The Nero Group Ltd

Report and Financial Statements

31 May 2023

Company Information

Registered No. **06002065**

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Strategic Report

The directors present their Strategic Report, Directors' Report and financial statements for The Nero Group Ltd and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 May 2023 ("FY23").

Principal activity and background to the Group

The Nero Group Ltd is a holding Company for four coffee brands trading as Caffè Nero, Harris + Hoole, Coffee #1 and Aroma, and it also owns and operates a high-quality coffee roasting facility. The Group is geographically present in 10 markets. Its largest market is the UK. Caffè Nero also operates in Ireland, USA, Poland, Turkey and Sweden and has franchises in the United Arab Emirates and Cyprus, as well as within major airports in Croatia and Oman.

The Group also has a Consumer Packaged Goods (CPG) range or "Coffee at Home", which includes whole beans, ground coffee and Nespresso-compatible capsules available directly through the Caffe Nero App, Caffè Nero website and third party retailers.

The Group principally operates through cafes. However, it is additionally active in "non-bricks and mortar" channels, namely digital channels. This includes delivery services in all its markets enabling customers to order its product and have those products delivered to the customer's chosen address.

Business review

Key developments in the year

Overview

During FY23, the Group's trading continued to recover from the pandemic period. At the start of FY23, the Group's sales had returned to around 100% of normal (ie pre-Covid) levels. By the end of the financial year, these sales had progressed favourably to over 115%. However, this return to sales growth and profitability post-pandemic was held back during the year by external political and economic events, the effects of which were principally a very rapid rise in energy costs, ingredients costs, wages and interest rates. All of the Group's markets were adversely impacted and it generally slowed recovery. These macro effects were outside the Group's control, but, nonetheless, negatively affected consumer sentiment for most of the first three quarters of the financial year. As a result, the Group's sales were below budget in most territories and its costs were above budget. This meant that the Group's normally robust EBITDA performance was below expectations.

Nevertheless, by the end of FY23, as macro-economic conditions continued to improve, the Group experienced positive momentum and was in a much stronger position with Q4 sales near 100% of budgeted levels and the rate of inflation easing in all territories. The Group enters FY24 optimistic that the disruptions of FY23 are dissipating.

The Group had successfully refinanced its debt facilities in FY22 and continues to benefit from the stability, liquidity and headroom provided by these new facilities.

A full review of the Group's performance is included below within the Trading Overview section and in the KPI section of this report.

The following key additions to investments took place during the year:

Coffee #1

In March 2023, the Group increased its ownership of Coffee #1 to 100% when it acquired the remaining 23.5% from its co-investor. The results of Coffee #1 are fully consolidated in these financial statements (with a non-controlling interest shown in respect of the period prior to acquisition).

Strategic Report (continued)

Poland

In August 2022, the Group reached an agreement with its JV partner in Poland to acquire 9% of The Polish entity's shares, taking the Group's ownership to 99%. Although the share transfer did not occur until August 2023, according to the agreement in August 2022 the JV partner agreed to transfer all its voting rights to the Group. As a result of this, Poland is now fully consolidated in these financial statements from August 2022 with a non-controlling interest shown in respect of the minority ownership.

There was a one-off exceptional fair value adjustment relating to the investment in Poland of £28.0m this is a non-cash item that has been recognised in the year due to the transition of Poland from a joint venture to a subsidiary.

Trading Overview

In the Group's financial year ending 31 May 2023, revenue increased by 29% to £450.5m (FY22 - £349.7m). This was the result of the return to normal trading levels of existing stores, growth of new stores and the full consolidation of Caffe Nero Poland, which itself contributed £22.7m of increased revenue. Gross profit (which represents store profit before central overheads) increased by 6.3% to £128m (FY22 - £120m), an increase of £8m, (although as a percentage of sales it was a reduction from 34% in FY22 to 28% in FY23). This percentage decline was attributable to the significant inflationary effects particularly on energy costs, food prices and wages, all of which increased faster than sales prices. It is worthy of note, that when comparing FY23 results with FY22, the FY22 results included some government support through a reduced VAT rate, business rates relief and other schemes which all ceased in FY23.

Operating profit and pre-tax earnings were also significantly impacted by these inflationary pressures but also by the exceptional item related to Poland referenced above. Operating profit increased to £37.6m (FY22 - £29.5m) and pre-tax earnings moved from a loss of £7.9m to a profit of £7.4m.

Brands, Stores and Products

Across the four brands (Caffè Nero, H+H, Coffee #1 and Aroma) the Group had in total 1,055 stores at the year end operating in 10 countries.

Caffè Nero, the largest of the Group's four brands, is a brand of high-quality Italian style coffee houses operating in ten countries, serving a range of premium hand-crafted espresso-based coffees and filter coffee as well as an array of pastries, baked goods, freshly made panini, sandwiches, salads, pastas, cakes and biscotti. Typically, Caffe Nero would expect to open 70-90 new sites worldwide in a year, but this expansion strategy was halted by the disruption and temporary closures forced by the onset of Covid-19. In FY23, as sales started to return to more normal levels Caffe Nero resumed its opening strategy with 49 new stores opened. At the year end, there were 899 Caffè Nero stores trading worldwide, including transport hubs where the business trades as Nero Express.

Harris + Hoole (H+H) is a speciality artisan coffee house brand operating in high streets, supermarkets and airports in the UK. Three new high street sites were opened during the financial year, and the total number of stores in the UK at the year end increased to 42. H+H made a slower recovery to normal sakes levels than the other brands – nevertheless the directors believe it has strong potential alongside Caffè Nero.

Coffee #1 is a distinctive and highly successful coffee brand operating solely in the UK, and principally in Wales and the south west of England. It is seen as one of the leading coffee brands in that region. Coffee #1 opened 11 new stores during the financial year, bringing its total number of stores to 112 at the year end.

Aroma is a brand of premium quality coffee products for sale to third parties via licensing or wholesaling. There is one Aroma store in the UK and one Aroma store in the USA. During FY23, 35 concession locations were opened by third parties selling Aroma coffee.

Strategic Report (continued)

The Group has also continued to develop its CPG, "Coffee at Home", market during the year. The range offers bags of Caffe Nero's signature Classico blend as both whole bean and ground coffee, as well as Caffe Nero's coffee products in Nespresso-compatible capsules. All the capsules are fully recyclable and the six-capsule range includes the signature Classico blend, several single-origin coffees and decaffeinated coffee. This range is available in store, via the Caffe Nero App and Caffe Nero's website as well as through third party retailers.

Key performance indicators

The Board has assessed that the following KPIs are the most effective measures of progress towards achieving the Group's strategies and as such towards fulfilling the Group's objectives:

Like for Like sales

The Group defines like-for-like sales as the growth in sales of stores open for more than 12 months compared to the previous year. The Group usually targets an annual range of 3-5% growth in worldwide like-for-like sales.

Following the forced temporary store closures and ongoing trading restrictions which impacted the Group in each of the previous three years up to May 2023, the Group did not use like-for-like sales as a key performance measure in FY23. Instead, it assessed trading by comparing sales in FY23 to the year prior to the pandemic (FY19) in order to measure sales versus a "normal foundation". In the UK, this figure averaged 107% trading vs normal for the year (compared to 87% in FY22), but by year end FY23 gross UK sales had reached 115% of FY19. Other territories varied in their FY23 trading vs normal, from Cyprus at the low end (90% of normal) to Poland at the high end (130% of normal).

From FY24 onwards the Group has returned to its traditional definition of like-for-like sales measuring against the year before's performance.

Store Profit (gross profit)

The success of the Group in its store opening programme and like-for-like sales growth is ultimately displayed by increasing store profit in absolute terms. The impact of inflation on energy, food prices and wages meant that in FY23 this measure increased less than expected to £128m (FY22 £120m) representing an additional £8m.

Store Expansion

A key part of the Group's strategy is to increase revenue by increasing in scale through opening new stores. This strategy was put on hold during the Covid-19 crisis due to government restrictions and the need to preserve cash. As sales returned to normal levels during FY22, 22 new stores were opened and this rate of openings almost tripled in FY23 to 63.

EBITDA

The Group uses Brand EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-brand income and expense) as a key measure of its progress and success in each of the countries in which it operates. This measure is shown in the Group financial statements in order to assist readers of the financial statements. Following the introduction of IFRS 16 in FY20, requiring very significant non-cash adjustments to the financial statements, the directors consider that reporting Brand EBITDA separately provides much greater clarity and understanding of the underlying performance of the Group and its component brands.

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Strategic Report (continued)

Brand EBITDA is reconciled to the Statement of Comprehensive Income in note 4.

	2023	*2022*
	£000	*£000*
Brand EBITDA		
Caffe Nero UK*	32,936	46,730
Caffe Nero International*	2,309	(304)
Harris & Hoole*	(490)	828
Coffee #1*	6,982	10,404
Total Brand EBITDA	**41,737**	**57,658**

*In the year ended May 2023 Brand EBITDA was materially impacted by reduced government support, and significant inflationary effects on energy, food prices and wages.

Business review

The Group's performance is summarised below:

	2023	*2022*
	£000	*£000*
Revenue	450,465	349,670
Store profit	127,669	120,067
Operating profit	37,644	29,499
Exceptionals in Operating profit above	27,954	(8,890)
Profit / (loss) before tax	7,381	(7,866)

Expansion

Caffè Nero worldwide new store openings	49	20
Harris + Hoole new store openings	3	-
Coffee#1 new store openings	11	2
Aroma new store openings	-	-
Total worldwide stores at the year end	**1,055**	**1,016**
Countries	10	10

	Stores at 31 May 2022	***Openings***	***Closures***	***Stores at 31 May 2023***
UK	616	18	(16)	618
Ireland	19	-	-	19
Turkey	68	17	(2)	83
Poland	69	6	(1)	74
USA	35	2	-	37
Sweden	7	5	-	12
Franchises	59	1	(4)	56
Caffe Nero Worldwide	**873**	**49**	**(23)**	**899**
Harris + Hoole	40	3	(1)	42
Coffee #1	101	11	-	112
Aroma	2	-	-	2
Total Stores Worldwide	**1,016**	**63**	**(24)**	**1,055**

Strategic Report (continued)

The Group has a number of franchises operating in the Arabian Gulf, Cyprus and airport locations in Croatia and Oman. The revenues from these franchise agreements are included in these financial statements. Below is a summary of the stores within each location:

Franchises

	Stores 31 May 2022	*Openings*	*Closures*	*Stores 31 May 2023*
UAE	34	1	(4)	31
Cyprus	20	-	-	20
Croatia	2	-	-	2
Oman	3	-	-	3
Total Franchises	**59**	**1**	**(4)**	**56**

Taxation

The Group has made the following UK tax payments to UK government entities in the year:

	2023 £000	*2022 £000*
VAT	37,734	8,748
Employment taxes	21,002	17,088
Business rates	17,811	14,950
Corporation tax paid	458	1,600
Corporation tax due	-	153
Total tax paid and due	**77,005**	**42,539**
Tax paid per store	**74**	**56**

The Group paid a total tax bill of £77m (2022 - £42.5m) in the UK in the year. This was made up of VAT, employment taxes (including PAYE & apprenticeship levy), business rate taxes and corporation tax. Together tax paid and tax due represent 17% of total UK sales (2022 – 12%) for the Group or £74k per store (2022 – £56k per store). This is a measurement of the tax paid and due for the average number of stores over the year.

This tax bill increase reflects the return of the hospitality rate of VAT to 20% (it had been reduced until April 2022 to 12.5%) and increased trade during the financial year.

The cost pressures highlighted in the Trading Overview section along with the significant finance charges meant that the Group had a profit before taxation of £7.4m (it had a loss in FY22 of £7.9m). But the profit can be partially explained by a one-off fair value adjustment of £28m from the investment in Green Coffee SP Z.o.o.

Interest due to third party banks (charged at an arm's length basis) was in isolation greater than the Group's operating profit, see note 7.

The Group's UK tax computations do not contain any overseas profits or losses or transfer payments. The majority of the group's interest relates to the third party debt held.

Strategic Report (continued)

Tax Policy

All funds and cash profit generated by the business throughout its 10 territories in the year were reinvested in the Group to create further jobs, pay employees, pay creditors and drive growth. No dividend has been paid to shareholders in the year (nor in its 25-year history). In other words, Caffè Nero reinvests all of its money in the business.

In an environment of increased tax transparency, the UK Group aims to demonstrate responsible tax management, including paying all UK taxes the business is eligible to pay, which has been determined through our regular dialogue with HMRC. The Group's approach to tax is in line with our ethical approach, which is to think responsibly about our business and everything we do. The Board of Directors is accountable for how we approach our tax affairs and our Group Finance Director, who sits on the Board, is responsible for ensuring that the approach set by the Board is implemented within our business. We are committed to paying the correct amount of tax and at the correct time, in accordance with the tax laws in which we operate.

Further detailed information regarding our approach to tax in the UK is located on our website at: https://Caffènero.com/company/uk-tax-policy/. This detail forms part of our Directors' report.

Ethics, Sustainability and Supporting Communities

Caffè Nero was founded in 1997 with a clear principal of making a positive difference in the lives of the people where the business operates. That principal has governed decision making ever since and covers people and communities, meaning the people who work for Caffè Nero and are customers of Caffè Nero, the communities which are impacted by Caffè Nero, and the world around us.

Our People

Diversity and Inclusiveness

The Group strives for an inclusive and open culture. We believe in hiring diverse and talented individuals who share our values of fairness, decency, warmth, kindness and the pursuit of excellence. We are fully committed to equality and believe that all individuals, regardless of gender and race, can build a successful career within the Group. All employees are remunerated according to their job role, and salaries are determined by bench marking roles against similar positions at comparable organisations. At the year end, the Group operated in 10 countries and employed over 9,117 individuals worldwide from 119 different countries, with 6,888 located in the UK business. It also has a large number of staff employed in Caffe Nero franchises

In the financial year, The Group trained a significant number of employees during the current financial year. This consisted of role refresher training for all store teams and ongoing barista skills and development training. The Group 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 business continued to provide a mental health first aid programme for all employees regionally in the UK.

Supporting Local Communities

In the UK, the Group runs a charity funding programme called "Make A Difference". This programme involves The Caffè Nero Foundation matching funds raised by employees for good causes and distributing these funds into local communities. Baristas submit applications to support causes they are passionate about, and the Foundation supports as many as of those as possible. Examples of the types of charities supported are: Action Mental Health, Mind and Meningitis Now. Caffè Nero has a track record of working to support the homeless as well. It has provided support to St. Mungo's, Centrepoint and Albert Kennedy Trust as well as other homeless charity organisations. It also provided funds to the Stroke Association in the financial year. Caffè Nero, through its employees and Foundation, has given over €300,000 for good causes over the last six years.

Strategic Report (continued)

Supporting Coffee Farmers and their Communities

The Group likewise supports coffee farmers and the surrounding communities where it sources its green beans. We buy coffee directly from the farmers who grow coffee beans and support their communities to ensure they have essential facilities. The Group runs a program whereby in specific locations it creates a "farmers fund", paying above the market price for our coffee beans, to ensure our partner farmers can survive difficult times and to fund their sustainability projects. Our project 'LIFT' is dedicated to funding farming quality improvements and supporting schools and clean water programmes, primarily operating in Central and South America.

The Group has provided even greater support in some communities. For example, over the years in the La Esmeralda region of Nicaragua we have not only funded clean water projects for five schools, but we have partnered with the 'Seeds for Progress charity' to support the La Esmeralda school development programme. We have doubled the size of the current primary school, created a school library and begun the construction of a high school. Caffè Nero has also provided funding for the ongoing expansion of the teaching staff. We are happy to report that over 300 pupils are now enrolled in the school.

In Ethiopia, we partner with local coffee farmers to assist them to buy bee keeping kits and the training *required to use them. This allows the coffee farmers to have income in the off-season.*

The Group, throughout the world, works closely with Rainforest Alliance in buying its green beans, and in doing so gives support to farmers who are working in a sustainable and environmentally friendly way.

Supporting Humanitarian Projects

Historically, Caffè Nero has also supported humanitarian good causes around the world. These have included:

- Medecins San Frontieres – Helping fund the construction of a hospital for Syrian refugees in Lebanon.
- Room to Read – Following an earthquake in Nepal, funding the rebuilding of a school.
- Spinal Research UK – *Providing funding to support important research concerning the* rehabilitation of individuals who have suffered devastating spinal injuries.
- Humanitarian relief for children and those displaced in the Ukraine. During FY23, the Group began fundraising to support children and families in the Ukraine impacted by the war. Fundraising consisted of shareholder contributions and team member donations. The Group donated €100,000 to good causes

The Environment - The World Around Us

Cups, Recycling and Landfill

The Group is committed to taking a lead in the industry on managing the disposal and recycling of takeaway cups by being responsible for our cups throughout their lifecycle: from how they are sourced and made, to taking responsibility for them in store, and, finally, to the recycling of paper cups after they are used.

Keep Cup Range

We also encourage minimising the use of papers cups by selling "Keep Cups" and offering refills with double loyalty points for doing so.

In the UK, Caffè Nero recycles all its paper cups in store. It collects, separates and recycles all paper cups left in its stores so they can be sent for recycling, and it has also introduced the 'R-Cup', a "Keep Cup"

Strategic Report (continued)

option made from recycled paper cups, alongside its regular 'Keep Cup' range.

Further, Caffè Nero has completed the rollout of a new "plant based" lining to all of its takeaway cups, replacing the previously "oil based" lining, resulting in a significant reduction of our carbon footprint and reducing the fossil fuel content of our cups to zero.

Caffè Nero also financially supports the Valpak scheme in the UK which sees brands overpay per tonne for waste collection to ensure paper cups reach recycling facilities capable of recycling them properly, and it also participates in the important First Mile project (a project that recycles paper cups in the City of London).

Finally, in the UK Caffè Nero has sought to reduce the number of paper cups in its business. Glassware is offered at the in-store free water stations, which has helped to reduce the number of paper cups in the business by over 6 million.

Also in the UK, Caffè Nero has tried to tackle the issue of food waste as well. We have signed up to the government "Step up to the Plate" programme, a commitment to reducing food waste. In the financial year Caffè Nero continued its partnership with 'Too Good To Go' across all UK stores, offering end of line food to customers at a significantly reduced cost to avoid it being put in the bin at the end of the day. The company has now saved over 250,000 meals in the UK as a result of the partnership. Caffe Nero has extended this successful programme to at least four countries where the Group operates, including the U.K., Sweden, the USA and Poland. This has proven to be a very effective way of reducing food waste.

Another important recycling programme for the Group is that we recycle leftover coffee grinds. Our coffee grinds in the UK are collected and turned into biomass fuel.

The Group also strives to minimise landfill. Indeed, Caffè Nero UK has been zero to landfill across the vast majority of its stores since 2010.

Principal risks and uncertainties

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

Group and Company specific risks

Risk	Mitigation
Resurgence of Covid-19 or other Pandemics • Risk of reduced staff levels due to impact of future pandemics. • Risk of reduced customer footfall due to government enforced trading restrictions and/or consumer confidence in health and safety measures.	• Operational processes developed to manage Covid-19 impact can be reactivated quickly and are adaptable to other pandemic impacts. • All stores able to reactivate 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. • 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. • Strong cash management processes and cost cutting at group level to mitigate any further national lockdowns.
Brand reputation • Damage to the brand image due to failures in environmental health in the stores or contamination of products.	• 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.

Strategic Report (continued)

• Risk of guests suffering from failure to deliver our allergens policies and procedures, or inaccurate or insufficient information provided to guests concerning allergens.	• Clear Allergen policies and procedures established across all brands.
Risk	**Mitigation**
Brand reputation (continued)	• Detailed database built up by ingredient/supplier and testing of database including physical verification. • Allergen training continuously reviewed and regularly completed by all restaurant employees across all businesses. • Constantly updated Allergen manual and information available to all customers both on the company website and in physical form in each store.
People attraction and retention • Failure to attract, retain, or develop store teams and key head office individuals. • Availability of baristas	• Implementation of robust recruitment process to ensure the quantity of hires is sufficient but to also protect the quality of hiring. • Continual review and updating of onboarding and induction process focused on core skills and employee engagement. • Career pathway plans discussed with all above store level employees. • Competitive employment propositions
Supply chain management • Risk of loss of key suppliers, jeopardising supply and availability. • Risk that the distribution network is unable to meet the demands of our stores. • Brexit risk to supply chain due to product shortages and/or delays causing loss of revenue, customer's satisfaction and reputation. • Risk that the effects of climate change will disrupt the supply of coffee from overseas.	• Products are sourced from multiple suppliers to mitigate risk. • Regular communication and dialogue with all logistics partners and key suppliers to review performance and assess risk. • Supply contracts in place with all key suppliers. • Regular supplier visits by Group Technical and Buying teams to check operations and procedures. • Contingency planograms and menus to mitigate for adjusted availability and to protect core product availability for customers.
Breakdowns in internal controls through fraud or error	• Strong internal control processes in place throughout the business. • Regular review of processes and systems to ensure a robust control environment is maintained. • Designated members responsible for communicating instances of fraud including how these were prevented and actions taken to ensure no repeat offences. • Regular team updates with the internal audit team to further highlight instances of fraud/error in the business and necessary actions taken.
Increases in costs	• Work collaboratively with our suppliers to find effective cost savings.

Strategic Report (continued)

• Risk of inflationary pressure on the Group's costs and the current cost of living crisis and rising inflation.	Revision of range of products being sold and ways to reengineer pricing of those products whilst maintaining brand standard. Increase in price of products where appropriate.

Broader sector or macroeconomic risks

- Adverse economic conditions in the UK or overseas 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 would affect the amount of interest payable on the Group's loans; and

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

Financial risk management objectives and policies

The Group uses various financial instruments including joint venture investments, cash, trade & other debtors, bank, Group balances, loans, trade & other creditors and derivatives. The parent company is also exposed to risk in respect of its holding of investments in subsidiary undertakings. Existence of these financial instruments exposes the Group and parent company to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk liquidity risk and investment impairment risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Interest rate risk

The Group borrows in pound Sterling at floating rates of interest. The Group's policy is to keep at 40-60% of its borrowings at fixed interest rates. This is achieved by entering into interest rate swaps which are designed to hedge underlying debt obligations. The Group classifies interest rate swaps as derivative financial instruments and measures them at fair value. These instruments do not qualify for hedge accounting. The Group refinanced its loan facilities in December 2021 and put in place long-term swaps for 42% of its borrowings in March and May 2022.

Credit risk

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. The Group regularly reviews its exposure and ensures funds are available as required. The Group refinanced its facilities during the prior year and this has provided access to a Revolving Credit Facility as well as a Capex Facility.

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 Group reviews the financial performance of its investments on a regular basis. The directors are satisfied with the performance of the investments. This is expected to continue for the foreseeable future.

Strategic Report (continued)

Capital Management

Capital comprises shareholders' equity and financing from third party loans and the Company's parent undertakings. The primary objective of the Group's capital management policy is to ensure that the Group has adequate capital to support the business. The Group 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 Group has no externally imposed capital restrictions. To the extent derivatives impact the financial statements they do not impact decision making options.

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 Group 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 Group's employees
c. The need to foster the Group's business relationships with suppliers, customers and others
d. The impact of the Group's operations on the community and the environment
e. The desirability of the Group maintaining a reputation for high standards of business conduct, and
f. The need to act fairly as between members of the Group.

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	▪ Long-term profitability ▪ Sustainable growth, including entry to new markets and technology development to match consumer trends. ▪ Receiving accurate and reliable information on the business ▪ Maintaining high brand standards and reputation	▪ Lenders receive monthly financial updates and regular meetings. ▪ A lender representative sits as an observer on the Group Supervisory Board ▪ Regular calls are held with shareholder groups by the CEO to gain direct feedback and to maintain clear dialogue.	▪ The Group maintained regular reporting to lenders to provide monthly updates on trading.
Employees	▪ Regular quality communication and engagement. ▪ Up to date information on the business. ▪ Feeling valued by the business and part of the community.	▪ Regular weekly and monthly newsletters in addition to an internal social media platform. ▪ Regular store manager engagement through listening groups, and regular Store Manager conference calls with Q&A sessions. ▪ Monthly Area Manager briefing sessions.	▪ Weekly CEO Company calls are maintained each Monday. ▪ CEO updates during quarterly meetings throughout the year with Store Managers. ▪ Focus group meetings were also held across the country to gain feedback on satisfaction and focus areas for Store Managers and teams. ▪ Company communications documents provide key ops focuses on a weekly and monthly basis. Culture

Strategic Report (continued)

		▪ 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.	communications channels including print magazines and internal social media channels are utilised daily to engage all levels of teams.

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY23
Customers	▪ Quality Coffee and a good range of tasty products, including healthy/vegan choices, at good value. ▪ Convenience when using the brand. ▪ Well trained, friendly, welcoming team members. ▪ Strong communication and engagement from the brand. ▪ Clean and well-presented stores which provide a safe, welcoming environment, which are also well maintained with fully functioning facilities such as seating, fridges and toilets.	▪ Customer App with integrated loyalty programme and payment options. ▪ Weekly e-mail and online communication. ▪ Customer feedback forums – which reinforced the brands perception of demand for an updated, relaunched food offering, the ability to buy our product through other, non-store, channels and great service.	▪ The business ensured availability of its core products and most popular items throughout supply chain challenges caused by residual Covid impact, Brexit and the situation in Ukraine. Caffè Nero continued to grow its delivery channels, including an additional partnership with Deliveroo, to ensure customers were still able to access products where and when they wanted them. ▪ Caffè Nero continued to innovate its menu with a new summer food range and iced drinks range launched in April 2023. ▪ Caffè Nero also continued to expand its brand partnership programme to provide greater value and choice to customers,

Strategic Report (continued)

			including a Partnership with Waitrose, "3" and Alpro. ▪ Extended outdoor seating was maintained to accommodate more customers who wished to sit outside when using Caffè Nero. ▪ The Group has continued the expansion of its new channels, adding Deliveroo to its delivery options and continuing to grow its 'At Home' range, available both in-store, on-line and through new retail partnerships with Waitrose. The business will continue to to pursue additional retailers and channels to market. ▪ A maintenance programme to ensure stores are reviewed and upgraded as needed is led by the Maintenance team in conjunction with the Operations Team. ▪ The Operations Team is targeted on customer service and experience, with weekly and monthly reports highlighting areas of opportunity or concern.

Strategic Report (continued)

Material Stakeholders	**What is important to the stakeholder**	**Methods of Engagement**	**Consideration and impact FY23**
Suppliers (including Landlords)	▪ Regular and timely payment. ▪ Communication on business status, objectives, growth strategy and cash position.	▪ Designated point of contact for all suppliers ▪ Proactive and regular communication through the supply chain.	▪ Regular supplier communication calls and forums. ▪ Open channel communication maintained with all suppliers to: ▪ Find effective cost savings and revised service levels. ▪ Maintain a strong, open, collaborative relationship.
Community & Environment	▪ Consistent and accurate reporting of all energy and environmental matters. ▪ Commitment to run the business in a way that supports the wider community and environment in a sustainable way.	▪ This section is covered in the "Ethics, Sustainability and supporting the Community" section on page 7.	▪ 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. ▪ Caffè Nero further expanded its partnership with "Too Good To Go" saving over 250,000 meals from going to waste. ▪ Further information can be found in the "Ethics, Sustainability and supporting the Community" section on page 7.

Principal Decisions

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

Strategic Report (continued)

On behalf of the Board

Ben Price

Director

06 October 2023

Registered No. 06002065

Directors' Report

The directors present their report and financial statements for the year ended 31 May 2023.

Results and dividends

The Group generated a profit before taxation but after finance charges of £7.4m (2022 – loss of £7.9m). No dividend is proposed (2022 – £nil).

Future Developments

Following a return to normal levels of sales after the Covid-19 pandemic, and signs of the easing of inflationary pressures experienced during the year the Group is cautiously returning to its store growth schedule with a roll-out programme for FY24 of over 70 stores worldwide.

Financial Instruments

Further details explaining the Group's use of financial instruments are set out in the Strategic Report.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Parent Company will be able to meet its liabilities as they fall due for the going concern assessment period to 30 November 2024, being the first covenant test date post 12 months from approval of the financial statements. 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 operating within existing financing facilities. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, the Group is ahead of its forecasts for the period starting 1 June 2023.

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 of the company

The directors at the date of approving this report and those who served during the year are set out on page 1. During the year, the directors' interests in the share capital of The Nero Company, the most senior parent Company of the Group of which The Nero Group Ltd is a member, were as follows:

	At 31 May 2023	*At 31 May 2022*
	£20 each	*£20 each*
G W Ford (1) Ordinary Shares	16,150	16,150
G W Ford (1) Preference Shares	745	745
B J Price (2) Ordinary Shares	310	310

(1) G W Ford's interest in ordinary shares is registered as follows:

G W Ford 15,203
Paladin Partners 1 947

(2) B J Price's interest in ordinary shares is registered as follows:

Paladin Partners 1 310

Directors' Report (continued)

Additionally, B J Price has 495 shares in The Nero Company held on his behalf through an Employee Benefit Trust. G W Ford also holds 157 ordinary shares directly in Rome Intermediate Holdings Sarl, the immediate parent of which is The Nero Company.

Creditor payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

Employees

The Group 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 Group 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 Group has a very extensive training programme, benefiting the Group's employee base at all levels. The Group 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 Group 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 Group.

Donations and Charities

Extensive details of charitable activities are set out in the 'Ethics, Sustainability and Supporting Communities' section of the Strategic Report. In addition, the UK Group contributes to The Nero Foundation which distributes money to charities in the UK and overseas, including fundraising in this financial year for good causes in Ukraine, created due to the war. Local charities are selected by store teams and funds raised by the team are matched by The Nero Foundation.. The Group's Make A Difference Programme (which funded the Marfan Trust, Action Mental Health, Mind & Meningitis Now), and the Group's Festive Campaign (which funded the building of a Nicaraguan school in a coffee growing area) were supported in this way.

Energy Consumption and Carbon Emissions

The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2018 requires disclosure of 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 2022 to 31 May 2023.

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 car travel. The table below details the regulated SECR energy and GHG emission sources from the current and prior reporting period.

Directors' Report (continued)

Energy Type	June 2021 - May 2022 kWh	June 2022 - May 2023 kWh
Natural Gas	148,114	107,651
Electricity	38,732,293	34,791,922
Transport	2,187,375	1,596,408
Total Energy	41,067,782	36,495,981
Emissions Type	**tCO^2e**	**tCO^2e**
Natural Gas	27.13	19.65
Electricity	8,224.03	6,728.06
Transport	407.66	304.55
Total SECR Emissions*	8,658.81	7,052.27
Intensity Metric		
SECR Emissions per Intensity Metric (tCO^2e / £1m revenue)	0.0087	0.0071

The Group is committed to reducing environmental impact and contribution to climate change through increased energy management and awareness and changes to operational procedures. During the reporting period, detailed energy audits, as part of the ESOS regulations, were commissioned to establish an energy-saving action plan.

The Group has also introduced a number of energy saving measures, including the installation of Smart meters, an energy bureau and the development of bespoke energy management reporting.

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.

Section 172 statement

With the exception of our statement on corporate governance arrangements, which is set-out below, all other information in respect of our reporting requirements under S172 of the Companies Act is included in the Strategic Report.

Statement of corporate governance arrangements

Effective corporate governance is a key guideline for The Caffè Nero Group for the year ending 31 May 2023. The Group has applied the Wates Corporate Governance Principles for Large Private Companies as its framework for disclosure regarding its corporate governance arrangements.

Principle 1 – Purpose and Leadership

Caffè Nero was founded in 1997 with the purpose 'Making a Positive Difference in the Lives of the People With Whom We Come In Contact'. This principle has governed the decision making of the business since the Group was founded and still sits at its foundation. The Group aspires to be the world's leading European Coffee House Brand, but its real purpose is to make a positive difference along the way.

The four key areas of focus to uphold this purpose are:

Directors' Report (continued)

- **Our own teams** – Training our own people to understand our values and encourage them to engage with their peers, customers and communities in a positive, caring way.

- **Local communities** –positively impact the customers and communities where our stores are located

- **Coffee farmers** – Work with and treat with respect the coffee farmers and their communities where we source our coffee beans

- **Humanitarian Projects** – assist and embrace goodwill projects that make a positive difference around the world

Further details of these areas of focus can be found in the Ethics, sustainability and supporting communities section of the strategic report on page 7.

Caffè Nero also publishes a clear behavioural code in the employee handbook which applies to all employees and also runs training and support services for all employees on how to manage difficult or challenging situations in stores with customers.

Principle 2 – Board Composition

The Caffè Nero's Board structure consists of a Supervisory Board or Main Board. It is chaired by the Founder and Group CEO and other members include the Group CFO, the U.K. CEO and U.K. MD as well as independent financial lender representation, independent shareholder representation and independent non-executives with wide industry experience to provide oversight. The Board meets regularly to preside over business issues, Company performance, strategic direction and future activity for the Group. The CEO and CFO each have over 20 years of experience in the coffee industry and are among the longest serving and most experienced coffee industry executives in the world.

Below the Group Supervisory Board, each country has its own Executive Management Board, which oversees the management and operations of the business in the respective territory. The CEO of each territory is appointed by the Supervisory Board. These country operating Boards are responsible for the day to day running of the business in each country and are accountable to the Supervisory Board.

Principle 3 – Director responsibility

The Supervisory Board/Main Board maintains effective oversight of the Company's business with the founder and Group CEO and has ultimate responsibility for any decisions on policy and finance. Some decisions are taken by members of the Board with specific functional knowledge and experience, but such decisions are taken with Board awareness to ensure the correct safeguards and review processes are in place.

The Main Board delegates day to day management of each territory to the Executive Management Board of each country and decisions are made with the support of the senior Group leadership team, consisting of expert department heads and subject experts. Recommendations are made by the senior leadership team, which are reviewed and approved by each Management Board.

Each territory Management Board meets weekly (more regularly where circumstances dictate), while the Supervisory Board meets at regular intervals throughout the year.

External legal advice is taken by the territory Boards and directors on key specific issues to ensure impartial and expert information is provided to help guide decision making.

Principle 4 – Opportunity and Risk

<u>Opportunities</u>

These are identified through a robust business planning process which has the senior leadership teams in each territory identify and propose strategic plans to each country's Executive Board. These annual territory business plans are then sent to the Supervisory Board which, through discussion, aligns them with the Group's wider strategic annual, 3 year and 5 year plans.

Directors' Report (continued)

Risk Management

Directors and senior leaders are responsible for identifying potential risks within their area of responsibility. All identified risks are assessed against any possible impact on the business plan, business continuity and business success. Identified risks are managed via a designated risk or crisis committee which reports directly to the Main Board. Key risks are documented along with response/management strategies, and these are constantly reviewed by the committee and Main Board in line with updated or changing information.

Through the financial year, specific issues including Covid-19 were identified as significant risks to the business and specific action was taken:

Weekly Executive directors meetings take place to discuss and action any remaining risk from COVID-19 and to navigate the way forward.

A weekly cashflow meeting is held involving the Group CEO, Group CFO and key finance personnel within the business.

The principal risks and uncertainties which are reviewed by the Main Board are listed on pages 9 to 11.

Principle 5 – Remuneration

Remuneration decisions for each territory are delegated to each country Board, with decisions taken against the relevant pay structure.

In the UK, each employee receives a twice-yearly performance review as well as an annual pay review, and an annual bonus review, which assesses an individual against personal performance and Company performance. During the Covid-19 crisis, those employees above store level in the UK were asked to take a temporary and proportionate pay reduction to help ensure the employee pool could retain their jobs and income for the duration of the crisis. This process was halted in September 2021, and since then all applicable employees are back to their original pay.

Principle 6 – Stakeholder relationships and Engagement

Information addressing the Board's engagement with stakeholders is contained in the section 172 statement on pages 12 to 16.

Statement of disclosure of information to the auditor

The directors who were members of the Board at the time of approving the Directors' report are set out on page 1. Having made enquiries of fellow directors and the Group auditor, each of these directors confirms that:

a) to the best of each director's knowledge and belief, there is no relevant audit information of which the Group auditor is unaware; and

b) each director has taken all the steps a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the Group's auditor is aware of that information.

Directors' Report (continued)

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.

On Behalf of the Board

Ben Price

Director

06 October 2023

Registered No. 06002065

Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom 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 group and parent company financial statements in accordance with UK-adopted international accounting standards ('IFRSs'). 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 group and the company and of the profit or loss of the group and the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- in respect of the group financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether UK-adopted international 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 appropriate to presume that the company and the group will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the company and the group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report directors' report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Opinion

We have audited the financial statements of The Nero Group Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 May 2023, which comprise the group statement of comprehensive income, group and company statements of financial position, group and company statements of cash flows, group and company statements of changes in shareholders equity, and the related notes 1 to 28, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 May 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements 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 group 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 as applied to other entities of public interest, 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. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of the risk around going concern at the planning and year-end phases of the audit
- Confirming our understanding of the group's going concern assessment process as well as the review process over the going concern model
- Obtaining cash flow models used by management in their assessment, checking their arithmetical accuracy and assessing the group's historical forecasting accuracy to determine its bearing on the going concern assessment
- Assessing whether the sales and cost growth assumptions included within cash flow models were within a reasonable range.
- Assessing management's ability to execute feasible mitigating actions available to respond to their downside scenarios based on our understanding of the group and sector
- Considering the adequacy of headroom and applying sensitivities

- Assessing the adequacy of the going concern review period to 30 November 2024 and considering whether a longer review period would be appropriate
- Assessing the group's forecast banking covenant compliance and other obligations through to the end of the review period
- Assessing the appropriateness of the going concern disclosures in describing the risks associated with the group's ability to continue as a going concern for the period to 30 November 2024

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 group and parent company's ability to continue as a going concern for a period of 13 months from when the financial statements are authorised for issue, to 30 November 2024.

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 group'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 group and the parent 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 23, 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 group's and the parent 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 group or the parent 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 Group and Parent Company and determined that the most significant are those that relate to the reporting framework (UK adopted International Accounting Standards and the Companies Act 2006), 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 group 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 Group and Parent Company comply with those frameworks by making enquiries of management and those charged with governance to understand how the group maintains its policies and procedures in these areas and corroborated this by reviewing supporting documentation such as the Code of Conduct.

- We obtained the Fraud and Corruption Perceptions Index rating for all in-scope international components. We identified a component in a higher risk location and instructed our local EY office to perform specific procedures around bank payments.

- We communicated our identified fraud risk to all component teams and evaluated the sufficiency of their procedures

- We assessed the susceptibility of the 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. We performed audit procedures to address the 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.

Ernst & Young LLP

Zishan Nurmohamed (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20/10/2023

Group Statement of Comprehensive Income

for the year ended 31 May 2023

	Notes	2023 £000	2022 £000 Restated (Note 2)
Revenue	3	450,465	349,670
Cost of sales		(322,796)	(229,603)
Gross profit		**127,669**	**120,067**
Administrative expenses		(117,979)	(81,678)
Exceptional items	4	27,954	(8,890)
Operating profit	4	**37,644**	**29,499**
Interest receivable and similar income	7	10,666	1,293
Finance costs and similar charges	8	(44,699)	(34,993)
Change in fair value of put and call options		3,073	(3,555)
Share of post-tax profit/(loss) of joint ventures	15	697	(110)
Profit/(loss) before taxation		**7,381**	**(7,866)**
Income tax credit/(charge)	9	4,843	(9,149)
Profit/(loss) for the year		**12,224**	**(17,015)**
Other comprehensive income:			
Exchange differences on translation of foreign operations		1,507	933
Total comprehensive income/(loss) for the year		**13,731**	**(16,082)**
Profit attributable to non-controlling interest		(1,113)	2,005
Profit/(loss) attributable to the shareholders of The Nero Group Ltd		13,337	(19,020)
Profit/(loss) for the year		**12,224**	**(17,015)**
Total comprehensive income attributable to non-controlling interest		(1,113)	2,005
Total comprehensive income/(loss) attributable to the shareholders of The Nero Group Ltd		14,844	(18,087)
Total comprehensive income/(loss) for the year		**13,731**	**(16,082)**

All amounts relate to continuing activities.

Group Statement of Financial Position

at 31 May 2023	Notes	2023 £000	2022 £000 Restated	As at 1 June 2021 £000 Restated
Non-current assets				
Property, plant and equipment	12	79,744	52,709	59,082
Right of use assets	13	138,023	119,809	96,572
Intangible assets	14	217,345	193,906	202,496
Investments		25	-	-
Investment in joint ventures	15	-	1,785	1,895
Lease premiums	16	227	129	100
Trade and other receivables	17	3,107	31	13
Deferred tax asset	9	1,128	1,034	8,658
Fair value of call option	23	-	-	4,238
		439,599	369,403	373,054
Current assets				
Inventories	18	6,627	5,482	4,552
Trade and other receivables	17	15,280	14,564	9,351
Lease premiums	16	48	191	81
Fair value of call option	23	176	1,038	669
Monies held in restricted accounts and deposits		-	-	1,115
Cash and cash equivalents	11	13,068	20,992	40,031
Interest rate swaps	23	10,658	1,247	-
		45,857	43,514	55,799
Total assets		**485,456**	**412,917**	**428,853**
Current liabilities				
Trade and other payables: amounts falling due within one year	19	(71,319)	(66,423)	(69,083)
Other financial liabilities	21	-	-	(2,290)
Lease liabilities	13	(35,261)	(20,989)	(19,141)
Fair value of put option	23	(19)	(3,953)	(128)
Other derivative financial instruments	23	-	-	(43)
		(106,599)	(91,365)	(90,685)
Non-current liabilities				
Other financial liabilities	21	(391,512)	(357,052)	(388,120)
Lease liabilities	13	(133,410)	(122,691)	(105,507)
Trade and other payables	19	(10,689)	-	(171)
Deferred consideration	22	(1,309)	-	(4,722)
Provisions	20	(4,216)	(4,008)	(4,926)
Fair value of put option	23	-	-	(4,138)
		(541,136)	(483,751)	(507,584)
Total liabilities		**(647,735)**	**(575,116)**	**(598,269)**

Group Statement of Financial Position (continued)

at 31 May 2023	Notes	2023 £000	2022 £000 Restated	As at 1 June 2021 £000 Restated
Capital and reserves				
Called up share capital	24	2	2	1
Share premium account		58,183	58,183	22,513
Capital redemption reserve		96,320	96,320	96,320
Other reserves	24	159,225	163,282	174,083
Foreign exchange translation reserve		2,247	740	(334)
Retained earnings		(478,423)	(490,333)	(471,172)
Non-controlling interest		167	9,607	9,173
Total equity		**(162,279)**	**(162,199)**	**(169,416)**
Total equity and liabilities		**485,456**	**412,917**	**428,853**

The financial statements were approved by the Board of Directors on 06 October 2023 and signed on its behalf by:

Gerry Ford (Director)

Ben Price (Director)

Company Statement of Financial Position

at 31 May 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Investments	15	720,488	454,442
Trade and other receivables	17	2,296	-
		722,784	454,442
Current assets			
Trade and other receivables	17	-	310,062
Cash and cash equivalents		-	33
		-	310,095
Total assets		722,784	764,537
Current liabilities			
Trade and other payables: amounts falling due after one year	19	(325,970)	(375,955)
Trade and other payables: amounts falling due within one year	19	(164)	
Other financial liabilities	21	(8,068)	-
Total liabilities		(334,202)	(375,955)
Capital and reserves			
Called up share capital	24	2	2
Share premium account		58,183	58,183
Capital contribution		96,320	96,320
Other reserves	24	174,083	174,083
Retained earnings		59,994	59,994
Total equity		388,582	388,582
Total equity and liabilities		722,784	764,537

The financial statements were approved by the Board of Directors on 06 October 2023 and signed on its behalf by:

Gerry Ford (Director)

Ben Price (Director)

Group Statement of Cash Flows

for the year ended 31 May 2023

	2023	*2022*
	£000	*£000*
Operating activities		
Profit/(loss) before taxation	7,381	(7,866)
Adjustments to reconcile loss for the year to net cash flow from operating activities:		
Exceptional items (note 4)	(27,954)	8,890
Finance costs and similar charges	44,699	34,993
Interest receivable and similar income	(1,255)	(3)
Unrealised profit or loss on foreign exchange	(3,257)	2,134
Movement in fair value of options	(3,073)	3,555
Movement in fair value of interest rate swaps	(9,411)	(1,290)
Movement in fair value of currency contracts	513	(601)
Depreciation of property, plant and equipment and right of use assets	42,368	37,083
Amortisation of intangible assets and lease premiums and impairment of goodwill	12,364	3,524
Impairment of property, plant and equipment and right of use assets	5,605	568
Loss/(profit) on disposal of property, plant and equipment, intangible assets and right of use assets	355	(2,407)
Share of (profit)/loss of joint venture	(697)	110
Payments in respect of exceptional items	(94)	(3,776)
	67,544	74,914
Working capital movements:		
Increase in inventories	(1,145)	(930)
Increase/(decrease) in trade and other payables	7,994	(1,998)
Re-measurement of right of use assets	(9,293)	(19,796)
Re-measurement of lease liabilities	7,667	20,120
Decrease/(increase) in trade and other receivables	(2,392)	(4,147)
Decrease in provisions	208	(980)
Corporation tax paid	(458)	(119)
Tax payable	(793)	(1,799)
Net cash from operating activities	69,332	65,265
Investing activities		
Payments to acquire intangible fixed assets	(1,262)	(38)
Payments to acquire property, plant and equipment	(32,702)	(10,432)
Payments in relation to lease premiums	-	(207)
Cash acquired upon acquisition of subsidiary	1,739	-
Bank interest received	16	3
Net cash used in investing activities	(32,209)	(10,674)

Group Statement of Cash Flows

for the year ended 31 May 2023

Financing activities		
Payment of deferred consideration	-	(5,541)
Acquisition of non-controlling interests	(14,489)	(12,372)
Repayments of loans	-	(383,418)
Interest paid	(22,805)	(21,659)
Proceeds from issue of share capital	-	35,671
Drawdowns on capex facility	6,500	-
Drawdowns on senior facility	5,000	-
Proceeds from refinancing	-	359,000
Increase in other borrowings	8,000	2,742
Loan issue costs and other bank fees paid	-	(19,652)
Interest rate swap income	1,135	-
Dividend Income	105	-
Payment of lease liabilities	(28,446)	(29,600)
Net cash used in financing activities	(45,000)	(74,829)
Net decrease in cash and cash equivalents	(7,877)	(20,238)
Cash and cash equivalents at 1 June	20,992	41,146
Foreign exchange movements in cash	(47)	84
Cash and cash equivalents at 31 May	13,068	20,992

Company Statement of Cash Flows

for the year ended 31 May 2023

	2023	*2022*
	£000	*£000*
Operating activities		
Profit before taxation	-	8,907
Finance costs and similar charges	68	15,252
Interest receivable and similar income	-	(23,820)
	68	339
Working capital movements		
Decrease in trade and other receivables	307,766	15
Decrease in trade and other payables	(49,821)	348,090
Net cash flow from operating activities	258,013	348,105
Investing activities		
Investment in Subsidiary	(266,046)	-
Net cash flow used in investing activities	(266,046)	-
Financing activities		
Third party borrowing	8,000	-
Proceeds from issue of share capital	-	35,671
Repayment of loans	-	(370,831)
Interest paid	-	(13,250)
Net cash flow from/(used in) financing activities	8,000	(348,411)
Net increase/(decrease) in cash and cash equivalents	(33)	33
Cash and cash equivalents at 1 June	33	-
Cash and cash equivalents at 31 May	-	33

Group Statement of Changes in Shareholders' Equity

for the year ended 31 May 2023

	Called up share capital *£000*	*Share premium account* *£000*	*Capital redemption reserve* *£000*	*Other reserves* *£000*	*Foreign exchange translation reserve* *£000*	*Retained earnings* *£000*	*Non-controlling interest* *£000*	*Total* *£000*
At 1 June 2021	1	22,513	96,320	174,083	(334)	(464,117)	8,425	(163,109)
Impact of prior year adjustment	-	-	-	-	-	(7,055)	748	(6,307)
At June 2021 (restated)	1	22,513	96,320	174,083	(334)	(471,172)	9,173	(169,416)
Loss for the year	–	–	–	–	–	(19,020)	2,005	(17,015)
Other comprehensive income	-	-	-	-	933	-	-	933
Total comprehensive loss	-	-	-	-	933	(19,020)	2,005	(16,082)
Retranslation movement	-	-	-	-	141	(141)	-	-
Acquisition of non-controlling interest	-	-	-	(10,801)	-	-	(1,571)	(12,372)
Issue of shares	1	35,670	-	-	-	-	–	35,671
At 31 May 2022	2	58,183	96,320	163,282	740	(490,333)	9,607	(162,199)
Profit for the year	-	-	-	-	-	13,337	(1,113)	12,224
Other comprehensive income	-	-	-	-	1,507	-	-	1,507
Total comprehensive income	-	-	-	-	1,507	13,337	(1,113)	13,731
Acquisition of non-controlling interest				(4,057)		(1,427)	(8,327)	(13,811)
At 31 May 2023	2	58,183	96,320	159,225	2,247	(478,423)	167	(162,279)

Company Statement of Changes in Shareholders' Equity

for the year ended 31 May 2023

	Called up share capital	*Share premium account*	*Capital contribution*	*Other reserves*	*Retained earnings*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 June 2021	1	22,513	96,320	174,083	51,087	344,004
Profit for the year	-	-	-	-	8,907	8,907
Other comprehensive income	-	-	-	-	-	-
Total Comprehensive income for the year	–	–	–	–	8,907	8,907
Issue of shares	1	35,670	–	–	–	35,671
At 31 May 2022	2	58,183	96,320	174,083	59,994	388,582
Profit for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total Comprehensive income for the year	-	-	-	-	-	-
At 31 May 2023	2	58,183	96,320	174,083	59,994	388,582

Notes to the financial statements

at 31 May 2023

1. Accounting policies

Authorisation of financial statements and statement of compliance with IFRSs

The Group and Company financial statements were authorised for issue by the Board of Directors on 6 October 2023. The Nero Group Ltd is a private limited company incorporated and domiciled in England and Wales.

The Group and Company financial statements have been prepared in accordance with UK-adopted international accounting standards ("IFRSs").

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Parent Company will be able to meet its liabilities as they fall due for the going concern assessment period to 30 November 2024, being the first covenant test date post 12 months from approval of the financial statements. 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 operating within existing financing facilities. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, the Group is ahead of its forecasts for the period starting 1 June 2023.

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.

Basis of preparation

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual statement of comprehensive income. Total comprehensive income for the year was £nil (2022 – £8.9m).

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

Changes in accounting policies

Basis of preparation changes adopted on 1 June 2022 - Hyperinflation.

In the current year Turkey meet the requirements to be designated as a hyperinflationary economy under IAS 29 'Financial Reporting in Hyperinflationary Economies' for the period ended 31 May 2023. The Group has therefore applied hyperinflationary accounting, as specified in IAS 29, at its Turkish operations whose functional currency is the Turkish for the reporting period commencing 1 June 2022. In accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', comparative amounts have not been restated.

Turkish lira results and non-monetary asset and liability balances for the current financial year ended 31 May 2023 have been revalued to their present value equivalent local currency amount as at 31 May 2023, based on an inflation index, before translation to GBP at the reporting date exchange rate of £1: 24.63 TRL . For the Group's operations in Turkey: – The gain or loss on net monetary assets resulting from IAS 29 application is recognised in the consolidated income statement within Other comprehensive income. – The Group also presents the gain or loss on cash and cash equivalents as monetary items together with the effect of inflation on operating, investing and financing cash flows as one number in the consolidated statement of cash flows.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

The main impacts of the aforementioned adjustments on the consolidated financial statements are shown below.

	Year ended 31 May 2023 Increase/(decrease) £m
Revenue	2.8
Operating Profit	3.3
Profit for the financial year	3.4
Non-current assets	9.5
Equity	(9.9)

New standards and interpretations not yet applied

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:

- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (effective date 1 January 2023)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective date 1 January 2023)
- Disclosure of Accounting Estimates - Amendments to IAS 8 (effective date 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction- Amendments to IAS 12 (effective date 1 January 2023)

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.

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

- Property, plant and equipment: Proceeds before intended use – Amendments to IAS 16 (effective date 1 January 2022)

No 2022 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.

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 for assets and liabilities 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.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

In the application of the Group'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

No significant judgements were identified.

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 Group 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 Group. Such changes are reflected in the assumptions when they occur.

Timing of revenue recognition and allowance for expected credit losses

The Group operates a customer loyalty programme that carries an entitlement to free coffee (note 19). A contract liability is recognised for entitlements awarded but not yet redeemed. The Group estimates the standalone selling price of points awarded under the customer loyalty programme based on the value of the points to the customer adjusted for expected redemption rates. As points issued under the programme do not expire, such estimates are subject to uncertainty. At 31 May 2023, the estimated liability for unredeemed points was approximately £2.9m (2022 – £2.6m), which is presented within deferred income (in current liabilities) in note 19.

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 estimate useful lives, which 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 provided in note 12 and later on in note 1.

Impairment of non-financial 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 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 Group (see note 14).

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

Leases – estimating the incremental borrowing rate
The company cannot readily determine the interest rate implicit in its leases, therefore it uses its incremental borrowing rate (IBR) to measure its lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment. The IBR reflects what the Group would have paid which requires estimation when no observable rate is available.

The Group estimates its IBR using observable inputs such as market interest rates, the borrowing rate of the Group and is required to make certain specific estimates and judgements. Further details on the resultant right of use asset and lease liability are provided in note 13

Basis of consolidation
The consolidated financial statements comprise the financial statements of the group and its subsidiaries at 31 May 2023. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investe)
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights ot an investee, the group considers all relevant facts and cicumstances in assessing whether it has power over an investee, including:

- The contractual agreement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The group's voting rights and potential voting rights

The group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

Interests in joint ventures

The group has contractual arrangements with other parties, which represent joint ventures. These take the form of an agreement to share control over another entity. Where the joint venture is established through an interest in a company, partnership or other entity (a jointly controlled entity), the group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post–acquisition changes in the group's share of its net assets, less distributions received and any impairment in value of individual investments. The group statement of comprehensive income reflects the share of the joint ventures-controlled entity's results after tax. Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

amount of the jointly controlled entity and is not amortised. To the extent that the net fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the group's share of the entity's profit or loss in the period in which the investment is acquired.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. If after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Further details are set out in note 14. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the group of stores at which goodwill is monitored internally.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately from a business are carried initially at cost. Expenditure on internally developed intangible assets is taken to the statement of comprehensive income in the year in which it is incurred. Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives, as follows:

Software	–	3 years
Brand	–	10-20 years or indefinite useful life as applicable
Trademarks	–	Indefinite useful life
Lease premium	–	Over the lease term

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable in making the asset capable of operating as intended.

Depreciation

Depreciation is provided on property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date of each asset evenly over its expected useful life, as follows:

Leasehold improvements	–	over the lease term
Furniture, fittings and equipment	–	over 3 to 5 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable immediately and are written down to

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

their recoverable amount. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the period of derecognition.

Leases

IFRS 16 distinguishes leases from service contracts on the basis of control of an identified asset. For lessees, it removes the previous accounting distinction between (off-balance sheet) operating leases and (on-balance sheet) finance leases and introduces a single model recognising a lease liability and corresponding right of use asset for all leases except for short-term leases and leases of low-value assets. For lessors, IFRS 16 substantially retains existing accounting requirements and continues to require classification of leases either as operating or finance in nature.

Group as lessee

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

a) Right of use assets

Right of use assets are initially measured at the value of the corresponding lease liability and subsequently adjusted for depreciation and for any remeasurement of the lease liability as noted above. As is the case for other categories of assets, they may be assessed for impairment where required by IAS 36. As described later in this note, applicable pre-existing rent accruals and prepayments were included in assets on transition to IFRS 16. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are in line with the remaining lease term.

b) Lease liabilities

Lease liabilities under IFRS 16 are initially recorded at the present value of future lease payments (discounted using the Group's incremental borrowing rate, which we estimate with reference to our debt facilities and observed bond yields). Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable and variable payments, which might be linked to sales generated. Variable lease payments that do not depend on an index or a rate but depend on sales or usage of the underlying asset are excluded from the lease liability measurement and recognised as expenses in the period in which the event or condition that triggers the payment occurs. Liabilities are subsequently adjusted for deemed interest charges and payments. Variable payment terms are used for a variety of reasons and dependent on turnover levels. Lease liabilities may be recalculated in some situations as stipulated by IFRS 16, including where the terms of a lease are modified, which can also result in a separate lease being recognised. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. Such changes to the amount of the lease liability will be also reflected in the corresponding right of use asset, except where a reduction in the asset would result in a negative outcome, in which case the asset's value is reduced to nil and the residual credit recorded in profit or loss.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

c) Short-term leases and leases of low-value assets

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Group operates a number of freehold sites but its estate is predominantly leasehold and the implementation of IFRS 16 has therefore led to a substantial change in balance sheet outcomes, with material new assets and liabilities being recorded to reflect rental agreements that were previously not recorded in the Group's consolidated balance sheet. Although the great majority of rental payments to landlords are now accounted for as payments to reduce lease liabilities, there remain some circumstances where rental payments continue to be accounted for as rental costs in the same fashion as previously; these include variable or turnover-contingent rents and also rentals for leases with a term of less than 12 months, in line with the requirements of IFRS 16. In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty

All the leasehold contracts that the Group enter into are for a finite and fixed period of time, however some of the contracts have break dates which unilaterally permit the Group to terminate the contract at a date that is earlier than normal contractual term end date, based on an estimate of lease term on inception. For the purposes of the preparation of the IFRS 16 numbers, the Group have identified a number of leases where use of the break date can been utilised based on an estimate of lease term on inception and notice period. The reason for the option to utilise the break date and potentially terminate the contracts early is due to the underlying trading performance of the identified coffee shops which don't fulfil the commercial viability required by the Group. The impact of a decision to end leasehold contracts earlier than the contractual term would be to reduce the recognised IFRS 16 right of use asset and liability, as the future contractual payments, and subsequent discounting to present value, are curtailed in term.

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.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash–generating unit's fair value less costs to sell and its 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Any impairment recognised in relation to goodwill cannot be reversed.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short–term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions that restrict the use of these monies by the Group and therefore do not meet the definition of cash and cash equivalents.

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 and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or 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.

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

Trade receivables

Trade receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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.

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, lease liabilities 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)

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

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, with the exception of derivative financial instruments, 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.

Trade payables

Trade payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method.

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.

Derivative financial instruments

As part of its investment in joint ventures, the Group entered into call and put options in respect of its right to future ownership of shares. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values of the call and put options are calculated by reference to recognised option pricing models. The fair values of interest rate swaps are calculated by reference to market valuations.

Borrowing costs

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories comprise food, coffee beans and packaging goods for resale. The Group applies a weighted average cost method of valuing inventory.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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.

Group as lessor

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rental payments, other than contingent rentals, are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The benefit of lease incentives is spread over the term of the lease.

Contingent rentals, which are determined by revenue of individual stores, are charged when incurred. Where a minimum guarantee exists, a charge is made to the statement of comprehensive income, based on planned performance, to the extent that the individual store is expected to exceed minimum guarantee levels, or at the minimum guarantee level if there is a projected shortfall in performance.

Where lease premiums are paid, these are depreciated over the lease terms, which range between 6 and 20 years.

Income taxes

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 by 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:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- 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 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 group to make a single net payment.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

Revenue recognition

Revenue is income arising from the sale of goods and services in the ordinary course of the group's activities, net of value added taxes. Revenue is recognised when performance obligations are satisfied and control has transferred to the customer. For the majority of revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control, which is typically at the point of sale. The Group is typically the principal in its revenue arrangements.

Sale of goods (store and e-commerce sales)

The sale of goods represents the vast majority of the group's revenue. The performance obligation is satisfied upon transfer of control to the customer which is at the point of sale in store or at the point of delivery to the customer.

Customer loyalty programme

The Group operates a loyalty points programme which entitles customers to a point for each cup of coffee purchased from its stores. Nine points can then be redeemed for a free coffee. The loyalty points issued by Caffè Nero are a separate performance obligation providing a material right to a future discount. The total transaction price (sales price of goods) is allocated to the loyalty points and the goods sold based on their relative standalone selling prices, with the points standalone price based on the value of the points to the customer, adjusted for expected redemption rates (breakage). The amount allocated to loyalty points is deferred as a contract liability within accruals and deferred income. Revenue is recognised as the points are redeemed by the customer.

Royalty fee income

The Group has franchise agreements in place with third parties and joint ventures allowing them to operate coffee bars overseas under the Caffè Nero brand. In exchange for the use of the Caffè Nero brand a sales-based royalty is charged. The Group recognises revenue for these sales-based royalties in the period the overseas sale occurs.

Management and handling fee income

As part of the agreements in place between the Group and its overseas subsidiaries, franchisees and joint ventures, the Group manages the ordering and shipment of coffee and other goods from the UK to its international operations. Revenue is received in the form of management and handling fees for the rendering of these goods and services. The performance obligation to arrange the shipment of goods is satisfied upon delivery of the goods at the customer's overseas location. Payment is generally due within 30 to 60 days from delivery.

Interest income

Interest income is recognised as interest accrues applying the effective interest method.

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.

Notes to the financial statements

at 31 May 2023

1. Accounting policies (continued)

Foreign currency translation

The Group's financial statements are presented in sterling, which is also the company's functional currency. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exceptional items

Exceptional items are separately classified in the statement of comprehensive income and are defined as those items that, by virtue of their unusual nature or size, warrant separate additional disclosure in the financial statements in order to fully understand the performance of the Group. Adjusted performance measures are also used and are reconciled to the statement of comprehensive income.

Deferred consideration

Deferred consideration is recognised on the acquisition of subsidiaries at discounted present value. Subsequently deferred consideration is unwound as a finance cost through profit or loss in the period it arises.

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.

Prior year restatements

A prior year restatement is made when there's a significant accounting policy change or errors are found that materially impact the financial statements for the Group. When such a restatement is recognised, the comparative year is restated in the financial statements, and the opening balance for the prior year is also provided with restatement, in accordance with IAS 8.

Note 2 provides a breakdown of the impact of the restatement on each affected financial statement line item for the prior period.

Notes to the financial statements

at 31 May 2023

2. Prior year restatement

The consolidated financial statements have been restated to reflect the impact of more accurately measuring balances under IFRS 16 'Leases', arising from a more sophisticated IT system being acquired.

The prior year consolidated financial statements included a loan entered into on 11 January 2022. During the current year, the measurement and classification of the loan was reconsidered and as a result, the loan was remeasured, which resulted in an increase in the loan liability of £311k. This remeasurement, in addition to a disclosure reclassification of £7,709k of term loan to loan premium to correctly reflect the nature of the liability was also recorded. The total restated finance costs also includes the impact of the second identified prior year adjustment, which is explained above.

	2022
	£000
Statement of Comprehensive Income	
Total comprehensive loss (as previously stated)	(16,761)
Increase in revenue	587
Increase in cost of sales	(785)
Increase in administrative expenses	(671)
Decrease in finance costs and similar charges	554
Decrease in income tax charge	994
Total Comprehensive loss (restated)	(16,082)

	2022	*2021*
Statement of Financial Position	*£000*	*£000*
Total Assets		
Right of Use Asset (as previously stated)	106,102	85,525
Increase to Right of Use Asset	13,707	11,047
Right of Use Asset (as restated)	119,809	96,572
Deferred tax asset (as previously stated)	166	8,566
Increase to deferred tax asset	868	92
Deferred tax asset (as restated)	1,034	8,658
Total Liabilities		
Lease liabilities (as previously stated)	(123,570)	(107,202)
Increase to lease liabilities	(20,110)	(17,446)
Lease liabilities (as restated)	(143,680)	(124,648)
Other financial liabilities (as previously stated)	(356,741)	(390,410)
Increase to other financial liabilities	(311)	-
Other financial liabilities (as restated)	(357,052)	(390,410)

Notes to the financial statements

at 31 May 2023

2. Prior year restatement (continued)

Total Equity		
Retained Earnings (as previously stated)	(483,956)	(464,117)
Increase in retained earnings	(6,377)	(7,055)
Retained Earnings (as restated)	(490,333)	(471,172)

3. Revenue

Revenue, which is stated net of value added tax, represents amounts received from the sale of goods from the Group's principal continuing activity, being the operation of high-quality Italian coffee bars.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2023	*2022*
	£000	*£000*
Store sales	432,984	330,401
Customer loyalty programme	12,181	14,731
Royalty fees	1,613	1,142
Management and handling fee income	761	1,120
E-commerce sales	2,926	2,276
Total revenue from contracts with customers	450,465	349,670

All revenue from contracts with customers is recognised on transfer of goods and services at a point in time.

Performance obligations for all revenue streams are explained within the revenue accounting policy. Contract liabilities of £2.9m (2022 – £2.6m) exist in respect of the customer loyalty programme and are presented within deferred income (in current liabilities – see note 19.1). Trade / contract receivables arising from e-commerce sales are included within trade receivables (see note 17).

A portion of the Group's revenue is derived from fully controlled subsidiaries operating in Turkey, US, Sweden and Poland. The Group also derives revenue from revenue from franchisees operating in other international territories and from sales of coffee to the Group's joint venture in Poland prior to it being acquired as a subsidiary during the year.

Set out below is the disaggregation of the Group's revenue by geographic area:

	2023	*2022*
	£000	*£000*
UK and Ireland	375,119	315,564
Turkey	24,135	12,793
USA	23,470	17,788
Sweden	3,472	2,078
Poland	22,657	98
Oman	45	28
Croatia	94	77
UAE	887	848
Cyprus	585	396
	450,465	349,670

Notes to the financial statements

at 31 May 2023

4. Operating profit

Operating profit is stated after charging/(crediting):

	2023 £000	2022 £000
Auditor's remuneration– audit of group financial statements	253	216
– audit of financial statements of subsidiaries	157	134
– other assurance services	20	20
Exceptional items – see note 4.3	(27,954)	8,890
Government grants – see note 4.1	-	(3,357)
Depreciation of property, plant and equipment	15,591	15,219
Impairment of property, plant and equipment	2,541	220
Loss on disposal of property, plant and equipment	355	147
Gain on disposal of right of use assets	-	(2,554)
Movement in fair value of share options	(3,072)	(3,556)
Movement in fair value of interest rate swaps	(9,411)	1,290
Movement in fair value of currency contracts	513	601
Gain on foreign exchange	(4,543)	(7,270)
Impairment of intangible assets	2,500	5,114
Amortisation of intangible assets	9,819	3,457
Amortisation of lease premiums	45	67
Depreciation of right of use assets	26,776	21,864
Impairment of right of use assets	3,064	348
Finance charges payable on lease liabilities	6,960	4,544

4.1 Government grants and assistance

During the prior period the Group 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)
- The Temporary Wage Subsidy Scheme (TWSS) – Republic of Ireland
- The COVID restrictions support scheme (CRSS)

Amounts received and receivable during the year are disclosed below:

	2023 £000	2022 £000
Grant income in respect of RHLGF included in administrative expenses	-	2,343
Grant income in respect of TWSS included in cost of sales	-	1,014
	-	3,357

Notes to the financial statements

at 31 May 2023

4. Operating profit (continued)

4.1 Government grants and assistance (continued)

At 31 May 2023, receivables in respect of the CJRS of £nil (2022 - £268k) were included in prepayments and other debtors.

4.2 Reconciliation of profit/(loss) before taxation to reported EBITDA

	2023	*2022*
	£000	*£000*
Profit/(loss) before taxation	**7,381**	**(7,866)**
Interest receivable and similar income	(10,666)	(1,293)
Finance costs and similar charges	44,699	34,993
Depreciation of PPE and amortisation of intangible assets	25,410	18,680
Unadjusted EBITDA	**66,824**	**44,514**
Fees and exceptionals	(27,954)	8,890
Impairment of PPE and intangible assets	5,041	220
Adjusted EBITDA	**43,911**	**53,624**
[1] Reversal of IFRS 16	562	(2,148)
[2] Foreign exchange differences	(5,852)	6,858
[3] Movement in fair value of derivatives	(2,559)	(2,955)
[4] Gain / loss on disposal	(131)	147
[5] Movement in provisions	420	-
[6] Share of loss before tax of joint ventures	(697)	110
[7] US ERC Balance	2,220	-
[8] Caffe Nero Poland (Green Coffee Sp.z.o.o)	1,161	1,252
[9] Royalties and group overheads	1,171	770
[10] Turkey Hyperinflation	1,533	-
Brand total EBITDA	**41,737**	**57,658**

[1] *IFRS 16 movements are added back to align with how management view EBITDA.*

[2-6] *These items are all excluded from Brand EBITDA as they are non-cash and non-operational items*

[7] *Government support received during the year has been recognised in the Group's Brand EBITDA for the year. For US statutory reporting it was recognised in the prior year.*

[8] *These items relate to Caffe Nero Poland, an integral part of the Group. The adjustments replace its loss before tax with its EBITDA*

[9] *The Group monitors Brand EBITDA before royalty income and Group overhead.*

[10] *Hyperinflationary accounting adjustments are excluded from Brand EBITDA.*

Notes to the financial statements

at 31 May 2023

4. Operating profit (continued)

4.3 Exceptional items

Amounts recognised within exceptional items in the statement of comprehensive income during the year are as follows:

Exceptional item breakdown	£'000 2023	£'000 2022
Reimbursement of CVA professional fees	-	2,591
Professional advisory fees	(60)	(6,095)
Impairment of Goodwill in Turkey	-	(5,114)
Fair value adjustment on acquisition of Green Coffee Sp Z.o.o	28,047	-
Store closure costs	(33)	(272)
Exceptional items (pre-tax)	**27,954**	**(8,890)**
Tax impact of exceptional items	-	(1,689)
Exceptional items (post-tax)	**27,954**	**(10,578)**

There was a one-off exceptional fair value adjustment relating to the investment in Poland of £28m this is a non-cash item that has been recognised in the year due to the transition of Poland from a joint venture to a subsidiary.

The Directors have concluded these costs are material to the financial statements and are non-recurring in nature.

Notes to the financial statements

at 31 May 2023

5. Directors' remuneration

	2023	*2022*
	£000	*£000*
Amount paid in respect of qualifying services	-	-
Aggregate directors' remuneration	870	800
Aggregate directors' pension scheme contributions	1	1

The directors of the Group were remunerated by Nero Holdings Limited, a Group undertaking, in respect of their services to the UK Group. The directors were paid remuneration and pension contributions of £0.9m (2022 – £0.8m) in the year. It is not possible to identify the proportion of these remunerations that relate to services to each individual company within the Group.

The highest paid director was paid remuneration of £524k (2022 - £491k). No pension contribution was paid due to the director opting out of his pension membership during the year.

Directors of other Group companies also remunerated by Nero Holdings Limited were paid £0.4m (2022 - £0.4m) for their services. Directors remunerated by Coffee #1 Limited were paid £0.4m (2022 – £0.2m) for their services.

6. *Staff costs*

	2023	*2022*
	£000	*£000*
Wages and salaries[1]	110,898	92,863
Social security costs	7,295	6,060
Other pension costs	1,495	1,237
	119,688	100,161

[1] Staff costs reported above are after the deduction of government grants received in respect of these costs of £nil (2022 - £3.4m).

The Company had no employees during the current and prior years. The average monthly number of group employees, including executive directors during the year was as follows:

	No.	*No.*
Operational	5,743	4,688
Administration	1,121	1,075
	6,864	5,763

7. Interest received and similar income

	2023	*2022*
	£000	*£000*
Bank interest received	16	3
Movement in fair value of interest rate swaps	9,411	1,290
Dividend Income	105	-
Interest rate swap income	1,134	-
	10,666	1,293

Notes to the financial statements

at 31 May 2023

8. Finance costs and similar charges

	2023 £000	2022 £000
Senior debt effective interest	1,024	3,566
Mezzanine debt effective interest	-	12,479
Unitranche debt effective interest	31,675	11,416
Capex debt effective interest	2,423	1,000
Unwinding of discount on loan premium	1,316	311
MC Coffco debt effective interest	69	-
Finance charges on lease liabilities	6,960	4,544
Other interest payable	1,132	858
Unwinding of discount on deferred consideration	100	819
	44,699	34,993

Notes to the financial statements

at 31 May 2023

9. Income tax

Other taxation, excluding corporation tax
The Group has paid a total tax bill of £77m in the UK this year. This is made up of VAT, employment taxes (including PAYE and apprenticeship levy) and business tax rates, representing 17% of total UK sales of £74k per store (2022 - £56k per store). Corporate tax affairs are evaluated at this group level.

Corporation tax

The Group generated a profit before taxation of £7.4m (2022 – loss of £7.9m). The increase in profit is driven by a £28m fair value uplift of Green Coffee SP Z.o.o's brand upon acquisition which is a non-cash and non-taxable item.

	2023	*2022*
	£000	*£000*
Current tax:		
Current tax on profit for the year	-	1,420
Foreign tax charge	219	54
Adjustments in respect of prior years	243	51
Total current tax	462	1,525
Deferred tax:		
Origination and reversal of timing differences	(4,997)	4,168
Adjustment in respect of previous periods	(308)	3,405
Effect of changes in UK deferred tax rates	-	51
Total deferred tax	(5,305)	7,624
Tax per income statement	(4,843)	9,149

Tax on loss on ordinary activities for the year

The tax assessed for the year differs from the standard average rate of corporation tax in the UK of 20% (2022 - 19.00%). The differences are explained below:

	2023	*2022*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	7,381	(7,866)
Profit/(loss) on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 20% (2022 – 19.00%)	1,476	(1,495)
Effects of		
Adjustments to tax charge in respect of prior periods	243	51
Adjustments to tax charge in respect of prior periods – deferred tax	(308)	3,405
Fixed asset differences	348	90
Expenses not deductible for tax purposes	1,025	5,402
Benefit of tax incentives	(564)	(336)

Notes to the financial statements

at 31 May 2023

9. Income tax (continued)

Impact of difference in overseas tax rates	(87)	(226)
Income not taxable for tax purposes	(8,368)	(50)
Impact of difference in current and deferred tax rates	(852)	735
Foreign tax charges	13	54
Deferred tax not recognised/(released)	2,231	1,519
Tax charge/(credit) for the year	(4,843)	9,149

Deferred tax recognised in the financial statements and the amounts not recognised are as follows:

	2023	*2023*	*2022*	*2022*
		Not		*Not*
	Recognised	*recognised*	*Recognised*	*recognised*
	£000	*£000*	*£000*	*£000*
Temporary non trading differences	-	-	-	-
Deductible temporary differences	(7,977)	(10,503)	(1,109)	-
Fixed assets	-	-	-	-
Tax losses and other deductions	8,470	(42,264)	1,534	(38,797)
Other temporary differences	635	(11,397)	609	(10,363)
Deferred tax asset/(liability)	1,128	(64,164)	1,034	(49,160)

	2023	*2022*
	Recognised	*Recognised*
	£000	*£000*
Deferred tax asset at 1 June	1,034	8,658
Adjustments in respect of prior periods	308	(3,405)
Origination and reversal of timing difference	4,997	(4,168)
Arising from business combinations	(4,927)	-
Deferred tax charge/(credit) for the year (OCI)	(284)	(51)
Deferred tax asset at 31 May	1,128	1,034

Deferred tax assets are recognised once it is considered more likely than not that they will be recoverable against future taxable trading profits arising in the Group.

10. Results attributable to members of parent undertaking

The post-tax loss attributable to the company for the year was £nil (2022 – £8.5m).

11. Cash and cash equivalents

	Group	*Company*	*Group*	*Company*
	2023	*2023*	*2022*	*2022*
	£000	*£000*	*£000*	*£000*
Cash and cash equivalents	13,068	-	20,992	33

Notes to the financial statements

at 31 May 2023

12. Property, plant and equipment

Group	*Leasehold improvements £000*	*Furniture, fittings and equipment £000*	*Assets under construction £000*	*Total £000*
Cost:				
At 1 June 2022	195,130	127,325	25	322,480
Acquisition of subsidiary	2,443	1,435	220	4,098
Additions	15,249	17,081	372	32,702
Disposals	(1,839)	(1,317)	-	(3,156)
Effect of translation to presentational currency	29,661	19,158	-	48,819
At 31 May 2023	240,644	163,682	617	404,943
Depreciation and impairment:				
At 1 June 2022	154,574	115,197	-	269,771
Provided during the year	8,556	7,035	-	15,591
Disposals	(1,867)	(934)	-	(2,801)
Impairment	1,765	776	-	2,541
Effect of translation to presentational currency	23,404	16,693	-	40,097
At 31 May 2023	186,432	138,767	-	325,199
Net book value:				
At 31 May 2023	54,212	24,915	617	79,744
At 1 June 2022	40,556	12,128	25	52,709

Asset written down to nil net book value but with a gross cost of £122.3m (2022 – £105m) are still in use by the company at 31 May 2023.

The directors have decided to assess all assets for impairment in accordance with IAS 36, as in prior years.

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.

In this base case forecast, it is assumed that trading performance will grow at a terminal growth rate of 3.34%.

Discount rates as used in the value in use calculations are estimated with reference to the wider Caffe Nero Group's weighted average cost of capital. For 2023, a discount rate of 9% has been applied to discount future cash flow projections (2022 - 10.5%).

Impairment was recorded in a number of cash generating units in the year, reflecting weaker trading in certain stores. This year's asset impairment was higher than the prior period due to the shrinking of the Harris & Hoole estate from the expected closure of the Tesco stores by the end of FY24. A charge of £2.5m (2022 - £0.2m) was recorded against Property, Plant & Equipment ('PPE') and a further £3.1m (2022 - £0.3m) against right-of-use assets (see note 13).

Notes to the financial statements

at 31 May 2023

13. Right-of-use assets and lease liabilities

	£000
Right-of-use assets at 1 June 2021 (restated)	96,572
Additions	22,994
Depreciation	(19,205)
Re-measurements	19,796
Impairments	(348)
Right-of-use assets at 31 May 2022 (restated)	119,809
Lease liabilities at 1 June 2021 (restated)	124,648
Additions	22,994
Liabilities extinguished on disposals	(2,555)
Finance charges	4,544
Cash payments made	(26,071)
Remeasurements	20,120
Lease liabilities at 31 May 2022 (restated)	143,680
Right-of-use assets at 1 June 2022 (restated)	119,809
Acquisition of subsidiary	13,399
Additions	25,362
Depreciation	(26,776)
Re-measurements	9,293
Impairments	(3,064)
Right-of-use assets at 31 May 2023	138,023
Lease liabilities at 1 June 2022 (restated)	143,680
Acquisition of a subsidiary	13,347
Additions	25,411
Finance charges	6,960
Cash payments made	(28,446)
Remeasurements	7,719
Lease liabilities at 31 May 2023	168,671

Within the lease liabilities at 31 May 2023, £35.3m (2022 - £21m) is presented as current.

Notes to the financial statements

at 31 May 2023

14. Intangible assets

Group

	Software *£000*	*Brand* *£000*	*Goodwill* *£000*	*Trademarks* *£000*	*Total* *£000*
Cost:					
At 1 June 2022	6,350	83,509	181,288	247	271,394
Acquisition of subsidiary		23,384	15,022	-	38,406
Additions	427	-	-	835	1,262
Disposals	-	-	-	-	-
Effect of translation to presentational currency	(32)	1,079	(6,964)	-	(5,917)
At 31 May 2023	6,745	107,972	189,346	1,082	305,145
Amortisation and impairment:					
At 1 June 2022	5,907	46,167	25,414	-	77,488
Charge for the year	232	9,587	-	-	9,819
Effect of translation to presentational currency	(18)	-	(1,989)	-	(2,007)
Impairments	-	-	2,500	-	2,500
At 31 May 2023	6,121	55,754	25,925	-	87,800
Net book value:					
At 31 May 2023	624	52,218	163,421	1,082	217,345
At 1 June 2022	443	37,342	155,874	247	193,906

Goodwill arose as follows:

1. The brand value arose on the acquisition of Italian Coffee Holdings Ltd on 1 February 2007 and is being amortised over 20 years. Goodwill on acquisition of £142m was recognised.
2. In 2015, the company acquired a 50% shareholding in Caffè Nero Gida Urunleri AS, taking the group's total shareholding to 100%. Goodwill on acquisition of £14.1m was recognised.
3. During 2017 the company acquired a 100% shareholding in Harris and Hoole Limited. Goodwill on acquisition of £2.5m and a brand value of £1.7m were recognised. The brand value was based on a 10 year forecast, hence is being amortised over 10 years.
4. On 6 February 2019, Storm Finance Co Ltd acquired 100% of the issued share capital of Coffee #1 Limited which owns the leases of 92 coffee bars that trade under the Coffee #1 brand. Goodwill on acquisition of £3.9m and a brand value of £21.8m were recognised.
5. On 19th August 2022, Caffe Nero Ventures Limited acquired an additional 9% shareholding in Green Coffee So Z.o.o, taking the group's total shareholding to 99%. Goodwill on acquisition of £15m was recognised.

The remainder of goodwill arose on the acquisition of the UK Caffè Nero stores in 2007.

Impairment testing of goodwill

The group tests for impairment annually or more frequently if there are indications that goodwill may be impaired.

Notes to the financial statements

at 31 May 2023

14. Intangible assets (continued)

UK (Italian Coffee Holdings Ltd and Harris and Hoole Limited) CGU & Coffee #1

The recoverable amount has been determined based on a value in use calculation. The value in use has been determined using a discounted cash flow model. The model incorporates projected cash flow forecasts over a period of 5 years and incorporates a terminal value based on expected long-term growth. The cash flows have been discounted to a present value using an appropriate discount rate. As a result of this analysis an impairment charge of £2.5m has been recognised against the Goodwill balance in the investment of Harris & Hoole. This is driven by the shrinking of the estate due to the expected closure of the Tesco stores by the end of FY24.

Turkey (Caffè Nero Gida Urunleri AS) CGU

The recoverable amount has been determined based on a value in use calculation. The value in use has been determined using a discounted cash flow model. The model incorporates projected cash flow forecasts over a period of 9 years and incorporates a terminal value based on expected long-term growth. A longer forecast period has been used compared to the UK due to the longer expected volatility in inflation rates before this CGU is forecast to reach a stable level. The cash flows have been discounted to a present value using an appropriate discount rate. As a result of this analysis, no impairment charge has been recorded in FY23. The discount rate utilised in this calculation was 21.25% vs last year 30.8% which is driven by the hyperinflationary conditions currently being experienced in Turkey.

Poland (Green Coffee Z.o.o SP) CGU

The recoverable amount has been determined based on a value in use calculation. The value in use has been determined using a discounted cash flow model. The model incorporates projected cash flow forecasts over a period of 5 years and incorporates a terminal value based on expected long-term growth. The cash flows have been discounted to a present value using an appropriate discount rate. As a result of this analysis, no impairment charge has been recorded in FY23.

The model uses the following key assumptions:

Discount rate

A post-tax discount rate ranging from 7% - 21.3% has been used (2022 – 10.5% to 30.8%) and an appropriate country risk premium has been used where applicable. The discount rate has been derived from the group's weighted average cost of capital, adjusted to reflect a market assessment of the risks specific to the cash generating assets.

EBITDA growth

The discounted cash flow model was driven by EBITDA, representing the operating cash flows of the business. The EBITDA growth assumption used was 2.5% (2022 – 2.5%). The most significant assumptions and estimates relate to a like for like sales assumption of 2.5%. It is assumed that our business maintains a steady recovery in revenues. The forecast EBITDA is based on existing stores and excludes projected earnings from future store openings. Forecast capital expenditure on new stores has been excluded from the cash flow projections.

A terminal growth of 2% (2022 - 2.9% to 10%) has been used to calculate expected cash flows of Italian Coffee Holdings Ltd after 5 years and Caffè Nero Gida after 9 years respectively. This assumption is consistent with the long–term growth projections for the industry.

Sensitivity to changes in assumptions

The Group has conducted a sensitivity analysis taking into consideration the impact on key impairment test assumptions including discount rates and terminal year EBITDA applied to the cash flows.

The below table sets out the impact of a 1% increase in discount factor and a 10% reduction in terminal value EBITDA for each CGU within the Group:

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at 31 May 2023

14. Intangible assets (continued)

Intangible asset base:

	Caffe Nero UK (including H&H & C1)	Caffè Nero Gida Urunleri AS	Green Coffee Sp Z.o.o	Total
	£'000	£'000	£'000	£'000
Goodwill	146,371	2,028	15,022	163,421
Brand	28,834	-	23,384	52,218
Subtotal	175,205	2,028	38,406	215,639

Sensitivities:

	Caffe Nero UK (including H&H & C1)	Caffe Nero Gida Urunleri	Green Coffee Sp Z.o.o	Total
	£'000	AS £'000	£'000	£'000
Headroom/(deficit) under base case	428,587	14,095	11,326	454,008
Headroom/(deficit): 1% increase in discount factor	340,683	11,741	3,759	356,183
Headroom/(deficit): 10% reduction in terminal value EBITDA	344,820	12,553	6,406	363,779

The key assumptions used in the recoverable amount estimates are the discount rates applied and the forecasted EBITDA growth. The Group has conducted a sensitivity analysis taking into consideration the impact on key impairment test assumptions arising from a range of possible trading and economic scenarios as outlined in the scenarios above.

Notes to the financial statements

at 31 May 2023

15. Non-current asset investments

	Investment in joint ventures	
	2023	*2022*
	£000	*£000*
Group		
Cost:		
At 1 June	1,785	1,895
Share of profit/(loss) for the year	697	(110)
Acquisition of Green Coffee SP Z.o.o	(2,482)	-
At 31 May	-	1,785

	Investments in subsidiary undertakings
	£000
Company	
As at 31 May 2023	720,488
As at 31 May 2022	454,442

The increase in the company investments is driven by the capitalisation of intercompany loans with subsidiaries during the year.

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

Subsidiaries

The Company holds all the equity share capital of Rome PIK Holdco Limited, which is an indirect parent company of the main trading entities within the Group including Nero Holdings Limited, Harris and Hoole Limited, Caffè Nero Ireland Limited, Aroma Limited and Coffee #1 Limited, which operate Italian style coffee bars. The Company is also an indirect parent of Nero Coffee Roasting Limited, which roasts and packages coffee for the worldwide operations of the group. The results of these companies have been consolidated in these financial statements. All these companies are incorporated in England and Wales.

Caffè Nero Ventures Limited is another indirect subsidiary of the Company. Caffe Nero Ventures Limited acts as the management company of the Group's overseas subsidiaries Caffè Nero Gida Urunleri AS, Caffe Nero Americas Inc, CN Sweden AB, Green Coffee Sp z.o.o, and franchises.

Joint ventures

On 27 September 2012, the Group acquired 58.46% of Green Coffee Sp Z.o.o. a company based in Warsaw, Poland and also acting as a coffee retailer. In a prior period, £2.5 million was invested bringing the group's stake to 90.0%. Until August 2022 the company accounted for this investment as a joint venture as unanimous shareholder votes are required for all key operating, strategic and financial decisions and the definition of control has not been satisfied.

In August 2022, the Group acquired an additional 9% of its subsidiary Green Coffee Sp Zoo. The previous owners had retained a 1% minority stake upon the sale. The new development takes the Group's ownership of Green Coffee Sp Z.o.o to 99%. Per the date of the agreement all voting rights have been transferred to the Group, this transition combined with the Group's ownership, triggers Green Coffee's status from Joint Venture to Subsidiary.

Notes to the financial statements

at 31 May 2023

15. Non-current asset investments (continued)

The group has a call option to acquire the remaining 1% of Green Coffee Sp Z.o.o. The holders of the remaining shares also have a put option to sell their remaining shares to the Group.

The execution price of the above is dependent on company performance. The call and put options are accounted for at fair value through profit and loss, the call option is recognised as a financial asset and the put option is recognised as a financial liability (note 23). At 31 May 2023, the options had a fair value of £0.2m and £0.02m (2022 - £0.6m and £0.1m) respectively. The fair value of the options decreased in the year by £0.4m (2022 - increase of £0.02m), which has been recognised in the statement of comprehensive income.

The share of the assets, liabilities, income and expenses of Green Coffee Sp. Z.o.o at 31 May 2023 are as follows:

	2023	*2022*
	£000	*£000*
Share of the joint venture's balance sheet:		
Non-current assets	-	4,600
Current assets	-	2,496
Share of gross assets	-	7,096
Current liabilities	-	(3,950)
Non-current liabilities	-	(4,337)
Share of gross liabilities	-	(8,287)
Share of net assets	-	(1,191)

	2023	*2022*
Share of the joint venture's results:	*£000*	*£000*
Revenue	5,639	18,619
Cost of sales	(3,864)	(12,327)
Administrative expenses	(992)	(6,196)
Finance costs	(86)	(226)
Profit/(loss) before tax	697	(131)
Tax charge	-	21
Profit/(loss) for the year	697	(110)

Upon acquisition of the 9% in Green Coffee Sp Z.o.o, the entity transitioned from a joint venture to a subsidiary. A share of the companies results from the joint venture period from June 22 to August 22 has been recognised in the statement of comprehensive income. The assets and liabilities have been fully consolidated within the statement of financial position.

Details of group undertakings

In March 2023, the Group acquired the remaining 23.3% of the minority stake in Storm Equity Co Ltd. The new development takes the Group's ownership of Storm Equity Co Limited from 76.7% to 100%.

Notes to the financial statements

at 31 May 2023

15. Non-current asset investments (continued)

All investments are held by subsidiary undertakings apart from a directly held investment in Rome PIK Holdco Limited. Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	*Proportion of voting rights and shares held*	*Nature of Business*
Directly held subsidiaries		
Rome PIK Holdco Ltd[1]	100%	Holding
Indirectly held subsidiaries		
Caffe Nero Group Holdings[1]	100%	Holding
Rome Bidco Limited [1]	100%	Financing
Italian Coffee Holdings Ltd [1]	100%	Holding
Harris and Hoole Limited [1]	100%	Coffee retail
Nero Holdings Limited [1]	100%	Coffee retail
Aroma Limited [1]	100%	Coffee retail
Caffè Nero Ventures Limited [1]	100%	Holding
Caffè Nero Investments Limited [1]	100%	Holding
Caffè Nero Americas Limited [1]	100%	Holding
Caffe Nero Americas, Inc[3] *(Incorporated in the United States)*	100%	Coffee retail
CN Sweden AB[7] *(Incorporated in Sweden)*	95%	Coffee retail
Caffe Nero Asia Ltd *(Incorporated in Hong Kong)*[6]	100%	Coffee retail
Nero Coffee Roasting Limited [1]	100%	Coffee Roasting
Caffè Nero Ireland Limited [2] *(Incorporated in the Republic of Ireland)*	100%	Coffee retail
Caffè Nero Gida Urunleri AS [4] *(Incorporated In Turkey)*	100%	Coffee retail
Storm Equity Co Ltd [1]	100%	Holding
Storm Holdco Ltd [1]	100%	Holding
Storm Finance Co Ltd [1]	100%	Holding
Coffee #1Ltd [1]	100%	Coffee retail
Joint ventures		
Green Coffee Sp Z.o.o. [5] *(Incorporated in Poland)*	99%	Coffee retail

Notes to the financial statements

at 31 May 2023

15. Non-current asset investments (continued)

For the year ending 31 May 2023 the following subsidiaries claimed exemption from audit via parental guarantees under section 479A of the Companies Act 2006 relating to subsidiary companies:

Storm Holdco Ltd (company registration number: 11779290)

Storm Finance Co Ltd (company registration number: 11779446)

Rome PIK Holdco Ltd (company registration number: 05936498)

Italian Coffee Holdings Ltd (company registration number: 04129005)

Caffe Nero Investments Limited (company registration number: 06127290)

Caffe Nero Americas Ltd (company registration number: 08739070)

All shareholdings are of ordinary equity shares.

(1) Registered address for subsidiaries is: 9-15 Neal Street, London, WC2H 9QL
(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: Al. Jana Pawła II 29, 00-867 Warszawa, NIP: 5262590815
(6) Registered address for subsidiary is: 6/F Emperor Commercial Centre, 39 Des Voeux Road Central, Central Hong Kong
(7) Registered address for subsidiary is: Sveavägen 155, 6 tr, 113 46 Stockholm

Notes to the financial statements

at 31 May 2023

16. Lease premiums

	Lease premiums £000
Cost:	
At 1 June 2022	5,480
Additions	-
At 31 May 2023	5,480
Amortisation:	
At 1 June 2022	5,160
Charge for the year	45
At 31 May 2023	5,205
Net book value:	
At 31 May 2023	275
At 1 June 2022	320

	Lease premiums £000
The net book value at 31 May 2023 is split as follows:	
Non-current assets	227
Current assets	48
The net book value at 31 May 2022 is split as follows:	
Non-current assets	129
Current assets	191

Lease premiums are depreciated over the lease term, which range from 6 to 20 years.

Notes to the financial statements

at 31 May 2023

17. Trade and other receivables

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Non-current:				
Amounts due from parent undertaking	2,728	-	-	-
Amounts due from group undertakings	-	2,296	-	-
Other receivables	379	-	-	-
	3,107	2,296		

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Current:				
Amounts due from related party	939	-	539	-
Amounts due from group undertakings	-	-	-	310,062
Trade debtors	8,535	-	6,407	-
Prepayments and other debtors	5,503	-	7,351	-
Fair value of currency contract	-	-	118	-
Corporation tax	303	-	149	-
	15,280	-	14,564	310,062

As at 31 May, the ageing analysis of trade debtors due from third parties was as follows:

	Total £000	Neither past due nor impaired £000	< 30 £000	30 – 60 days £000	> 60 days £000
2023	8,535	794	2,518	2,336	2,887
2022	6,407	1,783	-	1,212	3,413

18. Inventories

	Group 2023 £000	Company 2023 £000	Group 2022 £000	Company 2022 £000
Goods for resale	6,627	-	5,482	-

Notes to the financial statements

at 31 May 2023

19. Trade and other payables

	Group 2023 £000	*Company 2023 £000*	*Group 2022 £000*	*Company 2022 £000*
Non-current				
Amounts due to parent undertakings	10,689	-	-	-
Amounts due to subsidiary undertaking	-	325,970	-	-
	10,689	325,970	-	-

	Group 2023 £000	*Company 2023 £000*	*Group 2022 £000*	*Company 2022 £000*
Current:				
Trade payables	34,259	-	14,067	-
Amounts due to parent undertakings	-	-	7,011	-
Amounts due to subsidiary undertaking	-	-	-	375,791
Accruals and other creditors, including taxation and social security	32,997	164	41,951	164
Other amounts due to directors	565	-	531	-
Amounts due to related parties	180	-	216	-
Deferred income (note 19.1)	2,923	-	2,647	-
Fair value of currency contracts	395	-	-	-
	71,319	164	66,423	375,955

19.1 Deferred Income (Contract liabilities)

	2023 £000	*2022 £000*
At 1 June	2,647	1,641
Customer loyalty points issued in the year	13,457	13,579
Revenue recognised for loyalty points redeemed	(13,183)	(12,573)
At 31 May	2,923	2,647

These amounts relate to the accrual and release of customer loyalty point transactions. As at 31 May 2023, the estimated liability for unredeemed points amounted to £2.9m (2022 - £2.6m)

Notes to the financial statements

at 31 May 2023

20. Provisions

	2023	*2022*
	£000	*£000*
At 1 June	4,008	4,926
Provided during the year	277	182
Utilised during the year	(69)	(1,100)
At 31 May	4,216	4,008

Provisions for dilapidations are based on the future expected repair costs required to restore the Group'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 b ased 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 7.5 years.

21. Other financial liabilities

Group

At 31 May 2023	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Super Senior Revolving Credit Facility – £20m(1)	-	17,479	17,479
Term loan – Unitranche – £324m(2)	-	319,682	319,682
Term loan – Capex facility – £26.5m(3)	-	24,666	24,666
Loan Premium(4)	-	9,336	9,336
Loan from MC Coffco - £8m(5)	-	8,068	8,068
Non-secured third-party loans(6)	-	12,281	12,281
	-	391,512	391,512

Amounts disclosed above are net of issue costs total of £18.4m (2022 - £18.3m).

Group

At 31 May 2022	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Super Senior Revolving Credit Facility – £15m(1)	-	12,837	12,837
Term loan – Unitranche – £324m(2)	-	306,484	306,484
Term loan – Capex facility – £20m(3)	-	17,741	17,741
Loan Premium (4)	-	8,019	8,019
Non-secured third-party loans(6)	-	11,971	11,971
	-	357,052	357,052

Amounts disclosed above are net of issue costs total of £18.3m

(1) The Super Senior Revolving Credit Facility has a nominal balance of £20m. Interest is charged at SONIA +2.75-3.5% variable cash margin. This amount is repayable on 23 December 2026.

Notes to the financial statements

at 31 May 2023

21. Other financial liabilities (continued)

(2) The Unitranche Facility has a nominal balance of £324m. Interest is charged at a total of of SONIA + 7-7.75% variable cash and PIK margin. The group elects the proportion of interest to capitalise each quarter. This balance includes £20.4m of capitalised interest. The facility is repayable on 23 December 2027.

(3) The Capex Facility has a nominal balance of £26.5m. Interest is charged at a total of SONIA + 7-7.75% variable cash and PIK margin. The group elects the proportion of interest to capitalise each quarter. This balance includes £1.29m of capitalised interest. The facility is repayable on 23 December 2027.

(4) The loan premium is calculated as a variable upon the group's EBITDA. This amount is payable from Caffe Nero Group Holdings Limited at the earlier date of 23 December 2027 or settlement of the group's financing facilities.

(5) The loan from MC Coffco has a nominal balance of £8m. Interest is capitalised on this loan at an annual rate of 3.5%. £5m of this balance is payable in March 2025 with the remaining balance payable in March 2026.

(6) The non-secured third-party loans include a HSBC UK Facility agreement with a nominal balance of $8.5m. Interest is payable on this balance of LIBOR + 4.5% cash margin. The amount is payable in December 2027. Also included is a 2017 line of credit facility with a nominal balance of $4m. Interest is charged on this balance at SOFR + 1.5% cash margin, this facility is payable in April 2024.

Company

At 31 May 2023	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:	-	8,068	8,068
	-	8,068	8,068

At 31 May 2022	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:	-	-	-
	-	-	-

The below table discloses the contractual amounts of the group's financial liabilities and the associated interest rates.

Notes to the financial statements

at 31 May 2023

21. Other financial liabilities (continued)

Loan facilities and repayment dates

	£000	£000
	2023	2022
Unitranche (Interest charged at SONIA(3) + 7-7.75% total variable cash and PIK margin(2))		
23 December 2027	344,300	327,600
Capex Faciliy (Interest charged at SONIA(3) + 7-7.75% total variable cash and PIK margin(2))		
23 December 2027	27,800	20,200
Super Senior Revolving Credit Facility (Interest charged at SONIA(3)+ 2.75-3.50% variable cash margin)		
23 December 2026	20,000	15,000
MC Coffco Loan Agreement (Interest charged at 3.5% fixed PIK margin)		
02 March 2026	8,068	-
HSBC UK Facility Agreement (Interest charged at LIBOR + 4.5% cash margin)[(4)]		
08 November 2025	6,809	6,719
2017 Line of Credit Facility [(4)] (Interest charged at SOFR + 1.5% cash margin)		
02 April 2024	3,204	5,251
Loan Premium [(5)] (No interest charged)		
23 December 2027	14,730	13,965

[(1)] where LIBOR means the British Bankers Association Interest Settlement Rate for Sterling.

[(2)] 4.25% of the interest payable is settled by cash, 4.75% is rolled up into the carrying value of the loan.

[(3)] where SONIA means the Sterling Overnight Index Average

[(4)] where SOFR means the Secured Overnight Financing rate.

[(5)] The loan premium is calculated as a variable upon the group's EBITDA. This amount is payable from Caffe Nero Group Holdings Limited at the earlier date of 23 December 2027 or settlement of the group's financing facilities

Notes to the financial statements

at 31 May 2023

21. Other financial liabilities (continued)

In order to hedge exposure to interest rate risk, the group had entered into two interest rate swaps. One to fix £80 million of the term loans over a period of 46 months, expiring on 31 March 2026 and another to fix £70 million of the terms loans expiring on 29 May 26. All loan repayments are to be made in the same currency in which the loan principal is denominated.

22. Deferred consideration

	£000	*£000*
	2023	*2022*
At 1 June 2022	-	4,722
Deferred consideration on acquisition of Green Coffee SP Z.o.o	1,209	-
Payment of deferred consideration	-	(5,541)
Unwinding of discount	100	819
At 31 May 2023	1,309	-

Deferred consideration arose during the year from the acquisition of 9% of the shares within Green Coffee SP. Zoo. This deferred consideration is payable within 60 days of the resignation of the previous shareholder.

Notes to the financial statements

at 31 May 2023

23. Financial instruments

The Group uses various financial instruments including joint venture investments, cash, trade & other debtors, bank, Group balances, loans, trade & other creditors and derivatives. The parent company is also exposed to risk in respect of its holding of investments in subsidiary undertakings. Existence of these financial instruments exposes the Group and parent company to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk liquidity risk and investment impairment risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Interest rate risk

The Group borrows in pound Sterling at floating rates of interest. The Group's policy is to keep at 40-60% of its borrowings at fixed interest rates. This is achieved by entering into interest rate swaps which are designed to hedge underlying debt obligations. The Group classifies interest rate swaps as derivative financial instruments and measures them at fair value. These instruments do not qualify for hedge accounting. The Group refinanced its loan facilities during FY22 and put in place long-term swaps for 42% of its borrowings.

Credit risk

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

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 Group reviews the financial performance of its investments on a regular basis. The directors are satisfied with the performance of the investments. This is expected to continue for the foreseeable future.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. The Group regularly reviews its exposure and ensures funds are available as required. The Group refinanced its facilities during FY22 and this has provided access to a Revolving Credit Facility as well as a Capex Facility.

Capital risk management

Capital comprises shareholders' equity and financing from third party loans and the Company's parent undertakings. The primary objective of the Group's capital management policy is to ensure that the Group has adequate capital to support the business. The Group 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 Group has no externally imposed capital restrictions. To the extent derivatives impact the financial statements they do not impact decision making options.

The table below summarises the maturity profile of the group's financial liabilities at 31 May 2023 and 31 May 2022 based on contractual undiscounted payments.

Notes to the financial statements

at 31 May 2023

23. Financial instruments (continued)

As at 31 May 2023

Group

	On Demand *£000*	*Within 1 year* *£000*	*1-5 years* *£000*	*More than 5 years* *£000*	*Total* *£000*
Trade and other payables	-	58,930	-	-	58,930
Unitranche loan	-	-	344,333		344,333
Capex Loan	-	-	27,789	-	27,789
Super Senior Revolving Credit Facility	-	-	20,000	-	20,000
Loan Premium	-	-	14,730	-	14,730
MC Coffco Loan	-	-	8,068	-	8,068
Variable interest on Unitranche Loan	-	21,429	78,915	-	100,344
Variable interest on Capex Loan	-	2,151	8,940	-	11,091
Variable interest on Super Senior Loan	-	1,683	6,277	-	7,960
Rolled up interest on Unitranche Loan	-	21,870	80,463	-	102,333
Rolled up interest on Capex Loan	-	1,813	7,748	-	9,561
Rolled up interest on MC Coffco Loan	-	-	696	-	696
Derivative (swap)	-	10,658	-	-	10,658
Put option	-	19	-	-	19
Non-secured third party bank loans	-	-	12,281	-	12,281
Variable interest on third party bank loans	-	905	876	-	1,781
Lease Liabilities	-	38,787	92,473	54,278	185,538
	-	158,245	703,589	54,278	916,112

Company

	On Demand *£000*	*Within 1 year* *£000*	*1-5 years* *£000*	*More than 5 years* *£000*	*Total* *£000*
Third party loans	-	-	8,068	-	8,068
Other Interest	-	-	696	-	696
Amounts due to subsidiary	-	325,970	-	-	325,970
Trade and other payables	-	164	-	-	164
	-	326,134	8,764	-	334,898

Notes to the financial statements

at 31 May 2023

23. Financial instruments (continued)

As at 31 May 2022

Group

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Trade and other payables	-	21,826	-	-	21,826
Unitranche loan	-	-	-	324,000	324,000
Capex Loan	-	-	-	20,000	20,000
Super Senior Revolving Credit Facility	-	-	-	15,000	15,000
Loan Premium	-	-	-	13,965	13,965
Variable interest on Unitranche Loan	-	15,600	67,061	9,824	92,485
Variable interest on Capex Loan	-	1,568	7,012	1,150	9,730
Variable interest on Senior Loan	-	793	3,452	863	5,108
Rolled up interest on Unitranche Loan	-	16,047	68,786	10,072	94,905
Rolled up interest on Capex Loan	-	987	4,675	767	6,429
Derivative (swap)	-	1,247	-	-	1,247
Put option	-	3,953	-	-	3,953
Non-secured third party bank loans	-	-	11,971	-	11,971
Variable interest on third party bank loans	-	424	1,940	-	2,364
Lease Liabilities	-	22,670	98,494	38,727	159,891
	-	85,115	263,391	434,368	782,874

Company

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Amounts due to subsidiary	-	375,791	-	-	375,791
	-	375,791	-	-	375,791

The table below sets-out the interest rate risk profile. Interest rates on variable rate loans have been based on SONIA at the relevant balance sheet date. The Unitranche and Capex loans accrue rolled–up interest, which is not payable until the maturity of the loan under the terms of the finance agreements. The Unitranche loan also has a cash interest payable element. Future interest on the Capex and Unitranche loans is charged on the unpaid interest element as well as the original capital amount. Interest will accrue on previously unpaid interest charges throughout the term of each agreement. Interest due on the senior loans is not rolled up and is payable on a quarterly basis on contractual due dates. The contract maturity table assumes that interest will continue to be accrued until the termination date of each agreement.

Notes to the financial statements

at 31 May 2023

23. Financial instruments (continued)

Interest rate risk

Group

The floating rate financial liabilities bear interest at rates based on the percentages above SONIA as set out in note 21.

Floating rate cash and deposits earn interest at rates linked to SONIA. The following table demonstrates the sensitivity, to a reasonably possible change in interest rates, with all other variables held constant, of the group's result before tax (through the impact on floating rate borrowings and financial assets).

	Increase / decrease in basis points	*Effect on result before tax £000*
Floating rate loans		
2023	+100	356
	-100	(356)
2022	+100	269
	-100	(269)
Financial assets		
2023	+100	(94)
	-100	94
2022	+100	(13)
	-100	13

Fair values of financial assets and liabilities

The book values of financial assets and liabilities of the group are set out below. The directors conclude there were no material differences between the book values and fair values at each year end.

	2023 £000	*2022 £000*
Investments in joint ventures	-	1,785
Trade and other receivables	9,474	7,064
Non-current other receivables	379	31
Cash at bank and in hand	13,068	20,992
Trade and other payables	(58,931)	(21,826)
Lease liabilities	(168,671)	(123,571)
Long term third party borrowings	(391,512)	(357,052)
Interest rate swap	(10,658)	(1,247)
Call options	176	1,038
Put options	(19)	(3,953)
Fair value of currency contracts	(395)	118

Notes to the financial statements

at 31 May 2023

23. Financial instruments (continued)

Interest rate swaps

A new swap agreement was entered into with HSBC and Rome Bidco Limited during the year. This swap has a duration of four years and payments of interest under the hedge arrangements are due on the same dates as those on which the interest payments on the underlying borrowings fall due for payment. Payments and receipts under this interest rate swap is recognised in the statement of comprehensive income when it becomes due and the interest rate swap is accounted for at fair value through the profit and loss. The overall fair value of the groups interest rate swaps increased by £9.4m to a total asset of £10.6m (2022 – asset of £1.2m). The table below summarises the details of the remaining interest rate swap agreements:

The table below summarises the details of the interest rate swap agreements active in the year:

	Principal amount £000	*Termination Date*	*Interest rate %*
Rome Bidco Santander Swap	80,000	31-Mar-26	1.886%
Rome Bidco HSBC Swap	70,000	29-May-26	2.401%
Total	**150,000**		**2.144%**

Put and call options

The below summary details the fair values of the put and call options held by the Group:

	2023 £000	*2022 £000*
Current assets		
Fair value of call option	176	1,038
Current liabilities		
Fair value of put option	19	3,953

The group has granted a put option to the minority shareholder of Green Coffee Sp Z.o.o. by which it can sell its shares to the group at certain multiples of EBITDA. The liability has been fair valued using the Black Scholes model and is included within current liabilities. The group also has a call option whereby it can acquire the minority shareholder's remaining shares. This is also based on multiples of EBITDA. The asset has been fair valued using the Black Scholes method and is included within current assets.

Forward currency contracts

The Group uses forward currency contracts to hedge its exposure to foreign currency risks arising from overseas operations. The currency contracts have been fair valued and are included within current assets (note 17). The fair value attributable to the currency contracts decreased by £513k in the year (2022 – increased by £601k), the movement of which has been recognised in the Statement of Comprehensive Income.

Notes to the financial statements

at 31 May 2023

23. Financial instruments (continued)

Fair value hierarchy

In accordance with IFRS 7 Financial Instruments: Disclosures, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3. The Group classified interest rate swaps and forward currency contracts as level 2 financial instruments (2022 – level 2) as their fair value is determined based on techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The call and put options are classified as level 3 (2022 – level 3) financial instruments as their valuations are based on non-observable inputs.

Borrowing facilities

The group has various borrowing facilities available. The undrawn committed facilities available at each relevant period or year-end were £54m (2022-£65m).

24. Authorised and issued share capital

		2023		2022
	No.	£	No.	£
Allotted, called up and fully paid				
Ordinary shares of £1 each	2,041	2,041	2,041	2,041

The company has one class of share with equal voting rights.

Other reserves disclosed in the group statement of changes in equity. The nature and purpose of this reserve is to record the release of deep discounted bonds which occurred in prior years.

25. Contingent liabilities

Assets of the Group are held as security against loans and borrowings in note 21.

The Group/Company has a contingent liability for an incident in one of our Northern Ireland Stores. At this stage management can not quantify a potential exposure.

Notes to the financial statements

at 31 May 2023

26. Related party transactions

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

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

	2023	*2022*
	£000	*£000*
Amounts owed to Paladin Partners	180	216
Amounts owed to G W Ford	565	531
Amounts owed to Rome Intermediate Co Ltd	11,161	5,871
Amounts owed to the Nero Company SARL	1,116	1,141
Amounts owed by Rome Intermediate Holdings SARL	(939)	(539)

Saratoga Limited previously held and monitored the beneficial interests of G W Ford in Caffe Nero along with Cheyson Partners Limited which manages Paladin Partners 1, a 39% shareholder of the group.

The following transactions took place between the group and related parties during the year:

Rome Bidco Limited has paid monitoring fees to Saratoga Limited, Cheyson Partners Limited, Paladin Partners and Campbell Limited.. At 31 May 2023, the amounts paid during the year were £nil, £174,000, £36,000 and £88,333 respectively (2022 – £90,000, £108,000, £nil and £nil respectively).

Rome Intermediate Co Ltd, The Nero Company and Rome Intermediate Holdings SARL are intermediate parent undertakings of the Group. Movements in balances arose following transactions in respect of group treasury.

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'.

Transactions with key management personnel (comprising the directors) are disclosed below:

	Group	*Group*	*Company*	*Company*
	2023	*2022*	*2023*	*2022*
	£000	*£000*	*£000*	*£000*
Short-term employee benefits	870	800	–	–
Post-employment benefits	1	1	–	–
	871	801	–	–

Notes to the financial statements

at 31 May 2023

27. Business Combination

Green Coffee Sp. z.o.o. (Poland) signed an agreement with Caffe Nero Ventures (CNV) regarding the sale of 9% of shares in Poland on the resignation of the previous owners. Part of this agreement is that from the date of agreement (19th August 2022), all voting rights of the previous owners have that are connected to their shares are assigned to CNV. This transition of voting rights, combined with CNV's 90% share ownership, triggers Green Coffee's status from Joint Venture to Subsidiary as the voting rights are now exercisable to CNV which gives CNV a majority voting power and control of the company. The agreement is that when the CEO of Poland resigns, CNV will pay 7.3m PLN within 60 days of written notice of this resignation. The payment was made on 13th September 2023.

There is a possible further deferred payment contingent on the EBITDA of Poland's audited FY23 financial statements exceeding the budget figure of 19.968m PLN. Contingent consideration is £nil based on audited EBITDA and therefore the contingent payment is not included in the total purchase consideration.

The fair value of assets and liabilities recognised as a result of this acquisition are as follows:

	Net book value £000s	*Fair value adjustment £000s*	*Fair value £000s*
Tangible fixed assets	4,098	-	4,098
Trade and other receivables	762	-	762
Deferred tax asset/(liability)	358	(5,846)	(5,488)
Identifiable intangible assets	-	23,384	23,384
Cash and cash equivalents	1,739	-	1,739
Non-controlling interest	(339)	-	(339)
Trade and other payables	(7,517)	-	(7,517)
Right of use assets	13,398	-	13,398
Lease liabilities	(13,346)	-	(13,347)
Net (liabilities)/assets acquired	(847)	17,538	16,691
Goodwill arising on acquisition	-	-	15,022
Fair value of net (liabilities)/assets acquired	-	-	31,713

Details of the fair value of net (liabilities)/assets acquired are as follows:

	£
Deferred consideration	1,209
Previously held interest	2,482
Fair value uplift of previously held interest	28,047
Other adjustments	(25)
Total purchase consideration	31,713

Notes to the financial statements

at 31 May 2023

27. *Business Combination (continued)*

The goodwill of £15m was recognised and is attributable to the portfolio of leases held and high profitability of the acquired business.

The fair value adjustment of £28.05m within intangible assets represents an uplift in the value of the Green Coffee SP Z.o.o brand previously held by the group.

The investment held in Green Coffee SP Z.o.o prior to acquisition was £2.5m (note 15).

Other identified intangible assets comprise the value of the Green Coffee SP Z.o.o brand, which has been separately recognised. The fair value of the brand has been calculated using the 'Royalty Relief' method.

From the date of acquisition, Green Coffee has contributed £22.7m of revenue and a £1.1m profit before tax from continuing operations of the Group.

28. Ultimate parent undertaking

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

Immediate parent undertaking	Rome Intermediate Holdings SARL[1]
Ultimate parent undertaking	The Nero Company[1]
Largest shareholder of The Nero Company	G W Ford
No single party controlled the Company	

The results of the Nero Group are not consolidated into any other financial statements.

[1] Rome Intermediate Holdings SARL and The Nero Company are companies incorporated in Luxembourg.