core products and most popular items throughout supply chain challenges caused by residual Covid impact and Brexit. Caffè Nero continued to grow its delivery channels, including an additional partnership with Just Eat, to ensure customers were still able to access products where and when they wanted them.</li> <li>▪ Caffè Nero continued to innovate its menu with a new summer food range and iced drinks range launched in April 2022.</li> </ul>



## Strategic Report

			<ul style="list-style-type: none"> <li>▪ Caffè Nero also continued to expand its brand partnership programme to provide greater value and choice to customers, including a Partnership with Compare The Market and a drinks and marketing tie-in with the cinema film, 'The Batman'.</li> <li>▪ Extended outdoor seating was maintained to accommodate more customers who wished to sit outside when using Caffè Nero.</li> <li>▪ The Group has continued the expansion of its new channels, adding Just Eat to its delivery options and continuing to grow its 'At Home' range, available both in-store, on-line and through retail partnerships including Amazon and Sainsbury's. The business will continue to pursue additional retailers and channels to market.</li> </ul>
Suppliers (including Landlords)	<ul style="list-style-type: none"> <li>▪ Regular and timely payment.</li> <li>• Communication on business status, objectives, growth strategy and cash position.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Designated point of contact for all suppliers</li> <li>• Proactive and regular communication through the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular supplier communication calls and forums.</li> <li>▪ Open channel communication maintained with all suppliers to:</li> <li>▪ Find effective cost savings and revised service levels.</li> <li>▪ Support and reassure during the transition between distribution partners in June 2021 (moved to greencore)</li> <li>• To advise and inform of updates and conclusion to the court challenge connected to the CVA process.</li> </ul>

## Strategic Report

Community & Environment		<ul style="list-style-type: none"> <li>▪ This section is covered in the “Ethics, Sustainability and supporting the Community” section on page 8 in the group accounts.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Caffè Nero and Caffè Nero employees continued to fundraise for and support local causes and the business supported good causes in Ukraine caused by the war.</li> <li>▪ Caffè Nero continued to push forward sustainability with the completion of the roll out of a plant lined paper cup across the group and continued support for key recycling schemes.</li> <li>▪ Caffè Nero further expanded its partnership with “Too Good To Go” saving over 131,000 meals from going to waste.</li> <li>▪ Further information can be found in the “Ethics, Sustainability and supporting the Community” section on page 8 in the group accounts.</li> </ul>
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### Principal Decisions

We have outlined examples of how the Directors of the Company have had regard to the matters set out in section 172, including considering the Company’s employees and other stakeholders when discharging their duties under section 172 and the effect on the principal decisions taken by them.

### Decisions related to Covid-19

It has been an unprecedented period of difficulty for the hospitality sector and the wider economy. Covid-19 also caused an extraordinary and dramatic impact upon the Coffee #1 business, including the forced

## Strategic Report

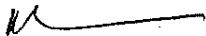
closure of all stores by the government and the resulting catastrophic impact on sales for significant periods of the financial year.

The board acted to ensure the health and safety of the company's employees and customers and to best protect the future of the business. Swift and decisive action was taken in response to the pandemic and the imposed lockdown and trading restrictions, as well as significant exceptional costs. Key decisions included:

- The continued reduction and management of fixed costs during lockdown.
- Continuing the agreed temporary pay cuts with employees.
- Continued accessing of government support where appropriate, including Business Rates and VAT holidays.
- Maintaining strict social distancing and PPE measures in store to protect staff and customers from Covid-19.
- The repayment of our liquidity facility to our banking syndicate and refinancing of the Group.

In taking these decisions, the Board was mindful of the long-term interest of the Company and its stakeholders, including employees, customers, shareholders, suppliers and strategic partners.

On behalf of the Board



Ben Price  
Director  
10<sup>th</sup> October 2022

Registered No. 04027169

## Directors' report

The directors present their annual report and the audited financial statements of Coffee #1 Limited (the "Company") for the year ended 31 May 2022.

### Results and dividends

The Company generated a profit before tax of £7.9m (2021 – £1.8m). No dividend is proposed (2021 – £nil).

### Future Developments

The directors are focussed on returning the Company to growth with operational activity centred upon programs of employee engagement and training, cost mitigation and control, like for like sales growth and a resumption of a program of new store openings.

### Financial Instruments

Financial instruments are discussed within the strategic report.

### Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the directors have received confirmation of parental support and that the Company's fellow group undertakings will not seek repayment of their intra-group loans presented as current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by the Nero Group Limited, and in making their assessment the directors have therefore considered the going concern position of the Nero Group Limited, which is explained below.

The directors have looked out to November 2023 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.
2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

## Directors' report

### Energy Consumption and Carbon Emissions

The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2018 requires Coffee #1 Limited to disclose annual UK energy consumption and Greenhouse Gas (GHG) emissions from SECR regulated sources. Energy and GHG emissions have been independently calculated by The Utility Buyers Ltd for the reporting period 1 June 2021 to 31 May 2022.

Reported energy and GHG emissions data is compliant with SECR requirements and has been calculated in accordance with the GHG Protocol and SECR guidelines. Energy and GHG emissions are reported from buildings and transport where operational control is held – this includes electricity, natural gas, and business travel in company-owned or grey-fleet cars.

The table below details the regulated SECR energy and GHG emission sources from the current reporting period along with previous year data.

	<i>1 June 2021 to 31 May 2022</i>	<i>1 June 2020 to 31 May 2021</i>
Energy (kWh)		
Natural Gas	147,734	29,907
Electricity	5,300,352	3,947,469
Transport	91,118	81,553
<b>Total Energy (kWh)</b>	<b>5,539,204</b>	<b>4,058,119</b>
Emissions (tCO <sub>2</sub> e)		
Natural Gas	25.82	5.35
Electricity	1,125.42	920.32
Transport	98.35	86.66
<b>Total SECR emissions*</b>	<b>1,249.59</b>	<b>1,012.33</b>
<b>SECR emissions per intensity metric (tCO<sub>2</sub>e / £1m Revenue)</b>	<b>0.0012</b>	<b>0.0010</b>

\*Uses location based electricity emissions

	June 2020 - May 2021	June 2021 - May 2022
<b>Energy Type</b>		<b>kWh</b>
Natural Gas	29,097	147,734
Electricity	3,947,469	5,300,352
Transport	81,553	91,118
<b>Total Energy</b>	<b>4,058,119</b>	<b>5,539,204</b>
<b>Emissions Type</b>		<b>tCO<sub>2</sub>e</b>
Natural Gas	5.35	25.82
Electricity	920.31	1,125.42
Transport	86.66	98.35
<b>Total SECR Emissions*</b>	<b>1,012.32</b>	<b>1,249.59</b>
<b>Intensity Metric</b>		
SECR Emissions per Intensity Metric (tCO <sub>2</sub> e / £1m revenue)	0.0010	0.0012

Coffee #1 Ltd are committed to reducing their environmental impact and contribution to climate change through increased energy management and awareness and changes to operational procedures. Furthermore, the upcoming ESOS Phase 3 deadline will provide Coffee #1 with an opportunity to restudy their energy savings opportunities and formulate an updated action plan.

As part of their commitment to reducing their environmental impact, Coffee #1 Ltd have continued to introduce and build upon existing energy saving measures. This includes but is not limited to further installations of smart meters across the estate, monitoring of energy consumption via bespoke energy

## **Directors' report**

management reporting and use of energy efficient fixtures. Travel emissions have also been reduced where possible by increased use of virtual meeting.

### **Data Records & Methodology**

GHG emissions have been calculated using emissions factors published by BEIS in 2020. Electricity emissions are reported using location-based factors. Location-based emissions have been calculated using emissions factors published by BEIS in 2020.

Electricity and natural gas emissions has been calculated using metered kWh consumption taken from supplier fiscal invoices and half hourly data, where available, direct from the Data Collector. Where fiscal supplier invoices have not been available for the entire period, the average consumptions have been calculated from invoices held.

Transport emissions have been calculated using the contracted annual mileage of the vehicle using the average car type. The annual mileage was converted into GHG emissions based upon the fuel type of the vehicle. Conversion to GHG emissions was completed using the most recent emissions factors published by BEIS in 2020.

### **Employees**

The Company provides employees with information concerning trading, development and other appropriate matters through formal and informal briefings. Employees are consulted on a regular basis to ensure their views are taken into account in making decisions likely to affect their interests. Among the forums used to gather information are "village meetings" and "listening groups".

The Company gives full and fair consideration to the employment of disabled people, including the continuation in employment of employees who have become disabled. All employees are given equal opportunities for training and promotion, having regard to their particular aptitudes and abilities.

The Company has a very extensive training program, benefiting the employee base. This consisted of role refresher training for all store teams when stores reopened post the COVID 19 lockdowns. The Company also continued to make existing e-learning courses available to all employees throughout the year which included technical job skills, business skills, leadership and team development skills as well as behavioural development training. The Company believes in developing its people and provides courses in coffee making, customer service and business management to provide employees with the skills necessary to pursue a career both inside and outside the Company.

### **Directors of the Company**

The directors who served the Company during the year to the date of approving these financial statements for issue were as follows:

G W Ford  
B J Price  
G M House  
B Newman

### **Section 172 statement**

The Directors constantly strive to promote the success of the company and do so for the benefit of its members as a whole. Details of how they do this are disclosed in the Section 172 statement of the Strategic Report.

### **Reappointment of auditor**

In accordance with section 487 of the Companies Act 2006, the Company has elected to dispense with the obligation under section 485 of the Companies Act 2006 to appoint auditors annually. Ernst & Young LLP are deemed to continue in office until further notice.

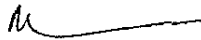
## Directors' report

### Disclosure of information to the auditor

Each of the persons who are directors at the time when this Directors' report is approved have confirmed that;

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that ought to have been taken as directors' in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board



Ben Price  
Director  
10<sup>th</sup> October 2022

## Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit and loss of the Company for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COFFEE #1 LIMITED

### Opinion

We have audited the financial statements of Coffee #1 Limited for the year ended 31 May 2022, which comprise the statement of comprehensive income, statement of financial position, statement of changes in shareholders equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 May 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period from when the financial statements are authorised for issue, to 30 November 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

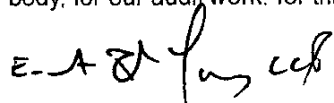
The extent to which our procedures are capable of detecting irregularities, including fraud is explained below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice), the relevant direct and indirect tax compliance regulation in the United Kingdom, employment laws in the relevant jurisdictions and reporting obligations in the UK including the Modern Slavery Act. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, data protection and anti-bribery and corruption.
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains its policies and procedures in these areas and corroborated this by reviewing supporting documentation such as the Code of Conduct and correspondence with group legal advisors.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk.
- We incorporated data analytics into our testing of revenue and manual journals, including segregation of duties. We performed audit procedures to address each identified fraud risk, including testing manual journals which were designed to provide reasonable assurance that the financial statements were free from material misstatement, whether due to fraud or error. We tested specific transactions back to source documentation or independent confirmations as appropriate.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, enquiries of management and journal entry testing, with a focus on manual journals and journals indicating significant unusual transactions identified by specific risk criteria based on our understanding of the business.

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

### Use of our report

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



Zishan Nurmoahamed (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date

18/10/2022

## Statement of Comprehensive Income

for the year ended 31 May 2022

	Notes	2022 £000	2021 £000
<b>Revenue</b>	2	39,727	23,560
Cost of sales		(27,094)	(18,758)
<b>Gross profit</b>		12,633	4,802
Grant income		-	2,526
Administrative expenses		(4,587)	(5,393)
<b>Operating profit</b>		8,046	1,935
Interest payable and similar expenses	7	(164)	(178)
Interest receivable	8	27	27
<b>Profit before taxation</b>	3	7,909	1,784
Income tax	9	(1,301)	(376)
<b>Profit for the year</b>		6,608	1,408
Other comprehensive income		-	-
<b>Total comprehensive income</b>		6,608	1,408

All amounts relate to continuing activities.

## Statement of Financial Position

at 31 May 2022

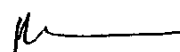
	Notes	2022 £000	2021 £000
<b>Fixed Assets</b>			
Intangible assets	11	69	88
Property, plant and equipment	10	11,410	12,094
		11,479	12,182
<b>Current assets</b>			
Inventories	12	236	199
Trade and other receivables	13	14,107	3,887
Cash and cash equivalents	14	2,048	7,971
		16,391	12,057
<b>Creditors: amounts falling due within one year</b>			
Trade creditors and other payables	15	(11,340)	(12,840)
<b>Net current assets/(liabilities)</b>		5,051	(783)
<b>Creditors: amounts falling due after one year</b>			
Trade creditors and other payables	15	-	(1,606)
<b>Provisions</b>			
Deferred tax provision	16	(114)	(48)
Other provisions	17	(558)	(495)
<b>Net assets</b>		15,858	9,250
<b>Capital and reserves</b>			
Called up share capital	18	2,042	2,042
Retained earnings		13,816	7,208
<b>Total shareholders' funds</b>		15,858	9,250

The financial statements were approved by the Board of Directors on 10<sup>th</sup> October 2022 and signed on its behalf by:

Gerry Ford  
Director



Ben Price  
Director



## Statement of Changes in Shareholder's Equity

for the year ended 31 May 2022

	<i>Called up share capital</i> £000	<i>Retained earnings</i> £000	<i>Total</i> £000
At 1 June 2020	2,042	5,800	7,842
Total comprehensive income for the year	-	1,408	1,408
At 31 May 2021	2,042	7,208	9,250
Total comprehensive income for the year	-	6,608	6,608
At 31 May 2022	2,042	13,816	15,858

## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies

#### *Basis of preparation*

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The following principal accounting policies have been applied consistently throughout the period.

The financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand pounds (£000) except as otherwise indicated.

#### *Financial reporting standard 102 – reduced disclosure exemptions*

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

- The requirements of Section 7 Statement of Cash Flows;
- The requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- The requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- The requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A; and
- The requirements of Section 33 Related Party Disclosures paragraph 33.7

#### *Going concern*

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the directors have received confirmation of parental support and that the Company’s fellow group undertakings will not seek repayment of their intra-group loans presented as current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by the Nero Group Limited, and in making their assessment the directors have therefore considered the going concern position of the Nero Group Limited, which is explained below.

The directors have looked out to November 2023 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:



## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies (continued)

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.
2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

#### ***Changes in accounting policies***

The same accounting policies, presentation and methods of computation are followed in these financial statements.

#### ***Key sources of estimation uncertainty and accounting judgement***

The preparation of financial statements requires management to make estimates and assumptions that affect the balances reported as assets and liabilities in the balance sheet and amounts reported as revenue and expense during the year. The nature of estimation means that actual outcomes could differ from those estimates.

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Judgements**

The following are the critical judgements (apart from those involving estimations), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

#### ***Legal claims and contingency liabilities***

Management judgement along with legal counsel advice is required to determine the risk of any claims brought against the Company crystallising into a future liability. When it is more likely than not that a claim will be lost by the Company and a material liability will crystallise, a provision is recorded in the financial statements. Where there is a risk of losing a material case but it is more likely than not to crystallise the Company discloses a contingent liability in its financial statements.

## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies (continued)

#### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### *Fixed asset useful lives*

An annual review of the fixed asset register to ensure residual values, useful lives and depreciation methodologies are appropriate requires management to use reasonable judgements. These judgements can have a material impact on how the capital cost of equipment is expensed to the income statement and therefore on the results of the business. Further details on property, plant and equipment are given on note 10.

#### *Impairment of fixed assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group (of which the Company is a member) is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the wider Group ('The Nero Group Ltd').

The Company identifies whether fixed assets are impaired on an annual basis and this requires an assessment of whether indicators of impairment exist or estimation of the value in use of the cash generating units to which the goodwill is allocated. This also involves estimation of future cash flows and choosing a suitable discount rate. Further details on non-current assets are in notes 10 and 11.

#### *Revenue recognition*

Revenue is income arising from the sale of goods and services in the ordinary course of the Company's activities, net of value added taxes. Revenue is recognised when performance obligations are satisfied and control has transferred to the customer.

#### *Sale of goods*

The Company's revenue represents sales of goods. The performance obligation is satisfied upon transfer of control to the customer, which is at the point of sale in store or on delivery to the customer.

#### *Intangible assets*

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life of five years, on a straight line or reducing balance basis. Where factors such as technological advancement or changes in market price indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate is amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies (continued)

#### *Tangible assets*

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a reducing balance basis.

Depreciation is provided on the following bases:

Leasehold improvements	Straight line over 10 years
Plant and machinery	15% on reducing balance

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Capital work-in-progress is not depreciated.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

#### *Inventory*

Inventories are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each reporting date, inventory is assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

#### *Debtors*

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### *Cash and cash equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### *Finance costs*

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies (continued)

#### *Financial instruments*

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the Balance Sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### *Creditors*

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### *Pensions*

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

#### *Provisions for liabilities*

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

## Notes to the financial statements

at 31 May 2022

### 1. Accounting policies (continued)

Provisions are charged as an expense to the Statement of Comprehensive Income in the period that the Company becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

#### **Current and deferred taxation**

The tax on profit for the year ended 31 May 2022 comprises of the current and deferred tax impact for the period. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

#### **Grant income**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. If conditions are attached to the grant which must be satisfied before the Company is eligible to receive the contribution, the recognition of the grant as income will be deferred until those conditions are satisfied.

Government grants received as a result of the COVID-19 pandemic are recognised in the Statement of Comprehensive Income so as to match with the related costs they are intended to compensate for.

Government assistance packages from which the Company has benefitted included the Retail, Hospitality and Leisure Grant Fund and the Job Retention Scheme. There are no unfulfilled conditions or other contingencies attached to these grants.

#### **Capital instruments**

Ordinary shares, share premium and capital contribution are classified as equity instruments. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in equity.

## Notes to the financial statements

at 31 May 2022

### 2. Revenue

Turnover is wholly attributable to the principal activity and arises from the sale of goods.

All revenue is generated in the United Kingdom.

### 3. Profit before taxation

Profit before taxation is stated after charging:

	2022	2021
	£000	£000
Depreciation of property, plant and equipment	2,152	2,224
Amortisation of intangible assets	19	23
Loss on disposal of tangible assets	106	102
Impairment of property, plant and equipment (note 10)	-	644
Estate re-structuring costs arising as a result of Covid-19	-	(247)
Charges arising from operating leases	3,180	2,940
Store closure costs	19	-
Government grants – (see note 3.1)	-	(2,526)

#### 3.1 Government grants

During the prior year the Company recognised grant income from the UK Government to mitigate the impact of COVID-19. Government assistance packages from which the Company benefitted included:

- The Coronavirus Job Retention Scheme (CJRS)
- The Retail, Hospitality and Leisure Grant Fund (RHLGF)

Amounts received and receivable during the prior year are disclosed below:

	2022	2021
	£000	£000
Grant income in respect of CJRS included in cost of sales	-	2,458
Grant income in respect of CJRS included in administrative expenses	-	68

At 31 May 2022, receivables in respect of the CJRS of £Nil (2021 – £82k) were included in prepayments and accrued income.

### 4. Auditor's remuneration

	2022	2021
	£000	£000
Fees payable to the Company's auditors for the audit of the financial statements	45	30
	<u>45</u>	<u>30</u>

## Notes to the financial statements

at 31 May 2022

### 5. Director's remuneration

Three directors of this Company are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £1.2m (2021 – £0.7m) in respect of services to the enlarged UK group of which the Company is a member. It is not possible to identify the proportion of these emoluments that relate to services to this Company.

The remaining director is remunerated through Coffee #1 Ltd. The remuneration in respect of this director is £0.2m (2021 – £0.1m).

### 6. Staff costs

Staff costs were as follows:	2022 £000	2021 £000
Wages and salaries <sup>1</sup>	11,199	6,477
Social security costs	652	482
Other pension costs	144	212
	<u>11,995</u>	<u>7,171</u>

<sup>1</sup>Staff costs reported above are after the deduction of government grants received in respect of these costs of £Nil (2021: £2.5m).

The average monthly number of employees, including the directors, was as follows:

	2022	2021
Retail services	<u>822</u>	<u>722</u>

### 7. Interest payable and similar expenses

	2022 £000	2021 £000
Intercompany interest – other related parties	164	178
	<u>164</u>	<u>178</u>

### 8. Interest receivable

	2022 £000	2021 £000
Intercompany interest – parent undertaking	27	27
	<u>27</u>	<u>27</u>

## Notes to the financial statements

at 31 May 2022

### 9. Income tax

(a) Tax on profit from ordinary activities

	2022 £000	2021 £000
Current tax	1,247	391
Current tax - Adjustment in respect of prior period	(12)	-
Current tax total	1,235	391
Deferred tax – adjustment in respect of prior years	66	9
Deferred tax – origination and reversal of timing difference	-	(46)
Deferred tax – effect of tax rate change on opening balance	-	22
Deferred tax total	66	(15)
Income tax charge reported in the Statement of Comprehensive Income	1,301	376

(b) Factors affecting tax on profit for the year

The credit for the year can be reconciled to the profit per the income statement as follows:

	2022 £000	2021 £000
Profit on ordinary activities before tax	7,909	1,784
Profit on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 19.00% (2021 – 19.00%).	1,503	339

	2022 £000	2021 £000
<i>Effects of:</i>		
Group relief claimed for nil payment	(315)	(349)
Fixed asset timing differences	157	280
Transfer pricing adjustments	1	58
Benefit of tax incentives	(49)	-
Expenses not deductible	9	33
Adjustment to tax charge from previous periods- current tax	(12)	(5)
Adjustment to tax charge from previous periods- deferred tax	(11)	9
Remeasurement of deferred tax for change in tax rates	18	11
Income tax reported in the Statement of Comprehensive Income	1,301	376

There are no unrecognised deferred tax assets in the current or prior year.

On 23 September 2022 the Chancellor of the Exchequer announced that the corporation tax rate will remain at 19% from 1 April 2023, reversing a previously enacted measure to increase the rate to 25%. This reversal in



## Notes to the financial statements

at 31 May 2022

### 9. Income tax (continued)

the tax rate from 1 April 2023 has not been enacted or substantively enacted and accordingly has no impact on the tax balances at 31 May 2022.

The potential impact of this change on the deferred tax balances at 31 May 2022 is expected to be immaterial.

### 10. Property, plant and equipment

	<i>Leasehold improvements</i>	<i>Plant &amp; Equipment</i>	<i>Capital work in progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 1 June 2021	11,483	17,139	70	28,692
Additions	868	684	23	1,575
Disposals	(151)	(175)	(2)	(328)
Transfers	66	-	(66)	-
At 31 May 2022	<u>12,266</u>	<u>17,648</u>	<u>25</u>	<u>29,939</u>
Depreciation and impairment:				
At 1 June 2021	5,945	10,653	-	16,598
Provided during the year	1,125	1,027	-	2,152
Disposals	(99)	(122)	-	(221)
At 31 May 2022	<u>6,971</u>	<u>11,558</u>	<u>-</u>	<u>18,529</u>
Net book value:				
At 31 May 2022	<u>5,295</u>	<u>6,090</u>	<u>25</u>	<u>11,410</u>
At 1 June 2021	<u>5,538</u>	<u>6,486</u>	<u>70</u>	<u>12,094</u>

All Assets were assessed for impairment in the prior period due to the significant trading disruption Covid-19 caused. The current year began in the same way, and also saw a disruption to trade due to Covid-19. In light of this, the directors have chosen to re-assess all the assets again for impairment. This is in accordance with IAS 36.

The approach to impairment reviews remains unchanged from previous years and relies primarily on value in use calculations based on cash flow projections approved by senior management.

For the current period, value in use estimates have been prepared on the basis of the 'base case' forecast. In this base case forecast, it is assumed that trading performance will gradually return to a pre-Covid level over the period from June 2021 to May 2022 and then grow at a terminal growth rate of 3%.

Discount rates as used in the value in use calculations are estimated with reference to the wider Caffè Nero Group's weighted average cost of capital. For 2022, a discount rate of 10.5% has been applied to discount future cash flow projections (2021 – 10.2%).

Impairment has been recorded in a few stores compared to a number last year, reflecting an improvement in trading following the lifting of Covid-19 restrictions. A charge of £1k (2021: £644k) was recorded against Property, Plant & Equipment ('PPE').

## Notes to the financial statements

at 31 May 2022

### 11. Intangible assets

	<i>Software</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>
Cost:		
At 1 June 2021	172	172
At 31 May 2022	172	172
Depreciation and impairment:		
At 1 June 2021	84	84
Provided during the year	19	19
At 31 May 2022	103	103
Net book value:		
At 31 May 2022	69	69
At 1 June 2021	88	88

### 12. Inventories

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Finished goods	236	199
	<u>236</u>	<u>199</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

### 13. Trade and other receivables

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	245	69
Amounts due from group undertakings	13,492	3,322
Corporation tax	68	-
Prepayments and accrued income	302	496
	<u>14,107</u>	<u>3,887</u>

### 14. Cash at bank and in hand

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Cash and cash equivalents	2,048	7,971
	<u>2,048</u>	<u>7,971</u>

## Notes to the financial statements

at 31 May 2022

### 15. Trade creditors and other payables

	2022	2021
	£000	£000
<b>Non-current liabilities</b>		
Other liabilities due to former parent company	-	1,606
		2021
		£000
<b>Current liabilities</b>		
Trade creditors	114	2,867
Other liabilities due to former parent company	-	26
Amounts owed to group undertakings	5,267	3,643
Corporation tax	-	393
Other taxation and social security	1,060	1,132
Other creditors	1,298	1,332
Accruals and deferred income	3,601	3,447
	<u>11,340</u>	<u>12,840</u>

Included within accruals and deferred income is £265k (2021 – £222k) of amounts related to a customer loyalty programme operated by the Company. The programme entitles customers to a point for each cup of coffee purchased from its stores. Ten points can then be redeemed for a free coffee.

### 16. Deferred tax provision

	2022	2021
	£000	£000
At 1 June	(48)	(62)
Adjustment in respect of prior years	(66)	(9)
Effect of tax rate change on opening balance	-	(22)
Origination and reversal of timing differences	-	46
At 31 May	<u>(114)</u>	<u>(48)</u>

The provision for deferred taxation is made up as follows:

	2022	2021
	£000	£000
Accelerated capital allowances	<u>(114)</u>	<u>(48)</u>

## Notes to the financial statements

at 31 May 2022

### 17. Other provisions

	<i>Dilapidation provision</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>
At 1 June 2021	495	495
Additions in the year	63	63
At 31 May 2022	<u>558</u>	<u>558</u>

#### ***Dilapidation provision***

Provisions for dilapidations are based on the future expected repair costs required to restore the Company's leased buildings to their fair condition at the end of their respective lease terms. Provisions for dilapidations are recognised on a lease by lease basis and are based on the best estimate of the likely committed cash outflow. Provisions are based on assumptions concerning the timing of cash flows, dependent on the remaining term of the leases, which is up to 15 years.

### 18. Called up share capital

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
<b>Share classified as equity</b>		
<b>Allocated, called up and fully paid</b>		
50,000 (2021 – 50,000) Ordinary A shares of £0.01 each	1	1
50,000 (2021 – 50,000) Ordinary B shares of £0.01 each	1	1
203,941,104 (2021 – 203,941,104) Ordinary D shares of £0.01 each	2,039	2,039
102,945 (2021 – 102,945) Ordinary E shares of £0.01 each	1	1
9,302 (2021 – 9,302) Ordinary F shares of £0.01 each	-	-
	<u>2,042</u>	<u>2,042</u>

#### **Ordinary shares**

(i) Rights to dividends: A, B, D, E and F Ordinary shares of 1p each – None.

(ii) Rights to redemption: A, B, D, E and F Ordinary shares of 1p each – None.

(iii) Rights to winding up: the assets of the Company remaining after all liabilities and costs have been discharged are to be distributed in the event of a winding up as follows:

D Ordinary shares entitles the shareholder to monies up to the par value of the shares.

No other shares have right on winding up.

(iv) Voting rights: A, B, E and F Ordinary shares of 1p each – Full voting rights. D Ordinary shares of 1p each – No voting rights.

## Notes to the financial statements

at 31 May 2022

### 19. Contingent liability

The Company is part of a group which had provided an unlimited cross guarantee in favour of the bankers of an intermediate parent, The Nero Group Ltd, in the prior year covering the term loans of The Nero Group Ltd and certain subsidiaries. In the current year the cross guarantee covers the term loans of Caffè Nero Group Holdings Ltd held in Rome Bidco Ltd. Both companies are also subsidiaries of The Nero Group Ltd. The carrying value of these loans at 31 May 2022 was £363 million (2021 – £389.5 million).

### 20. Financial commitments

As at 31 May 2022, the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2022 £000	2021 £000
Not later than 1 year	2,986	3,450
Later than 1 year and not later than 5 years	6,770	7,495
Later than 5 years	5,404	5,271
	<u>15,160</u>	<u>16,216</u>

### 21. Related party transactions

The Company considers key management personnel to only include the directors of the group.

The amounts outstanding between the Company and other related parties at the year-end were as follows:

	2022 £	2021 £
Interest bearing loan owed to S.A Brains	-	1,606
Non-interest bearing amounts due to S. A. Brains (included within trade payables)	-	26
Amounts owed to Storm Equity Co Ltd	4,912	3,261
Amounts owed to Nero Holdings Limited	355	382
Amounts owed from Storm Finance Co Limited	<u>13,492</u>	<u>3,322</u>

- As part of the acquisition of Coffee #1 Limited in the prior year, S. A. Brains, a minority shareholder of a subsidiary, Coffee #1 Limited, granted an interest-bearing loan to Coffee #1, attracting interest at a rate of 4% per annum. In February 2022, S. A. Brains shares in Coffee #1 were purchased and the loan was paid off. The movement in the interest-bearing related party loan represents the payment of this loan. S.A. Brains remained the landlord of four Coffee#1 sites after the year acquisition. In the current year, the sites were taken over by a new independent landlord. At the year end, £nil (2021: £26k) was outstanding to S.A Brains in relation to rent for these sites.
- Nero Holdings Limited, Storm Equity Co Limited and Storm Finance Co Limited are all companies under common control.

## Notes to the financial statements

at 31 May 2022

### 22. Ultimate parent undertaking and controlling party

Immediate parent undertaking	Storm Finance Co Ltd <sup>(1)</sup>
Parent undertaking of the smallest group for which group financial statements are prepared that include the results of the Company	Caffe Nero Group Holdings Ltd <sup>(1)</sup>
Parent undertaking of the largest group for which group financial statements are prepared that include the results of the Company	The Nero Group Ltd <sup>(1)</sup>
Largest shareholder of The Nero Company	G W Ford <sup>(2)</sup>

<sup>(1)</sup> Copies of the financial statements can be obtained from 9-15 Neal Street, London, WC2H 9QL.

<sup>(2)</sup> G W Ford is the largest shareholder of the Company.