

Rome PIK Holdco Limited

Report and Financial Statements

31 May 2020



Company Information

Registered No. 05936498

Directors

G W Ford
B J Price

Secretary

B J Price

Auditor

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

Banker

Santander UK Plc
17 Ulster Terrace
London NW1 4PJ

Solicitor

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1 Silk Street
London EC2Y 8HQ

Registered Office

9-15 Neal Street
London
WC2H 9QL
United Kingdom

Strategic Report

The directors present their report and financial statements for Rome PIK Holdco Limited ('the Company') for the year ended 31 May 2020.

Principal activities and review of the business

Rome PIK Holdco Limited is an intermediate parent undertaking and holds the share capital of Caffè Nero Group Holdings Ltd. Due to its principal activity of being a parent undertaking, the directors do not consider specific key performance indicators to exist. The Company is one of a group of companies set up to facilitate the acquisition of Italian Coffee Holdings Ltd in 2007 by its ultimate parent.

Principal risks and uncertainties

The directors continually identify, evaluate and manage material risks and uncertainties that could adversely affect the Company's business, operating results and financial condition. The directors consider the principal risks and uncertainties facing the business to be those relevant to the trading entities in the enlarged Nero Group, which comprise the following:

Company specific risks:

- Continuing COVID-19 pandemic - there remain future challenges to the financial performance and cashflows of the Company's domestic and overseas interests due to the unknown extent of government restrictions in protecting against the coronavirus outbreak;
- Breakdowns in internal controls through fraud or error; and
- The loss of key personnel or the failure to manage succession planning

Broader sector or macroeconomic risks:

- The continuing impact of Brexit insofar as it affects availability of personnel and the import and export of goods in EU territories

The Company continually monitors these areas 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 risks. The resultant risk and procedures in place to manage such risks are summarised below:

Credit risk

The Company limits its exposure to credit risk by only lending to fellow group companies who are considered low risk due to the strength of the enlarged group of which the Company is a member. The maximum credit risk exposure is represented by the carrying value of the amount due from the parent undertaking.

Liquidity risk

Exposure to liquidity risk arises on amounts owed to group companies. Exposure is managed through the maintenance of adequate cashflows by monitoring forecast and actual cashflows and matching maturity profiles of financial assets and liabilities.

Capital management

Capital comprises shareholders' equity and financing from the Company's parent undertakings. The primary objective of the Company's capital management policy is to ensure that the Company has adequate capital to support the business. The Company monitors the cost of the various sources of capital on an ongoing basis and manages cost through planning future alternative sources of capital. No changes in these factors were made during the year. The Company has no externally imposed capital restrictions.


Strategic Report (continued)

Investment Impairment risk

The directors understanding of the risks associated with the investments held by the entity relate to the potential impairment of those investments. To identify any risk of impairment in a timely manner, the Company reviews the financial performance of its investments on a regular basis.

Treasury and risk management

The Company's parent undertaking, The Nero Group Ltd, holds a shareholder loan in the Company and the Company in turn holds a shareholder loan in its subsidiary, Caffè Nero Group Holdings Ltd. This liability and related interest charges are passed down the enlarged group in the form of intercompany loans and are reflected in the Company's balance sheet.



Ben Price

Director

27/5/21

Directors' Report

Registered No. 05936498

The directors present their report and financial statements for the year ended 31 May 2020.

Results and dividends

The Company generated a loss before taxation for the year of £699k (2019 – £418k). No dividend is proposed (2019 – nil).

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 that the Company's fellow group undertakings, will not seek repayment of their intra-group loans presented in current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by The Nero Group Ltd, and in making their assessment the directors have therefore considered the going concern position of The Nero Group Ltd, which is explained below.

The directors have prepared detailed forecasts and cash flow projection models 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 whereby sales steadily return to normal pre-Covid 19 levels.

The forecasts assume a gradual return to normal trading over the period from June 2021 to May 2022 in line with existing government guidance. However, if there were to be a renewed outbreak of COVID-19 resulting in a renewal of trading restrictions this would have an adverse impact on the Group's projections. Depending on the scope of any government response in terms of support for affected businesses, this might also have an impact on the Group's liquidity position and therefore its ability to meet its liabilities as they fall due.

The Group's main loan facilities do not fall due for repayment until September 2022 and September 2023 and the Group's forecasts show that all payments due under these facilities are met until at least 31 May 2022 and that all covenants are met under the base case forecasts. The Group has agreed with its lenders to replace previous financial covenant tests with minimum EBITDA and minimum liquidity tests until November 2021. After that point covenants return to previous levels resulting in reduced forecast headroom. In its analysis, the Group has undertaken reverse stress testing to determine what level of decline in revenue would be required to cause a breach in covenants and as a result considered the potential downside impact on cashflows forecast should there be any renewed outbreak of COVID, changes in trading restrictions or changes in consumer habits to represent a material uncertainty. In any event, the Group has options open to it if a covenant breach were about to occur, including a refinancing of its facilities and equity cure rights.

In addition, the going concern assumption is assisted by the approval of a Company Voluntary Arrangement ("CVA") carried out by the Group's main UK subsidiary, Nero Holdings Ltd ("NHL"), in November 2020. In the CVA, NHL's landlords agreed by more than 92% to accept a 30p in the £ pay out on their rent due for the period April-November 2020 and for most of them to move to a turnover-based rent model for the next three years. However, the CVA is subject to a legal challenge process, and there is consequently an uncertainty as to the outcome of this process and the ruling that could be made if the legal challenge is successful.

In preparing these financial statements, the directors acknowledge the existence of material uncertainties both in terms of the sensitivities within the cashflow ~~the~~ forecasts should any renewed government Covid restrictions occur and if the legal challenge to the CVA were to be successful. If these uncertainties were to result and significantly adverse consequences for the Group were to occur then this may cast significant doubt upon the Company's and Group's ability to continue as a going concern although it does have potential remedy options available to it.

Having assessed the Company's and Group's forecasts and mitigating options available, whilst acknowledging the above material uncertainties inherent in the upcoming year, the directors have satisfied themselves that the Group should continue to adopt the going concern basis in preparing its financial

Directors' Report (continued)

Subsequent events

On 30 November 2020, the directors of Nero Holdings Limited, a fellow group undertaking, proposed a Company Voluntary Arrangement (CVA) to its stakeholders and creditors. The CVA was approved by a strong majority of creditors (in excess of 92%). As part of the CVA, the rent arrears on 657 sites were compromised and as a consequence are not payable representing a savings of c. £20.2m.

The impact of Brexit on the wider Group's business was an important consideration for the directors throughout the year especially given the uncertainty as to whether a deal would be agreed between the EU and UK. The directors were particularly concerned by the impact on the business, customers, employees and suppliers but ensured appropriate contingency plans were in place in the event of a no deal Brexit. Since the end of the Brexit transition period from 1 January 2021, the financial impact on the business as whole is currently unclear however the wider Group has been able to effectively manage the changes to its supply chain and has been able to minimise business disruption.

Directors

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

Financial Instruments

Financial instruments are discussed within the strategic report.

Disclosure of information to the auditor

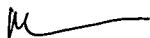
Each of the persons who are directors at the time when this Directors' report is approved have confirmed that;

- 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.

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor.

On behalf of the Board



Ben Price
Director

27/5/21

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

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 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 of the profit or loss 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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. They 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 ROME PIK HOLDCO LIMITED

Opinion

We have audited the financial statements of Rome PIK Holdco Limited for the year ended 31 May 2020, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholders Equity and the related notes 1 to 10, 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 101 "Reduced Disclosure Framework (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 2020 and of its loss 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 below. 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.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates uncertainties exist in respect of the forecasts of the Group of which the company is a member in respect of when its trade will return to pre-pandemic levels; and the outcome of an ongoing Company Voluntary Arrangement (CVA).

As stated in note 1, these represent material uncertainties that may cast significant doubt on company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a

material misstatement of the other information. 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 6, 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.

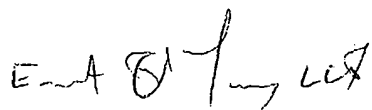
Auditor's responsibilities for the audit of the financial statements

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.

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.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP'.

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

Date 31/09/2021

Statement of Comprehensive Income

for the year ended 31 May 2020

	<i>Note</i>	<i>2020</i> £000	<i>2019</i> £000
Finance cost payable to parent undertaking		(20,314)	(18,707)
Finance income from subsidiary undertaking		19,615	18,289
Loss before taxation		(699)	(418)
Income tax	3	-	-
Loss for the year		(699)	(418)
Other comprehensive income		-	-
Total comprehensive income		(699)	(418)

All amounts relate to continuing activities.


Statement of Financial Position

at 31 May 2020

	Notes	2020. £000	2019 £000
Non-current assets			
Investments	4	9,804	9,804
Current assets			
Loan to subsidiary undertaking	5	98,450	98,450
Amounts due from subsidiary undertakings	5	191,644	172,029
		<u>290,094</u>	<u>270,479</u>
Total assets		<u>299,898</u>	<u>280,283</u>
Non-current liabilities			
Financial liabilities	6	(262,042)	(241,728)
Total liabilities		<u>(262,042)</u>	<u>(241,728)</u>
Net assets		<u>37,856</u>	<u>38,555</u>
Capital and reserves			
Called up share capital	7	1	1
Share premium account		9,803	9,803
Capital contribution		110,600	110,600
Retained earnings		(82,548)	(81,849)
Total equity		<u>37,856</u>	<u>38,555</u>

The financial statements were approved by the Board of Directors on 27 May 2021 and signed on its behalf by:


Gerry Ford
Director


Ben Price
Director

27 May 2021

27/5/21

Statement of Changes in Shareholders' Equity

for the year ended 31 May 2020

	<i>Called up share capital</i> £000	<i>Share premium account</i> £000	<i>Capital contribution</i> £000	<i>Retained earnings</i> £000	<i>Total</i> £000
At 1 June 2018	-	2,024	110,600	(81,431)	31,193
Total comprehensive expense for the year	-	-	-	(418)	(418)
Share capital issued	1	7,779	-	-	7,780
At 1 June 2019	1	9,803	110,600	(81,849)	38,555
Total comprehensive income for the year	-	-	-	(699)	(699)
At 31 May 2020	1	9,803	110,600	(82,548)	37,856

Notes to the financial statements

at 31 May 2020

1. Accounting policies

Authorisation of financial statements and statement of compliance

Rome PIK Holdco Limited is a private limited company incorporated and domiciled in England and Wales.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the provisions of the Companies Act 2006.

These financial statements have been prepared for the individual company only. The Company has taken advantage of the exemption available under section 400 of the Companies Act 2006 not to prepare group financial statements as the results of the Company are included in the consolidated financial statements of an intermediate parent undertaking and are publicly available (as set out in note 8).

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 that the Company's fellow group undertakings, will not seek repayment of their intra-group loans presented in current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by The Nero Group Ltd, and in making their assessment the directors have therefore considered the going concern position of The Nero Group Ltd, which is explained below.

The directors have prepared detailed forecasts and cash flow projection models 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 whereby sales steadily return to normal pre-Covid 19 levels.

The forecasts assume a gradual return to normal trading over the period from June 2021 to May 2022 in line with existing government guidance. However, if there were to be a renewed outbreak of COVID-19 resulting in a renewal of trading restrictions this would have an adverse impact on the Group's projections. Depending on the scope of any government response in terms of support for affected businesses, this might also have an impact on the Group's liquidity position and therefore its ability to meet its liabilities as they fall due.

The Group's main loan facilities do not fall due for repayment until September 2022 and September 2023 and the Group's forecasts show that all payments due under these facilities are met until at least 31 May 2022 and that all covenants are met under the base case forecasts. The Group has agreed with its lenders to replace previous financial covenant tests with minimum EBITDA and minimum liquidity tests until November 2021. After that point covenants return to previous levels resulting in reduced forecast headroom. In its analysis, the Group has undertaken reverse stress testing to determine what level of decline in revenue would be required to cause a breach in covenants and as a result considered the potential downside impact on cashflows forecast should there be any renewed outbreak of COVID, changes in trading restrictions or changes in consumer habits to represent a material uncertainty. In any event, the Group has options open to it if a covenant breach were about to occur, including a refinancing of its facilities and equity cure rights.

In addition, the going concern assumption is assisted by the approval of a Company Voluntary Arrangement ("CVA") carried out by the Group's main UK subsidiary, Nero Holdings Ltd ("NHL"), in November 2020. In the CVA, NHL's landlords agreed by more than 92% to accept a 30p in the £ pay out on their rent due for the period April-November 2020 and for most of them to move to a turnover-based rent model for the next three years. However, the CVA is subject to a legal challenge process, and there is consequently an uncertainty as to the outcome of this process and the ruling that could be made if the legal challenge is successful.

In preparing these financial statements, the directors acknowledge the existence of material uncertainties both in terms of the sensitivities within the cashflow forecasts should any renewed government Covid restrictions occur and if the legal challenge to the CVA were to be successful. If these uncertainties were to result and significantly adverse consequences for the Group were to occur then this may cast significant

Notes to the financial statements

at 31 May 2020

1. Accounting policies

doubt upon the Company's and Group's ability to continue as a going concern although it does have potential remedy options available to it.

Having assessed the Company's and Group's forecasts and mitigating options available, whilst acknowledging the above material uncertainties inherent in the upcoming year, the directors have satisfied themselves that the Group should continue to adopt the going concern basis in preparing its financial statements which do not contain adjustments that would result if the Group were unable to continue as a going concern.

Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 '*Financial Instruments*'
- (b) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 '*Presentation of Financial Statements*'
- (c) the requirements of paragraph 17 of IAS 24 '*Related Party Disclosures*'
- (d) the requirements in IAS 24 '*Related Party Disclosures*' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which a party to the transaction is wholly owned by such a member; and
- (e) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 '*Impairment of Assets*'.
- (f) the requirements of paragraph 91-99 of IFRS 13 '*Fair Value Measurement*', this exemption requires that equivalent disclosures are included in the financial statements of the group in which the entity is consolidated
- (g) the requirements of IAS 7 '*Statement of Cash Flows*';

New standards and interpretations not yet adopted

At the date of the authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the Board:

- Amendments to IFRS 3 (effective date 1 January 2020)
- Amendments to IAS 1 and IAS 8 (effective date 1 January 2020)
- Revised Conceptual Framework for Financial Reporting (effective date 1 January 2020)
- IBOR Phase 2 (effective date 1 January 2021)
- Covid-19 related rent concessions – Amendments to IFRS 16 (effective date 1 June 2020)
- Property, plant and equipment: Proceeds before intended use – Amendments to IAS 16 (effective date 1 January 2022)

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future years.

New standards effective for the current financial year

There has been no material impact on the Financial Statements as result of:

- IFRIC 21 '*Uncertainty over Income Tax Treatments*';
- IFRS 16 '*Leases*'

No 2019 amounts have been restated as a result of these standards becoming effective nor have the current year figures changed as a result of their application.

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. The Company is reliant on the support of the wider Group of which it is a member to continue as a going concern. The Company has

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

received confirmation of parental support from The Nero Group Limited and the directors have assessed that the Nero Group Limited has the ability to provide parental support.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses 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.

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.

Impairment of non-financial assets

Investments in subsidiaries are stated at cost less provision for impairment.

The Company assesses at each reporting date whether there is an indication that an investment may be impaired. If any such indication exists, the Company makes an estimate of the investment's recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

See note 4 for details of investments held at the year end.

Non-current asset investments

Non-current asset investments are stated at cost less provision for impairment. The carrying value of fixed asset investments is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

Income taxes (continued)

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Capital instruments

Ordinary shares 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.

Investments in subsidiaries

Investments are stated at cost less provision for impairment. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets on initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of Trade Receivables which does not have a significant financing component, the Company measures its financial assets at fair value plus, in case of financial assets not at fair value, through profit and loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flow that are 'Solely payments of principal and interest (SPPI)' on the principal amount outstanding. The assessment is referred to as SPPI test and is performed at instrument level.

Financial assets with cash flows that are not SPPI are classified and measured at fair value through Statement of profit and loss account (called the Statement of Comprehensive income in these accounts), irrespective of business model.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

Financial assets (continued)

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cashflows, selling the financial asset, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement

Financial assets at amortised cost - Loans and receivables

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes other receivables, and loans to other group companies included under non-current financial assets.

Impairment and collectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised as an expense in the statement of comprehensive income. Impairment is determined as follows;

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previous recognised in the statement of comprehensive income;
- For assets carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.
- For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, with lifetime expected credit losses (ECLs) recognised from initial recognition of the receivable.

These assets are grouped, based on shared credit risk characteristics and days past due, with ECLs for each grouping determined, based on the Company's historical credit loss experience. Adjustments are made for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

Derecognition of financial assets

A financial asset (or, where applicable as part of a financial asset or part of a group of similar financial assets) is derecognised when the right to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Notes to the financial statements

at 31 May 2020

2. Auditors' remuneration and director's emoluments and staff costs

Auditors' remuneration and any fees for non-audit services for 2020 and 2019 have been met by another group company.

No remuneration was paid or is payable to the directors in their capacity as directors of the Company (2019 – £nil). The directors of this Company are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors remuneration and pension contributions of £0.8m (2019 – £0.8m) 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 remunerations that relate to services to this Company.

The Company had no employees during the current and prior years.

3. Income tax

There is no tax charge for the year ending 31 May 2020 (2019 – nil). Loss before tax for the year multiplied by the standard rate of corporation tax in the UK reconciles to the tax charge as follows:

	2020 £000	2019 £000
Loss on ordinary activities before tax	(699)	(417)
Loss on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 19.00% (2019 – 19.00%)	(133)	(79)
Effects of transfer pricing adjustments	458	–
Effects of group relief/other reliefs	(325)	79
Tax charge for the period.	–	–

There is no recognised or unrecognised deferred tax.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. No deferred tax balance has been recognised in the Company.

The UK Budget 2021 announcements on March 3rd 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end.

4. Investments – non-current

	2020 £000	2019 £000
Cost:		
At 1 June	9,804	2,024
Additions in the year	–	7,780
At 31 May	9,804	9,804

The Company owns the entire share capital of Caffè Nero Group Holdings Ltd.

Notes to the financial statements

at 31 May 2020

4. Investments – non-current (continued)

Details of company undertakings

In the opinion of the directors, the fair value of the investment in subsidiary undertakings is not less than the carrying value.

<i>Name of Company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
<i>Directly held</i>			
Caffè Nero Group Holdings Ltd ⁽¹⁾	Ordinary shares	100%	Holding
<i>Indirectly held</i>			
Rome Bidco Limited ⁽¹⁾	Ordinary shares	100%	Financing
Italian Coffee Holdings Ltd ⁽¹⁾	Ordinary shares	100%	Holding
Harris and Hoole Limited ⁽¹⁾	Ordinary shares	100%	Coffee retail
Nero Holdings Limited ⁽¹⁾	Ordinary shares	100%	Coffee retail
Aroma Limited ⁽¹⁾	Ordinary shares	100%	Coffee retail
Caffè Nero Ventures Limited ⁽¹⁾	Ordinary shares	100%	Holding
Caffè Nero Investments Limited ⁽¹⁾	Ordinary shares	100%	Holding
Nero Coffee Roasting Limited ⁽¹⁾	Ordinary shares	100%	Coffee Roasting
Caffè Nero Ireland Limited ⁽²⁾ <i>(Incorporated in the Republic of Ireland)</i>	Ordinary shares	100%	Coffee retail
Caffè Nero Americas Limited ⁽¹⁾	Ordinary shares	100%	Holding
Caffè Nero Americas Incorporated ⁽³⁾ <i>(Incorporated in the United States)</i>	Ordinary shares	100%	Coffee retail
Caffè Nero Gıda Urunleri AS <i>(incorporated in Turkey)</i> ⁽⁴⁾	Ordinary shares	100%	Coffee retail
Storm Equity Co Ltd ⁽¹⁾	Ordinary shares	65%	Holding
Storm Holdco Ltd ⁽¹⁾	Ordinary shares	44%	Holding
Storm Finance Co Ltd ⁽¹⁾	Ordinary shares	44%	Financing
Coffee #1 Ltd ⁽¹⁾	Ordinary shares	44%	Coffee retail
CN Sweden AB <i>(incorporated in Sweden)</i> ⁽⁵⁾	Ordinary shares	90%	Coffee retail
Caffè Nero Asia Limited <i>(incorporated in Hong Kong)</i> ⁽⁶⁾	Ordinary shares	100%	Holding
<i>Joint ventures</i>			
Green Coffee Sp. Z.o.o. ⁽⁷⁾	Ordinary shares	90%	Coffee retail

All shareholdings are of ordinary equity shares.

⁽¹⁾ Registered address for subsidiaries is: 9-15 Neal Street, London, WC2H 9PU

⁽²⁾ Registered address for subsidiary is: 32 Molesworth Street, Dublin 2

⁽³⁾ Registered address for subsidiary is: 320 Congress St Fl 4, Boston, MA, 02210 United States

⁽⁴⁾ Registered address for subsidiary is: Büyükdere Cad. No: 103 Noramin İş Merkezi Maslak Şişli, İstanbul, Turkey

⁽⁵⁾ Registered address for subsidiary is: Adolf Fredriks Kyrogata 15, 111 37 Stockholm, Sweden

⁽⁶⁾ Registered address for subsidiary is: 6/F Emperor Commercial Centre, 39 Des Voeux Road Central, Central Hong Kong

⁽⁷⁾ Registered address for joint venture is: Al. Jana Pawła II 29, Warsaw, Mazowieckie, 00-867

Notes to the financial statements

at 31 May 2020

5. Loan to subsidiary undertaking – current

*Loans to
subsidiary
undertakings
£000*

Cost:

At 1 June 2019 and 31 May 2020

98,450

The loan to the Company's subsidiary undertaking is repayable on demand, together with all the interest accrued on it of £191,644,000 (2019 – £172,029,000). Interest accrues on the outstanding principal amount of debt and any unpaid interest at a rate agreed by the lender and borrower. Interest is payable on such day or days as may be agreed by the lender and borrower.

6. Financial liabilities

*2020 2019
£000 £000*

Interest bearing loans and borrowings:

Loan from parent undertaking

98,450 98,450

Rolled up interest due to parent undertaking

163,592 143,278

Total

262,042 241,728

The loan is carried at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

7. Authorised and issued share capital

	<i>2020</i>		<i>2019</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
<i>Authorised</i>				
Ordinary shares of £1 each	1,000	<u>1,000</u>	1,000	<u>1,000</u>
	<i>2019</i>		<i>2019</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	1,000	<u>51</u>	1,000	<u>51</u>

Notes to the financial statements

at 31 May 2020

8. Ultimate parent undertaking

At the year end, the ownership structure is as follows:

Immediate parent undertaking	The Nero Group Ltd ⁽¹⁾
Parent undertaking of the smallest and largest group for which group financial statements are prepared that include the results of the Company	The Nero Group Ltd ⁽¹⁾
Majority shareholder of The Nero Company	G W Ford ⁽²⁾

(1) Copies of the group financial statements for 'The Nero Group Ltd' can be obtained from 9-15 Neal Street, London, WC2H 9QL.

(2) G W Ford is the ultimate controlling party of the Company.

9. Related party transactions

In accordance with IAS 24, the Company has taken advantage of the related party disclosure exemption from disclosing transactions and balance with other wholly owned companies within 'The Nero Group Ltd'.

10. Subsequent events

On 30 November 2020, the directors of Nero Holdings Limited, an indirect subsidiary of the Company, proposed a Company Voluntary Arrangement (CVA) to its stakeholders and creditors. The CVA was approved by a strong majority of creditors (in excess of 92%). As part of the CVA, the rent arrears on 657 sites were compromised and as a consequence are not payable representing a savings of c. £20.2m.

The impact of Brexit on the wider Group's business was an important consideration for the directors throughout the year especially given the uncertainty as to whether a deal would be agreed between the EU and UK. The directors were particularly concerned by the impact on the business, customers, employees and suppliers but ensured appropriate contingency plans were in place in the event of a no deal Brexit. Since the end of the Brexit transition period from 1 January 2021, the financial impact on the business as whole is currently unclear however the wider Group has been able to effectively manage the changes to its supply chain and has been able to minimise business disruption.