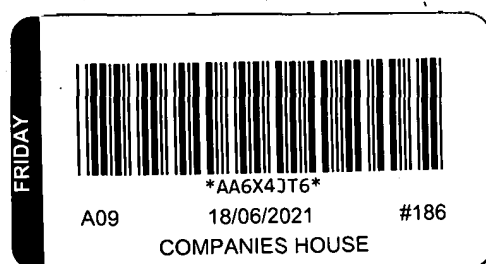


The Nero Group Ltd

Report and Financial Statements

31 May 2020



Company Information

Registered No. 06002065

Directors

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Secretary

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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 2020.

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 principle market that these brands operate in is the U.K. 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, Oman and France.

The Nero Group principally operates cafes in the territories mentioned above. However, at the very end of the year, namely April-May 2020, Caffè Nero began to push forward in new digital channels. In April 2020, Caffè Nero expanded its "Coffee at Home" range, which allowed customers to order coffee on-line and have it delivered straight to their home. The range offered bags of its signature Classico blend as both whole bean and ground coffee, as well six coffee products in Nespresso compatible capsules. All the capsules are fully recyclable and the six capsule range includes Caffè Nero's signature Classico blend, several single-origin coffees and decaffeinated coffee.

In May 2020, Caffè Nero additionally launched a U.K. nationwide delivery service in partnership with UberEats, allowing customers to order its in-store product range, and have these orders delivered to their chosen location.

Business review

Impact of Covid 19

In the nine months to February 2020, the Group achieved worldwide like for like sales of +2.5% and opened 46 new stores. Up to that date, the directors noted that considerable and satisfactory trading progress was made by the Group. In March 2020, however, the COVID-19 outbreak began to have a severe effect on trading in all of the Group's markets around the world. This negative impact increased sharply and by late March virtually all stores worldwide were closed by government order. This remained the case for April and May (a handful of stores started to reopen on a cautious and takeaway only basis in the U.K. in May). The results for the year need to be read in this context: trading strongly for the first three Quarters, but then losing out on the final (and traditionally the strongest) Quarter of the year.

Immediately following the government closures, the Group negotiated an emergency liquidity facility with its lenders in the UK which was in place by the end of April/beginning of May 2020. Other adjustments were also made quickly. The directors took pay cuts of 35% from April 2020 onwards with other head office staff taking pay cuts of 10%-30%. Significant other costs were cut throughout the business. Capital expenditure was restricted to emergency maintenance only. The Group also applied for all government schemes available in each of the countries where it operates to preserve liquidity and weather the severe interruption to trading. The Group's goals throughout this period were to protect the health and employment of its staff, to look after its customers and suppliers and to preserve cash.

The severity of the crisis, the restrictions on trading and the consequent revenue shortfall in the post year end period meant that the mitigating actions taken were not sufficient to return the Group to profitability and a significant cash requirement, largely to pay fixed rents, was being forecast. With this in mind, the directors of the Group's main UK subsidiary, Nero Holdings Ltd ("NHL") proposed a Company Voluntary Arrangement ("CVA") to its stakeholders and creditors in November 2020. The CVA was approved by a strong majority of creditors (in excess of 92%) which enabled the Group to further cut costs and forecast a return to profitability. Additional details are provided in the subsequent events note within the Directors Report.

Strategic Report (continued)

At the time of the Group's year end in May 2020, only a handful of stores were open in some countries. This meant the period of closure from March to May had resulted in a loss of over £85m in worldwide sales compared to the same period in the prior year, a fall of almost 80%. Largely as a result of this, the Group's loss before tax for the year increased from £30.2m in 2019 to £81.8m in 2020.

Brands and stores

All four brands (Caffè Nero, Harris + Hoole, Coffee#1 and Aroma) had favourable trading performances in the year prior to the Covid-19 crisis.

Caffè Nero, the largest of the Group's four brands, is a brand of high-quality Italian style coffee houses operating in eleven 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. For most of the Group's financial year, Caffè Nero continued with its normal store roll-out expansion strategy. But this was halted by the disruption and temporary closures forced by the onset of Covid-19 in March 2020. Prior to that, 37 new Caffè Nero stores were opened around the world during the financial year, bringing the total number of Caffè Nero stores worldwide to 916, including transport hubs where it trades as Nero Express.

Harris + Hoole (H+H) is a speciality artisan coffee house brand operating in supermarkets, high streets and airports in the UK. No new sites were opened during the financial year, and the total number of stores in the UK at the year end was 40. Until the onset of Covid-19, H+H was profitable during the year and the directors believe it has strong potential alongside Caffè Nero.

Coffee #1 is a distinctive and successful coffee brand, operating principally in Wales and the south west of England, and is seen as one of the leading coffee brands in that region. It opened 8 stores during the year, bringing its total to 100 at the year end.

Aroma is a brand of premium quality coffee for sale to third parties via licensing or wholesaling. To showcase the brand, in September 2019 Aroma Limited opened its first store in the UK.

Across the four brands (Caffè Nero, H+H, Coffee #1 and Aroma) the Group had in total 1,057 stores at the year end operating in 11 countries.

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. In the 9 months to February 2020, the Group achieved worldwide like for like sales of +2.3% which fell just below the targeted range. Against the ongoing uncertainty of Brexit at the time and the general challenges faced by the retail industry, the directors consider that, in the context of the overall market, this was a solid result. Following the forced temporary closures in March and April 2020 and with very few stores open in May 2020, the Group did not use like for like sales as a key performance measure in the last Quarter of the year.

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. However, the impact of Covid-19 made this measure irrelevant.

Store Expansion

A key part of the Group's strategy is to increase in scale through opening new stores. However, this strategy was put on hold during the Covid-19 crisis due to government restrictions and the need to

Strategic Report (continued)

Store Expansion (continued)

preserve cash. With the ongoing Covid-19 crisis, Caffè Nero expects to open fewer than 10 stores worldwide during the next financial year.

Trading results

Pre-tax earnings and the operating result were severely impacted by COVID 19 and declined from a loss of £30,245k to a loss of £88,467k, and a profit of £10,719k to a loss of £37,075k respectively.

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 has always been employed in management reporting and is this year shown in the Group financial statements in order to assist readers of the accounts. Following the introduction of new accounting standards, requiring very significant non-cash adjustments to the financial statements, the directors consider that reporting Brand EBITDA separately provides greater clarity and understanding of the underlying performance of the Group and its component brands.

In the year to May 2020, Brand EBITDA was materially impacted by forced closures and government restrictions as a result of Covid-19 as described earlier. Brand EBITDA is reconciled to the Statement of Comprehensive Income in note 3.

	2020 £000	2019 £000
Brand EBITDA		
Caffè Nero UK*	17,644	43,763
Caffè Nero International*	(6,755)	(1,632)
Harris & Hoole*	311	822
Coffee #1**	2,230	980
Brand total EBITDA	13,430	43,933

*Figures for the year ending 31 May 2020 were materially impacted in the final quarter (March - May 2020) by Covid-19.

**Coffee #1 was acquired part way through the year ended 31 May 2019. Brand EBITDA only reflects the four months post-acquisition.

Business review

The Group's performance is summarised below:

	2020 £000	2019 £000
Revenue	324,480	366,052
Store profit	65,429	78,080
Operating (loss)/ profit	(37,075)	10,719
Loss before tax	(81,797)	(30,245)

Expansion

Caffè Nero worldwide new store openings	37	58
Harris + Hoole new store openings	-	3
Coffee#1 acquired and opened	8	93
Aroma new store openings	1	-
Total worldwide stores at the year end	1,057	1,026
Countries	11	11

Strategic Report (continued)

	<i>New stores in the year</i>	<i>Total stores at close</i>	
UK & Ireland	12	682	9 stores handed back to landlords, resulting in a net increase of 3 stores
Turkey	9	68	1 store closed.
Poland	2	67	2 stores closed. The brand is known as Green Caffè Nero in Poland.
USA	4	33	New sites opened in Massachusetts and Connecticut. The directors are satisfied with the performance of these new sites.
Sweden	-	10	7 of the stores acquired from Coffeehouse by George in the previous financial year were converted to Caffè Nero during the year with 3 having been converted the previous year. The directors are pleased with the start these stores have made.
Franchises	10	56	The Group has a number of franchises operating around the world. The revenue for these franchises are included in these accounts.
Caffè Nero worldwide	37	916	
Harris + Hoole	-	40	The acquisition of Harris + Hoole in June 2016 added 36 stores to the Nero Group
Coffee #1	8	100	The acquisition of Coffee #1 in February 2019 added 92 stores to the Nero Group and further openings have been made since.
Aroma	1	1	A first Aroma store was opened in September 2019.
Total worldwide stores	46	1,057	

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

	<i>New stores in the year</i>	<i>Total stores at close</i>
UAE	8	33
Cyprus	2	17
Croatia	-	2
Oman	-	3
France	-	1
Total stores	10	56

Strategic Report (continued)

Taxation

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

	2020 £000	2019 £000
VAT	30,461	34,672
Employment taxes	15,834	18,685
Business rates	16,015	17,870
Total tax paid	62,310	71,227
Tax paid per store	77	102

The Group paid a total tax bill of £62.3m in the UK in the year. This was made up of VAT, employment taxes (including PAYE & apprenticeship levy) and business rate taxes, representing 22% of total UK sales (2019 – 19%) for the Group or £77k per store (2019 – £102k per store).

Due to its significant finance charges and the considerable impact of Covid-19 upon the business in March, April and May 2020, when the business' store estate was forcibly closed by the government, generating zero revenue, the Group had a loss before taxation of £81.8m, reducing its tax liability for the year.

Interest due to third party banks (charged at an arm's length basis) was in isolation greater than the Group's operating profit. This interest bill and the financial impact of zero revenue generated by the UK store estate in the last Quarter (March – May) resulted in a loss before tax.

It should be noted that the Group does not have any interest due to shareholders or any related parties, only to third party banks. Therefore, only the interest due to these third party banks is included in the Group's corporation tax computations. The Group's UK tax computations do not contain any overseas profits or losses or transfer payments.

Tax Policy

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://Caffenero.com/company/uk-tax-policy/>. This detail forms part of our Directors' report.

Strategic Report (continued)

IFRS 16

On 1 June 2019 the Group adopted the IFRS 16 lease accounting standard. For the year ending 31 May 2020, as a result of the new standard the Group reports:

There will be no impact on cash as a result of the standard and no change to the way in which the Group is run. This is a mandatory technical accounting change and does not change the way we make investment decisions or manage the business.

- a higher level of depreciation expense, reflecting the additional depreciation of £61.2m in relation to the new right-of-use asset;
- a lower level of operating lease rental expense by £77.4m;
- a higher level of finance costs, reflecting the additional interest expense of £18.1m in relation to the new lease liability;
- a higher level of loss before tax. The combined IFRS 16 charges for depreciation and impairment of the right-of-use asset and interest on the lease liability exceed the IAS 17 rent charge by £11.2m. Whilst over the life of a lease the costs will equal out, in the early years the combination of a straight line depreciation charge and a higher interest charge leads to a total IFRS 16 charge exceeding the rent payable charge under IAS 17; and
- a higher level of gross assets, reflecting the inclusion of an additional £166.0m right-of-use asset
- a higher level of net debt, reflecting the inclusion of an additional £187.0m of capitalised lease liabilities within net debt.

Note 27 to the financial statements provides further detail on the nature of the transition and its impact on the results for the current period.

Strategic Report (continued)

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, both 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, can build a successful career with Caffè Nero. 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 yearend Caffè Nero operated in 11 countries and employed over 8,300 individuals worldwide from 105 different countries. Over the last year, the business has created more than 240 new jobs in the UK and Ireland and 336 jobs worldwide.

In the financial year, Caffè Nero trained over 1,982 employees in the UK. The training included technical job skills, business skills, leadership and team development skills as well as behavioural development training. The Group also trained 59 apprentices in the period. The business continued to provide a mental health first aid programme and mental health workshops were run for all employees regionally in the UK.

In November 2019, Caffè Nero launched a national Brexit help line and began running regional job clinics for any employee who needed help and support with applying for Right to Remain or Settled Status ahead of the Brexit deadline. These workshops took place both physically in office and store locations, and virtually via on-line meetings.

All funds generated by the business are reinvested to create further jobs, pay employees and drive growth. No dividend has been paid to shareholders in the year (nor in its 24-year history). In other words, Caffè Nero reinvests all of its money in the business.

Local Communities

In the UK, the Make A Difference campaign, sees funds raised by employees for good causes, matched by its foundation. Baristas submit applications to support causes they are passionate about, and the business supports as many as possible. Caffè Nero has supported causes such as Action Mental Health, Mind and Meningitis Now. This year, we have generated over £34k in funds for good causes, taking us to nearly £300k over the last five years.

Caffè Nero has a track record of working to support the homeless as well. It has provided support to St. Mungo's, Centrepoin and Albert Kennedy Trust as well as other homeless charity organisations.

Supporting the NHS and Communities during Covid-19

In April 2020, Caffè Nero provided free hot drinks to any and all NHS workers in the UK to support them as they worked on the front lines during the Covid-19 crisis. At the same time, team members from Caffè Nero's UK wide estate volunteered with the NHS and took part in local community support programmes for people and communities which most needed help during the Covid-19 crisis.

Strategic Report (continued)

Coffee Farmer Communities

This year the Group has continued to support coffee farmers and communities where it sources its green beans. We buy coffee directly from the farmers who grow it and we support their communities, including in specific locations paying over market price for our coffee beans to ensure our farmers can benefit and to fund their sustainability projects. Our project 'LIFT' is dedicated to farming quality improvements and supports schools and clean water programmes. In the La Esmeralda region of Nicaragua, we fund clean water projects for five schools and partner with the 'Seeds for Progress charity' to support the La Esmeralda school development programme.

The latter includes doubling the size of the current primary school and providing funding for a school library.

Caffè Nero also continued to provide funding for the ongoing expansion of the school and teaching staff through donating proceeds from food sales over the Christmas period in the UK. Over 300 pupils are now hosted by the school.

In Ethiopia, money raised through the sale of filter coffee is funding bee keeping kits and the training to use them. Caffè Nero also works closely with Rainforest alliance when it buys its green beans to support farmers working in a sustainable and environmentally friendly way.

Humanitarian Projects

Caffè Nero also supports humanitarian good causes around the world, which has 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 – We have provided funding to support the important research they do.

Planet - The World Around Us

Cups, Recycling and Landfill

We are 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.

We also encourage minimising the use of paper cups by selling "Keep Cups" and filling our customers "Keep Cups" with coffee if requested and offering double loyalty points for doing so.

In May 2020, Caffè Nero introduced 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 reduces the fossil fuel content of our cups to zero.

In the UK, Caffè Nero collects, separates and recycles all paper cups left in its stores so they can be sent for recycling, and also introduced the 'R-Cup', a "Keep Cup" option made from recycled paper cups, alongside its regular 'Keep Cup' range.

Strategic Report (continued)

The business 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).

In the UK, 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.

In June 2019, Caffè Nero in the UK signed up to the government “Step up to the Plate” programme, which saw businesses commit to reducing food waste. In February 2020, 110 stores across the UK began trialling a partnership with ‘Too Good To Go’ to offer end of line food to customers at a significantly reduced cost to avoid it being put in the bin. The programme is now in at least four countries where the Group operates, including Sweden, the USA and Poland, and will be rolled out across the full UK store estate in FY21. This has been a very effective way of reducing food waste.

Another important programme is that Caffè Nero recycles leftover coffee grinds. Our coffee grinds are turned into biomass fuel.

Finally, Caffè Nero has been zero to landfill in the UK 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 specific risks

- Continuing pandemic - there remain future challenges in regard to the financial performance and cash flows of the wider Caffè Nero group (‘The Nero Group Ltd’), of which the Company is a member, due to the unknown extent of any further restrictions and lockdowns in relation to Covid-19;
- Damage to the brand image due to failures in environmental health in the stores or contamination of products;
- Increases in prices of key raw ingredients;
- Increases in other key costs such as wages and rents;
- Decreased customer demand for Caffè Nero Group products; and
- The loss of key personnel or the failure to manage succession planning;
- Breakdowns in internal controls through fraud or error.

Broader sector or macroeconomic risks

- Adverse economic conditions in the UK markets;
- Increased competition in the markets in which Caffè Nero brands operate;
- A rise in interest rates which will affect the amount of interest payable on the Group’s loans; and
- The continuing impact of Brexit insofar as it affects availability of personnel and the import and export of goods in EU territories.

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 Group is also exposed to risk in respect of its holding of investments in subsidiary undertakings. Existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

Strategic Report (continued)

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity 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. Excess cash is placed on short term deposit for up to a week with Santander at variable money market rates. The Group's policy is to keep approximately 63% 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.

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 negotiated new liquidity facilities and worked closely with our suppliers to navigate our way during the Covid period.

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. This is expected to continue for the foreseeable future.

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.

Strategic Report (continued)

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 FY20
Shareholders / Lenders	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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 and CFO to gain direct feedback and to maintain clear dialogue. 	<ul style="list-style-type: none"> ▪ Prior to the Covid period, the Group continued its steady roll out in all markets ▪ During the Covid period, the Group increased its reporting to lenders to provide cash forecasts on a weekly basis ▪ The Group has accelerated its entry into new channels, including delivery, advance ordering ("click and collect") and online platforms. ▪ The Group has also developed its At Home range of coffee available through its website, app, supermarkets and online retailers. This was to continue driving long term profitable sales growth and continue the brands expansion into other channels and markets.
Employees	<ul style="list-style-type: none"> ▪ Regular quality communication and engagement. ▪ Up to date information on the business. ▪ Feeling valued by the business and part of the community. 	<ul style="list-style-type: none"> ▪ Regular weekly and monthly newsletters in addition to an internal social media platform. ▪ Regular store manager engagement through listening groups, quarterly Board roadshows and annual conferences and Barista of the year competitions. 	<ul style="list-style-type: none"> ▪ Brexit clinics for overseas workers in the UK to support EU staff members and address any concerns they might have had. ▪ Twice weekly CEO Company calls throughout the Covid period. ▪ Company communications documents were repurposed as cultural engagement tools during the Covid enforced lockdown to keep furloughed staff engaged with the business and to provided relevant

Strategic Report (continued)

			<p>operational information ahead of stores re-opening post Covid lockdown.</p> <ul style="list-style-type: none"> Investment in additional and appropriate health and safety measures in all locations during Covid to protect and reassure staff against any concerns.
Customers	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> A Food Transformation Programme was launched into the business during FY20 including an extensive Vegan menu which significantly increased consumer choice and met changing market demands. Delivery via Uber Eats launched and the Coffee at Home programme was expanded. A new allergen tracking process was launched in the business including at store level.
Suppliers (including Landlords)	<ul style="list-style-type: none"> Regular and timely payment. Communication on business status, objectives, growth strategy and cash position. 	<ul style="list-style-type: none"> Face to face engagement events between Company directors and principle suppliers. Designated point of contact for all suppliers Proactive and regular communication through the supply chain. 	<ul style="list-style-type: none"> VIP supplier event to engage and inform key suppliers General suppliers event to outline plans for future, business status and brand values. Regular supplier communication calls and forums. Open channel communication maintained with all suppliers to support regular payment plans following business continuity interruption in March 2020 due to Covid.

Strategic Report (continued)

Community & Environment		<p>▪ This section is covered in the “Ethics, Sustainability and supporting the Community” section on page 7.</p>	<p>▪ Despite the impact of Covid, Caffè Nero and Caffè Nero employees continued to fundraise for and support local causes and the business supported NHS workers with free coffee during the pandemic.</p> <p>▪ Caffè Nero continued to push forward sustainability with the introduction of a fossil fuel friendly new paper cup across the business and continued support for key recycling schemes.</p> <p>▪ Further information can be found in the “Ethics, Sustainability and supporting the Community” section on page 7.</p>
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Principal Decisions

We have outlined 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.

Decisions related to Covid-19

It has been an unprecedented period for the hospitality sector and the wider economy. It also caused an extraordinary and dramatic impact upon the Caffè Nero business, including the forced closure of all stores by the government and the resulting catastrophic impact on sales, both for the final three months of this financial year, and the year which followed.

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

- Reducing and managing fixed costs during lockdown
- Agreeing temporary pay cuts with employees
- Accessing government support where appropriate, including Business Rates and VAT holidays and the Coronavirus Job Retention Scheme (‘CJRS’)
- Arranging a new temporary liquidity facility.

A full summary of the decision taken by the Caffè Nero board in response to Covid-19 for the impacted months of this financial year and further forward can be found on page 2.

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

Strategic Report (continued)

On behalf of the Board



Ben Price

Director

25/5/21

Directors' Report

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

Results and dividends

The Group generated a loss before taxation but after finance charges of £81.8m (2019 – loss of £30.2m). No dividend is proposed (2019 – £nil).

Future Developments

The directors are focussed on getting the Group through the pandemic phase, including preserving liquidity, protecting staff and re-engaging with customers, before returning to its well established revenue and profitability growth plan.

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 will be able to meet its liabilities as they fall due for the foreseeable future. The directors have prepared detailed forecasts and cash flow projection models to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario whereby sales steadily return to normal pre-Covid 19 levels.

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

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

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

Directors' Report (continued)

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

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

Directors' Report (continued)

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 largest parent Company of the Group of which The Nero Group Ltd is a member, were as follows:

	<i>At 31 May 2020 £20 each</i>	<i>At 31 May 2019 £20 each</i>
G W Ford (1)	15,853	16,730
B J Price (2)	310	310

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

G W Ford 13,906

Paladin Partners I 1,947

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

Paladin Partners I 310

During the year G W Ford sold 877 of his shares.

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

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.

Average creditor days increased as a direct result of the pandemic. Due to the sudden loss of revenue in March, the Group sought to secure as much liquidity as possible and agreed payment plans with all main suppliers. Creditor days increased to 43 (2019 – 39 days). For comparison at the end of February (pre-pandemic) creditor days were 32.

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.

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 program, benefiting circa 8,300 people worldwide during the year, including training 59 apprentices as a result of the apprenticeship levy. It 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.

Directors' Report (continued)

Donations and Charities

Extensive details of charitable activities are set out in the 'Ethics and Sustainability' 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. Local charities are selected by store teams and funds raised by the team are matched by The Nero Foundation. In the year, the UK Group has donated over £34k to good causes and global humanitarian projects. 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 2019 to 31 May 2020.

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 reporting period. As this is the first year of reporting, no comparison to previous years has been disclosed.

	1 June 2019 to 31 May 2020
Energy (kWh)	
Natural Gas	244,458
Electricity	42,005,579
Transport	2,248,187
Total Energy (kWh)	44,498,224
Emissions (tCO₂e)	
Natural Gas	44.94
Electricity	10,736.63
Transport	553.17
Total SECR emissions*	11,334.74
Intensity metric	
SECR emissions per intensity metric (tCO ₂ e / £1m Revenue)	0.011
*Uses location based electricity emissions	

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.

Directors' Report (continued)

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 2019. Electricity emissions are reported using location-based factors. Location-based emissions have been calculated using emissions factors published by BEIS in 2019.

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 2019.

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 May 2020. 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 company was founded and still sits at the foundation. The Company 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:

- Our own teams – The people who work for Caffè Nero by understanding our values, leadership and participating in and providing ongoing training
- Local communities – The customers and communities where our stores are located
- Coffee farmers – The Farmers and communities we work with to produce our coffee beans
- Humanitarian Projects -- The good will projects we help fund around the world

Further details of these sections 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.

Directors' Report (continued)

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 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 owner, 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 all 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 Board and directors on key specific issues to ensure impartial and expert information is provided to help guide decision making.

Principle 4 – Opportunity and Risk

Opportunities

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 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.

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.

Directors' Report (continued)

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

In 2019, a Brexit committee was established in the UK to assess and measure the potential impact of a deal or no deal Brexit on imports and exports on the UK business, the movement of goods within The Caffè Nero Group, and the impact on the international movement of people on EU nationals working within the Company in the UK.

In March 2020, the U.K. Management Board established a daily crisis meeting to review and manage effectively the impact of Covid-19 on the business and respond to the constantly evolving operational restrictions and guidance from the government. This meeting ensured that the business was adapting to a rapidly changing environment and that decisions were taken with as much information available as possible. This daily crisis meeting persisted from late March through to the end of May 2020 (and well beyond).

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

Principle 5 – Remuneration

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

Due to the impact of Covid-19 on the business, our standard remuneration review processes were suspended. These will be reinstated once normal operations return, and staff return from furlough.

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, above store employees in the UK were asked to take a temporary and proportionate pay reduction to help ensure all employees could retain their jobs and income for the duration of the crisis.

Principle 6 – Stakeholder relationships and Engagement

Information addressing the Board's engagement with stakeholders is contained in the section 172 statement on pages 11 to 13.

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 auditors are 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 auditors are aware of that information.

Reappointment of auditor

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

Directors' Report (continued)

Subsequent events disclosure

Company Voluntary Arrangement ('CVA')

On 30 November 2020, the directors of the Group's main UK subsidiary, Nero Holdings Limited, proposed a Company Voluntary Arrangement (CVA) to its stakeholders and creditors. The CVA was approved by a strong majority of creditors (in excess of 92%). As part of the CVA, the rent arrears on 657 sites were compromised and as a consequence are not payable representing a savings of c. £20.2m. This will be reflected in the 2021 accounts.


Brexit

The impact of Brexit on the Group's business was an important consideration for the directors throughout the year especially given the uncertainty as to whether a deal would be agreed between the EU and UK. The directors were particularly concerned by the impact on the business, customers, employees and suppliers but ensured appropriate contingency plans were in place in the event of a no deal Brexit.

Director's Loan

In August 2020, the Director's loan of £1.3m outstanding at the year was re-assigned to The Nero Company which is now the sole beneficiary of the loan.

On behalf of the Board



Ben Price
Director

27/5/21

Directors' Responsibilities Statement

The directors are responsible for preparing the Report and the financial statements in accordance with in accordance with applicable UK law and regulations and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and Company for that period. In preparing those 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;
- 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's and Company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NERO GROUP LIMITED

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 2020, which comprise the Group Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Cash Flows, the Group and Company Statements of Changes in Shareholder's equity and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material uncertainty related to going concern

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

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

Our opinion is not modified in respect of this matter.

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 24, 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

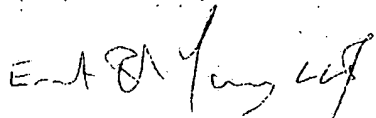
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

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

Use of our report

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



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

Date 3.10.2021

Group Statement of Comprehensive Income

for the year ended 31 May 2020

	Notes	2020 £000	2019 £000
Revenue	2	324,480	366,052
Cost of sales		(259,051)	(287,972)
Gross profit		65,429	78,080
Administrative expenses		(66,293)	(67,361)
Exceptional impairment charges	3	(36,211)	-
Operating (loss)/ profit	3	(37,075)	10,719
Interest receivable and similar income		251	12
Finance costs and similar charges	7	(46,238)	(26,539)
Change in fair value of put and call options		2,602	(13,814)
Share of post-tax loss of joint ventures	14	(1,337)	(623)
Loss before taxation		(81,797)	(30,245)
Income tax credit/(expense)	8	986	(455)
Loss for the year		(80,811)	(30,700)
Other comprehensive income/(loss)		106	(779)
Total comprehensive loss for the year		(80,705)	(31,479)
Loss attributable to non-controlling interest		157	(3,388)
Loss attributable to The Nero Group Ltd		(80,968)	(27,312)
Loss for the year		(80,811)	(30,700)
Total comprehensive loss attributable to non-controlling interest		157	(3,388)
Total comprehensive loss attributable to The Nero Group Ltd		(80,862)	(28,091)
Total comprehensive loss for the year		(80,705)	(31,479)

All amounts relate to continuing activities.

Group Statement of Financial Position

at 31 May 2020

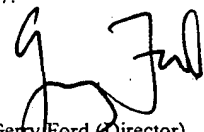
	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	11	85,148	112,192
Right of use assets ¹	12	165,913	-
Intangible assets	13	206,148	209,285
Investment in joint ventures	14	4,862	6,030
Lease premiums	15	153	226
Trade and other receivables	16	80	459
Fair value of call option	22	4,323	1,050
		<u>466,627</u>	<u>329,242</u>
Current assets			
Inventories	17	5,673	4,694
Trade and other receivables	16	15,309	25,430
Lease premiums	15	108	143
Cash and cash equivalents	10	20,051	13,683
Fair value of call option	22	76	1,104
		<u>41,217</u>	<u>45,054</u>
Total assets		<u>507,844</u>	<u>374,296</u>
Current liabilities			
Derivative financial instruments	22	(1,182)	(316)
Trade and other payables	18	(65,801)	(75,496)
Fair value of put option	22	(554)	(26)
Other financial liabilities	20	(20,429)	(4,337)
Lease liabilities ¹	12	(69,207)	-
		<u>(157,173)</u>	<u>(80,175)</u>
Non-current liabilities			
Lease liabilities ¹	12	(117,830)	-
Other payables	18	(663)	-
Other financial liabilities	20	(368,824)	(350,219)
Fair value of put option	22	(13,627)	(14,512)
Deferred tax liability	8	(2,842)	(4,020)
Deferred consideration	21	(4,244)	(3,815)
Provisions	19	(3,431)	(1,203)
		<u>(511,461)</u>	<u>(373,769)</u>
Total liabilities		<u>(668,634)</u>	<u>(453,944)</u>
Net liabilities		<u>(160,790)</u>	<u>(79,648)</u>

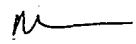
Group Statement of Financial Position (continued)

at 31 May 2020

	Notes	2020 £000	2019 £000
Capital and reserves			
Called up share capital	23	1	
Share premium account		22,513	22,514
Capital redemption reserve		96,320	96,320
Other reserves		174,083	174,083
Non-controlling interest		7,647	7,490
Foreign exchange translation reserve		(3,758)	(3,864)
Retained earnings		(457,596)	(376,191)
Total equity		(160,790)	(79,648)

¹ The Company has applied IFRS 16 using the modified retrospective approach and therefore comparatives have not been re-stated. Further information on the initial application of this standard can be found in note 27.


Gerry Ford (Director)


Ben Price (Director)

27 May 2021

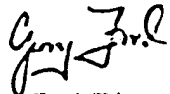
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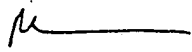
Company Statement of Financial Position

at 31 May 2020

		2020	Restated 2019	2018
	Notes	£000	£000	£000
Non-current assets				
Investments	14	454,442	454,442	112,624
		454,442	454,442	112,624
Current assets				
Trade and other receivables	16	262,056	241,728	223,022
		262,056	241,728	223,022
Total assets		<u>716,498</u>	<u>696,170</u>	<u>335,646</u>
Current liabilities				
Trade and other payables	18	(8,846)	(13,199)	-
Other financial liabilities	20	(10,000)	-	-
Non current liabilities				
Other financial liabilities	20	(349,365)	(329,419)	-
Total liabilities		<u>(368,211)</u>	<u>(342,618)</u>	<u>-</u>
Net assets		<u>348,287</u>	<u>353,552</u>	<u>-</u>
Capital and reserves				
Called up share capital	23	1	-	-
Share premium account		22,513	22,514	14,735
Capital contribution		96,320	96,320	96,320
Other reserves		174,083	174,083	174,083
Retained earnings		55,370	60,635	50,508
Total equity		<u>348,287</u>	<u>353,552</u>	<u>335,646</u>

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


Gerry Ford (Director)


Ben Price (Director)

Group Statement of Cash Flows

for the year ended 31 May 2020

	2020 £000	2019 £000
Operating activities		
Loss before taxation	(81,797)	(30,245)
<i>Adjustments to reconcile loss for the year to net cash flow from operating activities:</i>		
Finance costs and similar charges	46,238	26,332
Interest receivable and similar income	(251)	(12)
Unrealised profit or loss on foreign exchange	(240)	779
Movement in fair value of options	(2,602)	13,814
Depreciation of property, plant and equipment, right of use assets	86,257	24,595
Amortisation of intangible assets and lease premiums	3,879	3,716
Impairment of property, plant and equipment, intangibles, and right of use assets	36,120	1,392
Impairment of non-current receivables	91	
Disposal of property, plant and equipment, intangible assets and right of use assets	607	529
Share of profit of joint venture	1,337	623
	<u>89,639</u>	<u>41,523</u>
(Increase)/decrease in inventories	(979)	(490)
Increase/(decrease) in trade and other payables	(9,032)	2,674
Decrease in trade and other receivables	6,011	1,846
Increase in provisions	-	553
Net cash from operating activities	<u>85,639</u>	<u>46,106</u>
Investing activities		
Payments to acquire intangible fixed assets	(1,055)	(881)
Payments to acquire property, plant and equipment	(22,352)	(31,787)
Interest received	13	12
Acquisition of subsidiary	-	(21,153)
Cash acquired through acquisition of subsidiary	-	1,256
Net cash used in investing activities	<u>(23,394)</u>	<u>(52,553)</u>

Group Statement of Cash Flows

for the year ended 31 May 2020

Financing activities

New third-party long-term loans	21,727	18,710
Repayments of loans	(394)	-
Proceeds from PPP Loan	1,806	-
Interest paid	(15,446)	(16,203)
Loan issue costs and other bank fees paid	(525)	(1,753)
Issue of share capital	-	7,779
Loan advanced (to)/from parent	900	-
Payment of lease liabilities	(63,981)	-

Net cash used in financing activities

(55,913)	8,534
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Net decrease in cash and cash equivalents

6,332	2,087
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Cash and cash equivalents at 1 June

13,683	11,596
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Foreign exchange movements in cash

36	-
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Cash and cash equivalents at 31 May

20,051	13,683
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Company Statement of Cash Flows

for the year ended 31 May 2020

	2020 £000	2019 £000
Operating activities		
Profit/(Loss) before taxation	(5,265)	10,127
Finance costs and similar charges	24,017	5,691
Amortisation of loan issue costs	1,562	2,889
Interest receivable and similar income	(20,314)	(18,707)
Net cash flow from operating activities	-	-
Investing activities		
(Increase)/decrease in trade and other receivables	-	(334,038)
Increase/(decrease) in trade and other payables	(4,353)	8,414
Movement in investments	-	(7,779)
Net cash flow from investing activities	(4,353)	(333,403)
Financing activities		
Proceeds of issue of share capital	-	7,779
New third-party loans	18,500	334,038
Repayment of loans	-	(4,500)
Interest paid	(14,147)	(3,914)
Net cash flow from financing activities	4,353	333,403
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents at 1 June	-	-
Cash and cash equivalents at 31 May	-	-

Group Statement of Changes in Shareholders' Equity

for the year ended 31 May 2020

	<i>Called up share capital</i> £000	<i>Share premium account</i> £000	<i>Capital redemption reserve</i> £000	<i>Other reserves *</i> £000	<i>Foreign exchange translation reserve</i> £000	<i>Retained earnings</i> £000	<i>Non- controlling interest</i> £000	<i>Total</i> £000
At 1 June 2018	–	14,735	96,320	174,083	(3,085)	(348,197)	–	(66,144)
Cumulative adjustment to opening balances from application of IFRS 15	–	–	–	–	–	(284)	–	(284)
Cumulative adjustment to opening balances from application of IFRS 9	–	–	–	–	–	(398)	–	(398)
Share capital issued	–	7,779	–	–	–	–	–	7,779
NCI on acquisition	–	–	–	–	–	–	10,878	10,878
Loss for the year	–	–	–	–	–	(27,312)	(3,388)	(30,700)
Other comprehensive loss	–	–	–	–	(779)	–	–	(779)
Total comprehensive loss	–	–	–	–	(779)	(27,312)	(3,388)	(31,479)
At 31 May 2019	–	22,514	96,320	174,083	(3,864)	(376,191)	7,490	(79,648)
Cumulative adjustment to opening balances from application of IFRS 16 (note 27)	–	–	–	–	–	(437)	–	(437)
Reclassification	1	(1)	–	–	–	–	–	–
Loss for the year	–	–	–	–	–	(80,968)	157	(80,811)
Other comprehensive income	–	–	–	–	106	–	–	106
Total comprehensive loss	–	–	–	–	106	(80,968)	157	(80,705)
At 31 May 2020	1	22,513	96,320	174,083	(3,758)	(457,596)	7,647	(160,790)

*Other reserves – the nature and purpose of this reserve is to record the release of deep discounted bonds which occurred in prior years

Company Statement of Changes in Shareholders' Equity

for the year ended 31 May 2020

	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Capital contribution £000</i>	<i>Other reserves* £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At 1 June 2018	—	14,735	96,320	174,083	50,508	335,646
Share capital issued	—	7,779	—	—	—	7,779
Loss for the year	—	—	—	—	10,127	10,127
Other comprehensive income	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	10,127	10,127
At 31 May 2019	—	22,514	96,320	174,083	60,635	353,552
Loss for the year	—	—	—	—	(5,265)	(5,265)
Reclassification	1	(1)	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	(5,265)	(5,265)
At 31 May 2020	1	22,513	96,320	174,083	55,370	348,287

*Other reserves – the nature and purpose of this reserve is to record the release of deep discounted bonds which occurred in prior years

Notes to the financial statements

at 31 May 2020

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 27 May 2021. The Nero Group Ltd is a private limited Group incorporated and domiciled in England and Wales.

The Group and Company financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future. The directors have prepared detailed forecasts and cash flow projection models to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario whereby sales steadily return to normal pre-Covid 19 levels.

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

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

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

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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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

Basis of preparation

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

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 loss for the year was £5,265k (2019 - £10,127k).

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

New standards and interpretations not yet adopted

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

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

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future years except for 'Covid-19 related rent concessions.' The directors are currently assessing the impact of this. At the date of this report, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed review has been completed.

Changes in accounting policies

With the exception of introducing a policy on government grants and the implementation of IFRS 16 'Leases', the same accounting policies, presentation and methods of computation are followed in these financial statements.

New standards effective for the current financial year

IFRS 16 'Leases'

This standard became effective for accounting periods beginning on or after 1 January 2019 and was applicable to the Group for the year beginning 1 June 2019, replacing IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

The Group has applied IFRS 16 using the modified retrospective approach, under which any cumulative effect of initial application is recognised in retained earnings at 1 June 2019. Comparative information has not, therefore, been restated and is reported under previous accounting policies. Details of the impact of the application of IFRS 16 can be found in note 27.

IFRS 16 specifies how leases are recognised, measured and disclosed.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

The Group has elected to apply the practical expedient in respect of the assessment of transactions as leases. Contracts not previously assessed as leases under IAS 17 were not reassessed.

The Group as a lessee

Prior to the application of IFRS 16, the Group's property and equipment portfolio were classified as operating leases. Under IFRS 16 right-of-use assets and lease liabilities are recognised in the Statement of Financial Position.

At transition, lease liabilities were measured at the present value of remaining lease payments, discounted at incremental borrowing rates which ranged between 0.791 and 0.950 at 1 June 2019. Incremental borrowing rates were calculated based upon risk free UK government bond rates adjusted for the average remaining lease term of each lease portfolio and Group specific adjustments. Lease liabilities are re-measured when the Group changes its assessment of whether it will exercise a termination or extension option. Right-of-use assets are initially measured at cost comprising the initial measure of the lease liability plus any direct costs less any lease incentives. Subsequently, right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

The Group as a lessee

The following practical expedients were used when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- a single discount rate is applied to portfolios of leases with similar properties
- the exemptions not to recognise right-of-use assets and liabilities for leases with a low-value underlying asset or a lease term of less than 12 months was applied
- initial direct acquisition costs were excluded from measurement of the right-of-use asset at the date of initial application
- hindsight was used in determining the lease term

The Group as a lessor

The Group is not required to make any adjustments on transition to IFRS 16

Operating leases in 2019

Rent paid in respect of operating leases are charged in the profit and loss account on a straight line basis over the term of the lease.

IFRIC 23 'Uncertainty over Income Tax treatments'

There has been no material impact on the financial statements as a result of IFRIC 23 'Uncertainty over Income Tax Treatments'. No 2019 amounts have been restated as a result of this standard becoming effective nor have the current year figures changed as a result of its 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.

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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

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

Legal claims and contingency liabilities

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and

liabilities within the next financial year, are described below. The 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 18). 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 2020, the estimated liability for unredeemed points was approximately £1.7m (2019 – £1.2m), which is presented within deferred income (in current liabilities) in note 18.

Fixed asset useful lives

An annual review of the fixed asset register to ensure residual values, useful lives and depreciation methodologies are appropriate requires management to use reasonable judgements. These judgements can have a material impact on how the capital cost of equipment is expensed to the income statement and therefore on the results of the business. Further details on property plan and equipment are provided in note 11.

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.

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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the group and its subsidiaries at 31 May 2020. 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 investee)
- 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 of an investee, the group considers all relevant facts and circumstances 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 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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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 13. 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 2020

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.

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 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.

Financial assets

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

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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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

Subsequent measurement

Financial assets at amortised cost - Loans and receivables

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

The Company's financial assets at amortised cost 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.

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 previously 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.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

- 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, and derivative financial instruments.

Subsequent measurement

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

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities at fair value through profit or loss (continued)

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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.

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 first in first out basis of inventory valuation.

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.

Leases

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.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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.

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.

Notes to the financial statements

at 31 May 2020

1. Accounting policies (continued)

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 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.

Operating segments

For management purposes, the group is organised into one business unit and has one reportable operating segment which covers the sale of coffee and food items at all its stores in the United Kingdom. Senior management monitors the operating results of its business unit for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

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

Notes to the financial statements

at 31 May 2020

2. Revenue

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

All of the revenue is derived in the United Kingdom.

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

	2020 £000	2019 £000
Store sales	310,298	321,482
Customer loyalty programme	12,140	12,886
Royalty fees	1,241	1,242
Management and handling fee income	421	442
E-commerce sales	380	-
Total revenue from contracts with customers	324,480	336,052

All revenue from contracts with customers is recognised on transfer of goods and services at a point in time. The performance obligations for each revenue stream are explained in the accounting policies in note 1. Trade receivables and contract liabilities arising from revenue are included in notes 16 and 18 respectively.

A portion of the Group's revenue is derived from fully controlled subsidiaries operating in Turkey, USA and Sweden. The Group also derives revenue from sales of coffee to the Group's joint venture in Poland and revenue from franchisees operating in other international territories.

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

	2020 £000	2019 £000
UK and Ireland	291,228	329,839
Turkey	13,526	16,364
USA	16,361	17,162
Sweden	1,816	282
Poland	70	578
Oman	60	61
Croatia	70	92
UAE	767	864
France	31	6
Cyprus	552	804
	324,480	366,052

Notes to the financial statements

at 31 May 2020

3. Operating Profit

Operating profit is stated after charging/(crediting):

	2020 £000	2019 £000
Auditor's remuneration– audit of group financial statements	171	135
– audit of financial statements of subsidiaries	129	101
– tax compliance and advisory	79	91
Costs relating directly to opening new sites	220	490
Acquisition costs – transaction costs relating to acquisition	-	1,230
– transaction costs relating to loan novation	-	376
Exceptional charges – impairment of right of use assets ¹	10,975	-
– impairment of property, plant and equipment	24,810	-
– impairment of intangibles and other fixed assets	426	-
Government grants	(15,281)	-
Depreciation of property, plant and equipment	25,056	24,451
Movement in fair value of share options	(2,602)	13,814
Amortisation of intangible assets	3,813	3,716
Amortisation of lease premiums	108	143
Depreciation of right of use assets ¹	61,201	-
Loss on disposal of property, plant and equipment and right of use assets	608	529
Finance charges payable on lease liabilities ¹	18,080	-
Movement in provision for onerous leases ¹	-	-
Operating lease rentals – land and buildings ¹	-	65,446

¹ The Company has applied IFRS 16 using the modified retrospective approach therefore comparatives have not been restated. Further information on the initial application of this standard can be found in note 27.

3.1 Government grants and assistance

During the year 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

Amounts received and receivable during the year are disclosed below:

	2020 £000
Grant income in respect of CJRS included in cost of sales	13,068
Grant income in respect of CJRS included in administrative expenses	1,095
Grant income in respect of RHLGF included in administrative expenses	800
Grant income in respect of TWSS included in cost of sales	219
Grant income in respect of the US Paycheck Protection Programme	99

Notes to the financial statements

at 31 May 2020

3. Operating Profit (continued)

3.1 Government grants and assistance (continued)

At 31 May 2020, receivables in respect of the CJRS of £3.0m were included in prepayments and other debtors. Payables of £0.1m in respect of TWSS overpayments are included within other payables.

During the year the Group also recognised grant income from the US Government of £99k in respect of the Paycheck Protection Programme (PPP).

On 16 April 2020, the Group received a loan in the amount of £1.8m to fund payroll, rent, utilities and existing debt through the PPP. The PPP loan bears interest at a fixed rate of 1% per annum, has a term of 2 years, and is unsecured and guaranteed by the US Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Group fails to apply for forgiveness within 10 months after the period covered, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the programme.

The Group recognised £99k of other income which represents the portion of the PPP loan funds for which forgiveness is probable. The Group has not fulfilled PPP forgiveness requirements in the amount of \$2.1m (£1.7m) and this amount is classified as other current financial liabilities.

3.2 Reconciliation to Brand EBITDA

	2020 £000	2019 £000
Loss before taxation	(81,797)	(30,245)
Interest receivable	(251)	(12)
Finance costs	46,238	26,539
Depreciation and amortisation	90,178	28,310
Unadjusted EBITDA	54,368	24,592
Rent expense under IAS 17 ¹	(77,415)	-
Foreign exchange differences ²	(1,807)	315
Movement in fair value of derivatives ³	(2,602)	13,814
Impairment ⁴	36,211	-
Gain/loss on disposal ⁵	608	529
Bank, monitoring and acquisition fees ⁶	226	1,779
Share of loss before tax of joint ventures ⁷	1,337	623
Caffe Nero Poland ⁸	113	970
Royalties and group overheads ⁹	2,391	1,311
Brand Total EBITDA	13,430	43,933

¹ Rent under pre-IFRS 16 is added back to align with how management view EBITDA

²⁻⁵ These items are all excluded from Brand EBITDA as they are non-cash and non-operational items

⁶ Excluded from Brand EBITDA as non-operational

⁷⁻⁸ 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

Notes to the financial statements

at 31 May 2020

4. Directors' remuneration

	2020	2019
	£000	£000
Amount paid in respect of qualifying services	-	-
Aggregate directors' remuneration	750	986
Aggregate directors' pension scheme contributions	5	20

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 £0.8m (2019 – £1.0m) 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 £459k and pension contributions of £1k.

Directors of other Group companies also remunerated by Nero Holdings Limited were paid £0.3m for their services.

At the year end, the Group owed one of the directors, G W Ford £162k (2019 - £150k) in respect of business use of a personal car and £303k in respect of pensions (2019 - £280k).

At the year end, the Group owed a director's loan of £1.3m. The loan relates to funds extended by G W Ford, a director and the ultimate controlling party.

Subsequent to the year end, in August 2020, this loan was assigned to The Nero Company which is now the beneficiary of the loan.

5. Staff costs

	2020	2019
	£000	£000
Wages and salaries ¹	100,560	102,346
Social security costs	8,519	7,229
Other pension costs	256	18
	<u>109,335</u>	<u>109,593</u>

¹ Staff costs reported above are after the deduction of government grants received in respect of these costs of £14.48m.

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	6,549	5,241
Administration	1,006	979
	<u>7,555</u>	<u>6,220</u>

Notes to the financial statements

at 31 May 2020

6. Interest received and similar income

	2020	2019
	£000	£000
Bank interest received	8	12
Movement in fair value of currency contracts	238	-
Interest received from related parties	5	-
	<u>251</u>	<u>12</u>

7. Finance costs and similar charges

	2020	2019
	£000	£000
Senior debt interest	6,394	5,670
Mezzanine debt interest	7,843	9,945
Mezzanine debt interest (rolled up)	9,992	7,104
Amortisation of loan issue costs	1,637	2,889
Finance charges on lease liabilities (note.27)	18,080	-
Movement in fair value of interest rate swap	795	15
Other interest payable	1,068	813
Unwinding of discount on deferred consideration	429	-
Movement in fair value of currency options	-	103
	<u>46,238</u>	<u>26,539</u>

8. Income tax

Other taxation, excluding corporation tax

The Group has paid a total tax bill of £62.3m in the UK this year. This is made up of VAT, employment taxes (including PAYE and apprenticeship levy) and business tax rates, representing 22% of total UK sales of £81k per store (2019 - £102k per store). Corporate tax affairs are evaluated at this group level.

Corporation tax

The Group generated a loss before taxation of £81.8m, this was primarily because there was significant business interruption due to the Covid-19 pandemic. The Group also incurs significant finance charges. Interest due to third party banks is charged at an arm's length basis. The Group has no interest due to shareholders or related parties, only to third party banks. Therefore only this interest due to third party banks is included in its corporation tax computations. The Group's UK tax computations do not contain any overseas profits or losses, just UK results.

Notes to the financial statements

at 31 May 2020

8. Income tax (continued)

	2020 £000	2019 £000
Current tax:		
Current tax on profits for the year	169	379
Adjustments in respect of prior years	43	(3)
Total current tax	212	376
Deferred tax:		
Current year	(1,381)	79
Adjustment in respect of previous periods	(241)	-
Effects of changes in tax rates	424	-
Total deferred tax	(1,198)	79
Tax per income statement	(986)	455

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 19.00% (2019 - 19.00%). The differences are explained below:

	2020 £000	2019 £000
Loss on ordinary activities before tax	(81,797)	(30,245)
Loss on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 19.00% (2019 - 19.00%)	(15,541)	(5,746)
Effects of		
Adjustments in respect of prior years	(198)	(3)
Expenses not deductible for tax purposes	8,407	4,465
Income not taxable	(1,087)	-
Transfer pricing adjustments	6	-
Effects of tax rate changes	424	(9)
Effects of overseas tax rates	94	140
Recognition of deferred tax asset on provisions	(55)	-
Amounts not recognised	6,966	1,363
Deferred tax only adjustment	-	-
Depreciation and loss on disposal of fixed assets	-	245
Round	(2)	-
Tax charge for the year	(986)	455

Notes to the financial statements

at 31 May 2020

8. Income tax (continued)

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

	2020	2020	2019	2019
	Recognised	Not	Recognised	Not
	£000	recognised	£000	recognised
		£000		£000
Temporary non trading differences	-	(3,440)	-	-
Temporary trading differences	(45)	(592)	-	397
Fixed assets	4,139	(3,338)	4,020	2,740
Tax losses	(1,303)	(5,746)	-	5,055
Other	51	(18)	-	-
Deferred tax liability	2,842	(13,134)	4,020	8,192

	2020	2019
	Recognised	Recognised
	£000	£000
Provision at start of period	4,020	-
Adjustments in respect of prior periods	(241)	-
Losses	(957)	-
In respect of acquisitions	-	4,020
Other	20	-
Deferred tax liability	2,842	4,020

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.

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

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

9. Results attributable to members of parent undertaking

The post-tax loss attributable to the company for the year was £5.3m (2019 – profit £10.1m).

Notes to the financial statements

at 31 May 2020

10. Cash and cash equivalents

	Group 2020 £000	Company 2020 £000	Group 2019 £000	Company 2019 £000
Cash and cash equivalents	20,051	-	13,683	-

11. Property, plant and equipment

Group	Leasehold improvements £000	Furniture, fittings and equipment £000	Assets under construction £000	Total £000
Cost:				
At 1 June 2019	202,959	103,768	1,000	307,727
Additions	12,173	10,179	-	22,352
Disposals	(817)	(714)	(185)	(1,716)
Transfers	777	-	(777)	-
Effect of translation to presentational currency	(346)	1,801	-	1,454
At 31 May 2020	214,746	115,033	38	329,817
Depreciation and impairment:				
At 1 June 2019	119,985	75,550	-	195,535
Provided during the year	13,770	11,286	-	25,056
Disposals	(532)	(230)	-	(762)
Impairment	24,810	-	-	24,810
Effect of translation to presentational currency	(280)	310	-	30
At 31 May 2020	157,753	86,916	-	244,669
Net book value:				
At 31 May 2020	56,993	28,117	38	85,148
At 1 June 2019	82,974	28,218	1,000	112,192

Asset written down to nil net book value but with a gross cost of £67.8 (2019 – £47.6m) are still in use by the company at 31 May 2020.

The significant trading disruption in the period due to the COVID-19 pandemic is judged to be an indicator of potential impairment of assets and as such the directors have chosen to assess all assets for impairment in accordance with IAS 36.

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

Notes to the financial statements

at 31 May 2020

11. Property, plant and equipment (continued)

For the current period, value in use estimates have been prepared on the basis of the 'base case' forecast described in note 1 under 'Going concern'.

In this base case forecast, it is assumed that trading performance will gradually return to a pre-Covid level over the period from June 2021 to May 2022 and then grow at a terminal growth rate of 3%.

Discount rates as used in the value in use calculations are estimated with reference to the wider Caffè Nero Group's weighted average cost of capital. For 2020, a discount rate of 8.6% has been applied to discount future cash flow projections (2019 - 8.6%).

Impairment has been recorded in a number of cash generating units, reflecting weaker trading following the Covid-19 pandemic. A charge of £24.8m was recorded against Property, Plant & Equipment ('PPE') and a further £11.0m against right-of-use assets (see note 12).

12. Right-of-use assets and lease liabilities

	£000
Right-of-use assets at 1 June 2019	346,547
Additions	14,279
Disposals	(808)
Depreciation	(61,201)
Re-measurements	(121,929)
Impairments	(10,975)
Right-of-use assets at 31 May 2020	<u>165,913</u>
	£000
Lease liabilities at 1 June 2019	347,910
Additions	14,279
Liabilities extinguished on disposals	(1,241)
Finance charges	18,080
Cash payments made	(63,981)
Remeasurements	(128,010)
Lease liabilities at 31 May 2020	<u>187,037</u>

Within the lease liabilities at 31 May 2020, £69.2m is presented as current.

The Group previously classified as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases:

- 'Right of use assets' are classified as 'Property, plant and equipment'. Depreciation and impairment are similar to measurement of owned assets; and
- 'Lease liabilities' are classified under current and non-current loans and borrowings. Interest is recognised as finance costs in the Statement of Comprehensive Income.

Notes to the financial statements

at 31 May 2020

13. Intangible assets

Group

	Software £000	Brand £000	Goodwill £000	Trademarks £000	Total £000
Cost:					
At 1 June 2019	5,623	83,509	181,288	247	270,667
Additions	1,055	-	-	-	1,055
Disposals	(308)	-	-	-	(308)
At 31 May 2020	6,370	83,509	181,288	247	271,414
Amortisation and impairment:					
At 1 June 2019	3,915	37,167	20,300	-	61,382
Charge for the year	771	3,000	-	-	3,771
Disposals	(222)	-	-	-	(222)
Impairments	335	-	-	-	335
At 31 May 2020	4,799	40,167	20,300	-	65,266
Net book value:					
At 31 May 2020	1,571	43,342	160,988	247	206,148
At 1 June 2019	1,708	46,342	160,988	247	209,285

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.
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.

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.

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 no impairment has been recorded in the current year. The model uses the following key assumptions:

Notes to the financial statements

at 31 May 2020

13. Intangible assets (continued)

Discount rate

A post-tax discount rate of 8.6% has been used (2019 – 8.6%). 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% (2019 – 2.5%). The growth rate is consistent with historic performance and expected future market conditions. 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 rate of 3% (2019 – 2.5%) has been used to calculate expected cash flows of Italian Coffee Holdings Ltd after 5 years. This assumption is consistent with the long-term growth projections for the industry.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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.

An increase in discount rate of 1% does not give rise to any impairment and a 10% decrease in terminal year EBITDA also does not give rise to any impairment.

Notes to the financial statements

at 31 May 2020

14. Non-current asset investments

	<i>Investment in joint ventures</i>	
	2020	2019
	£000	£000
<i>Group</i>		
Cost:		
At 1 June	6,030	6,653
Share of loss for the year	(1,337)	(623)
Contributions in the year	169	-
At 31 May	<u>4,862</u>	<u>6,030</u>
		<i>Investments in subsidiary undertakings</i>
		£000
<i>Company</i>		
As at 31 May 2020		<u>454,442</u>
As at 31 May 2019		<u>454,442</u>

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. Caffè Nero Ventures Limited acts as the management company of the Group's overseas subsidiaries Caffè Nero Gida Urunleri AS, Caffè Nero Americas Inc, CN Sweden AB, joint venture 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%. The company is accounting 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.

The group has a call option to acquire the remaining 10% 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.

Notes to the financial statements

at 31 May 2020

14. Non-current asset investments (continued)

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 21). On initial recognition, the options had a fair value of £0.29m and £0.45m respectively. The fair value of the options decreased in the year by £0.01m (2019 - increase of £0.8m), 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 2020 are as follows:

	2020 £000	2019 £000
<i>Share of the joint venture's balance sheet:</i>		
Non-current assets	6,301	7,047
Current assets	1,416	1,259
Share of gross assets	7,717	8,306
Current liabilities	(3,864)	(2,893)
Non-current liabilities	(2,306)	(2,589)
Share of gross liabilities	(6,170)	(5,483)
Share of net assets	1,547	2,823
<i>Share of the joint venture's results:</i>		
Revenue	15,991	18,320
Cost of sales	(10,974)	(12,123)
Administrative expenses	(6,527)	(6,691)
Finance costs	(135)	(129)
(Loss)/ profit before tax	(1,645)	(623)
Tax charge	308	-
(Loss) / profit for the year	(1,337)	(623)

Details of group undertakings

All investments are held by subsidiary undertakings apart from a directly held investment in Rome Bidco 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
<i>Directly held subsidiaries</i>		
Rome PIK Holdco Ltd ⁽¹⁾	100%	Holding

Notes to the financial statements

at 31 May 2020

14. Non-current asset investments (continued)

Details of group undertakings

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:

Indirectly held subsidiaries

Caffè 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 ⁽³⁾ (Incorporated in the United States)	100%	Holding
Caffè Nero Asia Ltd (HK) ⁽⁸⁾		
Nero Coffee Roasting Limited ⁽¹⁾	100%	Coffee Roasting
Caffè Nero Ireland Limited ⁽²⁾ (Incorporated in the Republic of Ireland)	100%	Coffee retail
Caffè Nero Gıda Ürünleri AS ⁽⁴⁾ (Incorporated in Turkey)		
CN Sweden AB (incorporated in Sweden) ⁽⁵⁾	100%	Coffee retail
Storm Equity Co Ltd ⁽¹⁾	65%	Coffee retail
Storm Holdco Ltd ⁽¹⁾	43.5%	Coffee retail
Storm Finance Co Ltd ⁽¹⁾	43.5%	Coffee retail
Coffee #1 Ltd ⁽¹⁾	43.5%	Coffee retail

Joint ventures

Green Coffee Sp Z.o.o. ⁽⁶⁾ (Incorporated in Poland)	90%	Coffee retail
Muffia Sp. Zo.o Sp.k ⁽⁷⁾ (Incorporated in Poland)	30%	Food production

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: Adolf Fredriks Kyrogata 15, 111 37 Stockholm, Sweden

⁽⁶⁾ Registered address for subsidiary is: Al. Jana Pawła II 29, 00-867 Warszawa, NIP: 5262590815

⁽⁷⁾ Registered address for subsidiary is: Ul. Burakowska 11, 01-066 Warszawa, NIP 5272495260

⁽⁸⁾ Registered address for subsidiary is: 6/F Emperor Commercial Centre, 39 Des Voeux Road Central, Central Hong Kong

Notes to the financial statements

at 31 May 2020

15. Lease premiums

	<i>Lease premiums £000</i>
Cost:	
At 1 June 2019	5,273
Additions	-
At 31 May 2020	<u>5,273</u>
Amortisation:	
At 1 June 2019	4,904
Charge for the year	108
At 31 May 2020	<u>5,012</u>
Net book value:	
At 31 May 2020	<u>261</u>
At 1 June 2019	<u>369</u>

	<i>Lease premiums £000</i>
The net book value at 31 May 2020 is split as follows:	
Non-current assets	<u>153</u>
Current assets	<u>108</u>
The net book value at 31 May 2019 is split as follows:	
Non-current assets	<u>226</u>
Current assets	<u>143</u>

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

16. Trade and other receivables

	<i>Group 2020 £000</i>	<i>Company 2020 £000</i>	<i>Group 2019 £000</i>	<i>Company 2019 £000</i>
<i>Non-current:</i>				
Other debtors	80	-	459	-
	<u>80</u>	<u>-</u>	<u>459</u>	<u>-</u>
<i>Current:</i>				
Amounts due from related party	1,895	-	1,653	-
Amounts due from group undertakings	-	262,056	1,321	241,728
Trade debtors	4,139	-	8,581	-
Prepayments and other debtors	8,966	-	13,804	-
Fair value of currency contract	309	-	71	-
	<u>15,309</u>	<u>262,056</u>	<u>25,430</u>	<u>241,728</u>

At 31 May 2020, receivables in respect of the CJRS of £2.9m (2019: Nil) were included in prepayments and other debtors.

Notes to the financial statements

at 31 May 2020

16. Trade and other receivables (continued)

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

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>< 30</i>	<i>30 – 60 days</i>	<i>> 60 days</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
2020	4,137	681	-	322	3,134
2019	8,581	4,758	454	71	3,298

17. Inventories

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2020</i>	<i>2020</i>	<i>2019</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Goods for resale	5,673	-	4,694	-

18. Trade and other payables

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2020</i>	<i>2020</i>	<i>2019</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Non-current:</i>				
Other payables	663	-	-	-
	663	-	-	-
<i>Current:</i>				
Trade payables	23,750	-	30,849	-
Amounts due to parent undertaking	1,800	-	900	-
Amounts due to subsidiary undertaking	-	8,124	-	12,799
Accruals and other creditors, including taxation and social security*	36,201	722	40,248	400
Directors' loan	1,300	-	1,300	-
Other amounts due to directors	465	-	430	-
Amounts due to related parties	414	-	306	-
Deferred income**	1,659	-	1,188	-
Corporation tax	118	-	275	-
Foreign tax	94	-	-	-
	65,801	8,846	75,496	13,199

Notes to the financial statements

at 31 May 2020

18. Trade and other payables (continued)

* Included within accruals and other creditors is a payable of £65k in respect of TWSS overpayments received. Included within taxation and social security is £6.9m of VAT which was deferred under the VAT Deferral Scheme offered by the Government which allowed all VAT payments due between March and June 2020 to be deferred to 2021. Payment plans were also agreed with HMRC under the 'Time to Pay' scheme to defer payment of £2.6m of PAYE and National Insurance to after the year end.

** Included within deferred income are contract liabilities of £1.7m (2019 - £1.2m) representing the transaction price allocated to loyalty points not yet redeemed. The increase in contract liabilities in the current year is due to the continuous increase in the Group's customer base and customer retention and the limited opportunity for customers to redeem points from April 2020 onwards due to COVID-19 lockdown restrictions.

18.1 Contract liabilities

	2020	2019
	£000	£000
At 1 June	1,188	853
IFRS 15 adjustment to opening balances	-	284
Deferred/released during the year	471	51
At 31 May	1,659	1,188

These amounts relate to the accrual and release of customer loyalty point transactions. As at 31 May 2020, the estimated liability for unredeemed points amounted to £1,659,000.

19. Provisions

	2020	2019
	£000	£000
At 1 June	1,203	650
Adjustment on transition to IFRS 16 ¹	(1,061)	-
Reclassifications	671	-
Provided during the year	2,618	553
Utilised during the year	-	-
At 31 May	3,431	1,203

¹ Due to the transition to IFRS 16, the liabilities for all leases, including those that are onerous, are included in lease liabilities on the Statement of Financial Position. As part of the transition, onerous lease provisions were used to reduce the right of use asset as an impairment. As such, the onerous lease provision at 31 May 2019 of £1.1m no longer exists. In the prior year, onerous lease provisions were recognised, representing the onerous element of expenditure over the life of onerous lease contracts. In 2019, onerous lease provisions resulted in a charge of £553k. Further information on the application of IFRS 16 can be found in note 27. Provisions for dilapidations were also reclassified from accruals and other creditors in the current year.

Notes to the financial statements

at 31 May 2020

19. Provisions (continued)

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 based on the best estimate of the likely committed cash outflow. Provisions are based on assumptions concerning the timing of cash flows, dependent on the remaining term of the leases, which is up to 7.5 years.

20. Other financial liabilities

Group

At 31 May 2020

	Current £000	Non-current £000	Total £000
<i>Interest bearing loans and borrowings:</i>			
Term loan – Senior – £130m	-	130,000	130,000
Term loan – Revolver facility – £5m	-	5,000	5,000
Term loan – Capex facility – £13m	-	10,000	10,000
Mezzanine term loan	-	153,000	153,000
Rolled up interest – Mezzanine term loan	-	51,753	51,753
Storm senior term loan (Facility A and B)	984	9,872	10,856
Storm revolver facility	750	-	750
Unamortised loan fees	-	(717)	(717)
Loan to S.A Brains	-	1,547	1,547
Non-secured third-party loans*	6,487	8,369	14,856
C-19 Liquidity facility	10,500	-	10,500
PPP Loan**	1,707	-	1,707
	<u>20,429</u>	<u>368,824</u>	<u>389,253</u>

Amounts disclosed above are net of issue costs.

*On the non secured third party bank loans interest is charged at LIBOR + 1.5% and is payable on a monthly basis.

**The PPP loan outstanding at the year end represents the portion of the loan funds received from the US government for which the forgiveness requirements have not yet been fulfilled.

Notes to the financial statements

at 31 May 2020

20. Other financial liabilities (continued)

<i>At 31 May 2019</i>	<i>Current £000</i>	<i>Non-current £000</i>	<i>Total £000</i>
Interest bearing loans and borrowings:			
Term loan – Senior – £130m	–	130,000	130,000
Term loan – Revolver facility – £5m	–	–	–
Term loan – Capex facility – £13m	–	6,500	6,500
Mezzanine term loan	–	153,000	153,000
Rolled up interest – Mezzanine term loan	–	41,590	41,590
Storm senior term loan (Facility A and B)	394	10,856	11,250
Unamortised loan fees	–	(2,057)	(2,057)
Loan to S.A Brains	–	1,493	1,493
Non-secured third-party loans*	3,943	8,837	12,780
Total	<u>4,337</u>	<u>350,219</u>	<u>354,556</u>

Amounts disclosed above are net of issue costs.

Company

<i>At 31 May 2020</i>	<i>Current £000</i>	<i>Non-current £000</i>	<i>Total 2020 £000</i>
Interest bearing loans and borrowings:	10,000	349,365	359,365
	<u>10,000</u>	<u>349,365</u>	<u>359,365</u>

<i>At 31 May 2019</i>	<i>Restated Current £000</i>	<i>Restated Non-current £000</i>	<i>Total 2019 £000</i>
Interest bearing loans and borrowings:	–	329,419	329,419
	<u>–</u>	<u>329,419</u>	<u>329,419</u>

During FY19, 'Other financial liabilities' of £329,419k entered during the year were incorrectly presented as current in the Company statement of financial position. Presentation has been corrected in the comparative financial information for FY20. There is no impact on net assets, total liabilities or the balance sheet at 1 June 2018.

Notes to the financial statements

at 31 May 2020

20. Other financial liabilities (continued)

Loan facilities and repayment dates

	£000	£000
	2020	2019
Senior (Interest charged at LIBOR* + 3.0% margin)		
30 September 2022	130,000	130,000
Mezzanine (Interest charged at LIBOR* + 4.25% cash margin + 4.75% PIK margin**)		
30 September 2023	182,500	182,500
Revolving credit facility (Interest charged at LIBOR* + 3.0% margin)		
30 September 2022	5,000	-
Capex facility (Interest charged at LIBOR* + 3.0% margin)		
30 September 2022	10,000	6,500
C-19 liquidity facility A (Interest charged at LIBOR* + 4.5% margin)		
31 May 2021	5,694	-
C-19 liquidity facility B (Interest charged at LIBOR* + 4.5% margin)		
31 May 2021	4,306	-
Storm C-19 liquidity facility (Interest charged at LIBOR* + 4.5% margin)		
31 May 2021	500	-
Storm Senior Facility A (Interest charged at LIBOR* + 3.25% margin)		
28 February 2023	3,938	-
Storm Senior Facility B (Interest charged at LIBOR* + 3.75% margin)		
31 August 2023	7,313	-
Storm Revolving credit facility (Interest charged at LIBOR* + 3.0% margin)		
28 February 2023	750	-

* where LIBOR means the British Bankers Association Interest Settlement Rate for Sterling.

**4.25% of the interest payable is settled by cash, 4.75% is rolled up into the carrying value of the loan.

In order to hedge exposure to interest rate risk, the group entered into interest rate swaps to fix £185.0m of the term loans (excluding Storm) over a period of 15 months to May 2021. Further interest rate swaps were entered into to fix £7.5m of the Storm term loans for the period to February 2022. The loans are secured by a floating charge on the assets of the group. All loan repayments are to be made in the same currency in which the loan principal is denominated.

Notes to the financial statements

at 31 May 2020

21. Deferred consideration

	£000
At 1 June 2019	3,815
Unwinding of discount	429
At 31 May 2020	<u>4,244</u>

Deferred consideration relates to the acquisition of Coffee #1 Limited in the prior year on 6 February 2019. It is contingent on the exercise of options held by certain subsidiaries and the previous owner, S.A. Brains, respectively. Under the terms of the agreement, the options are exercisable at both the earliest of 42 months and 54 months from the date of acquisition based on certain multiples of EBITDA, 8x and 9x respectively. The options are held within Storm Equity Co Ltd, a member of the wider Caffè Nero Group.

At 31 May 2020, the key performance indicators of Coffee #1 Limited show that in the 9 months to February 2020, the Company achieved like for like sales which fell just below the targeted range. Against the ongoing uncertainty of Brexit at the time and the general challenges faced by the retail industry, the directors consider that, in the context of the overall market, this was a solid result. The Groups forecasts assume a gradual return to normal trading over the period from June 2021 to May 2022 and based on this it is highly probable that the 42 or 54 month target will be achieved due to continued strong store sales and the synergies realised.

As such, the Directors consider that there is significant certainty that the deferred consideration will become payable no later than the 42 or 54 month target from the date of acquisition and have therefore included the deferred payment in the total purchase consideration. The latest date on which the options are expected to be exercised is 6 July 2023. The deferred consideration has been discounted to its present value at the date of acquisition.

22. Financial instruments

The Company and Group's principal financial instruments comprise cash, joint venture investments, trade debtors, bank, group balances, derivatives, other debtors, trade creditors, interest bearing loans, amounts due to / from other group companies and investments in subsidiaries in respect of the parent company. Cash and cash equivalents are considered to be cash at bank, cash on short term money market deposits and cash at hand. The main purpose of the interest-bearing loans is to raise finance for the group's operations and acquisitions. It is, and has been throughout the period under review, the Group and Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group and Company's use of financial instruments are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing exposure to each of these risks and these policies are summarised below.

Notes to the financial statements

at 31 May 2020

22. Financial instruments (continued)

Interest rate risk

The group borrows in pound Sterling at floating rates of interest. Excess cash is placed on short term deposit for up to a week with Santander at variable money market rates. The group's policy is to keep approximately 63% 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.

Credit risk

The group monitors its exposure to credit risk through detailed checks on customers and regular review of outstanding receivables. The company mitigates its exposure 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 company reviews the financial performance of its investments on a regular basis. To date, all investments have had a strong year and are not exhibiting indicators of impairment. 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. Liquidity risk is managed through the maintenance of adequate cash reserves and bank facilities by monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities.

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 that 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 2020 and 31 May 2019 based on contractual undiscounted payments.

Notes to the financial statements

at 31 May 2020

22. Financial instruments (continued)

As at 31 May 2020

Group

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Trade and other payables	-	27,197	663	-	27,860
Mezzanine loan	-	-	153,000	-	153,000
RCF facility	-	-	5,000	-	5,000
Capex facility	-	-	10,000	-	10,000
Variable interest on capex loan	-	200	267	-	467
Variable interest on RCF loan	-	154	205	-	359
Rolled up interest on mezzanine loan	-	16,305	70,492	-	86,797
Variable interest on mezzanine loan	-	2,793	26,109	-	28,902
Senior loans	-	-	130,000	-	130,000
Variable interest on senior loans	-	4,024	5,369	-	9,393
C-19 liquidity facility	-	10,500	-	-	10,500
Variable interest on Covid loan A	-	277	-	-	277
Variable interest on Covid loan B	-	199	-	-	199
Storm term loan A	-	984	2,954	-	3,938
Storm term loan B	-	-	7,313	-	7,313
Storm revolving facility	-	750	-	-	750
Variable interest on Storm loan A	-	110	192	-	302
Variable interest on Storm loan B	-	279	628	-	907
Derivative (swap)	1,182	-	-	-	1,182
Put option	-	554	13,627	-	14,181
Non-secured third party bank loans	-	6,584	9,179	-	15,763
PPP Loan	-	1,724	-	-	1,724
Lease liabilities	-	71,698	115,002	19,319	206,019
Loans from S.A Brains	-	-	1,609	-	1,609
	1,182	144,332	551,609	19,319	716,442

Company

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Amounts due to subsidiary	-	8,124	-	-	8,124
Third party loans	-	34,452	247,442	-	281,894
	-	42,576	247,442	-	290,018

Notes to the financial statements

at 31 May 2020

22. Financial instruments (continued)

As at 31 May 2019

Group

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Trade and other payables	-	30,849	-	-	30,849
Mezzanine loan	-	-	153,000	-	153,000
RCF facility	-	-	-	-	-
Capex facility	-	-	6,500	-	6,500
Variable interest on capex loan	-	243	467	-	710
Variable interest on RCF loan	-	57	359	-	416
Rolled up interest on mezzanine loan	-	9,973	86,797	-	96,770
Variable interest on mezzanine loan	-	7,671	28,902	-	36,573
Senior loans	-	-	130,000	-	130,000
Variable interest on senior loans	-	4,868	9,393	-	14,261
C-19 liquidity facility	-	-	-	-	-
Variable interest on Covid loan A	-	-	-	-	-
Variable interest on Covid loan B	-	-	-	-	-
Storm term loan A	-	-	3,938	-	3,938
Storm term loan B	-	-	7,313	-	7,313
Storm revolving facility	-	-	-	-	-
Variable interest on Storm loan A	-	153	302	-	455
Variable interest on Storm loan B	-	248	907	-	1,155
Loan from parent	-	900	-	-	900
Derivative (swap)	316	-	-	-	316
Put option	-	26	14,512	-	14,538
Non-secured third party bank loans	-	3,961	9,235	-	13,196
Loans from S.A Brains	-	60	1,627	-	1,687
	316	59,009	453,252	-	512,577

Company

	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Amounts due to subsidiary	-	12,799	-	-	12,799
	-	12,799	-	-	12,799

Notes to the financial statements

at 31 May 2020

22. Financial instruments (continued)

The table below sets-out the interest rate risk profile. Interest rates on variable rate loans have been based on LIBOR at the relevant balance sheet date. The PIK notes and Mezzanine loans accrue rolled-up interest, which is not payable until the maturity of the loan under the terms of the finance agreements. The Mezzanine loan also has a cash interest payable element. Future interest on the PIK and Mezzanine 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.

Interest rate risk

Group

The floating rate financial liabilities bear interest at rates based on the percentages above LIBOR as set out in note 20.

Floating rate cash and deposits earn interest at rates linked to LIBOR. 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).

	<i>Increase / decrease in basis points</i>	<i>Effect on result before tax £000</i>
Floating rate loans		
2020	+100	222
	-100	(222)
2019	+100	(628)
	-100	628
Financial assets		
2020	+100	(14)
	-100	14
2019	+100	(627)
	-100	627

Notes to the financial statements

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22. Financial instruments (continued)

Fair values of financial assets and liabilities

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

	2020	2019
	£000	£000
Investments in joint ventures	4,862	6,030
Trade and other receivables	15,080	8,581
Cash at bank and in hand	20,051	13,683
Trade and other payables	(27,729)	(30,849)
Lease liabilities	(187,037)	-
Current portion of third party long term borrowings	(20,429)	(3,943)
Long term third party borrowings	(368,735)	(350,219)
Interest rate swap	(1,182)	(387)
Call options	4,399	2,154
Put options	(14,181)	(14,537)
Fair value of currency contracts	309	71

Interest rate swaps

The group's interest rate swaps have a duration of two 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 these interest rate swaps are recognised in the statement of comprehensive income when they become due and the interest rate swap is accounted for at fair value through the profit and loss. The overall fair value of its interest rate swaps decreased by £795k to a total liability of £1.18m (2019 – liability of £387k). The table below summarises the details of the new interest rate swap agreements:

The table below summarises the details of the new interest rate swap agreements:

	Principal amount £000	Termination Date	Interest rate %
Swap 1 (updated Santander swap agreement)	80,000	28 May 2021	0.775%
Swap 2 (new Santander swap agreement)	15,000	28 May 2021	0.730%
Swap 3 (updated Lloyds swap agreement)	50,000	28 May 2021	0.776%
Swap 4 (updated Rabobank swap agreement)	40,000	28 May 2021	0.769%
Swap 5 (new Lloyds storm swap agreement)	7,500	28 Feb 2022	0.842%
Total	192,500		0.778%

Notes to the financial statements

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22. Financial instruments (continued)

Put and call options

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

	2020 £000	2019 £000
<i>Non current assets</i>		
Fair value of call option	4,323	1,050
<i>Current assets</i>		
Fair value of call option	76	1,104
<i>Non current liabilities</i>		
Fair value of put option	13,627	14,512
<i>Current liabilities</i>		
Fair value of put option	554	26

The group has granted a put option (£554k) 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. The Group also has a call option (£76k) 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.

As part of the acquisition of Coffee #1 Limited in the year, the Group was granted call options by both S. A. Brains and MC (Cayman) Coffco Limited, to purchase their respective minority shareholdings in Coffee #1 Limited. The call options were granted at both the earliest time of exercise of 42 months and 54 months from the date of acquisition, 6 February 2019, based on certain multiples of EBITDA. Put options were also granted to each minority shareholder to sell their remaining shares under the same terms of exercise. The fair values of the call (£4.32m) and put options (£13.67m) are calculated using the Black Scholes pricing method. The put options have been recognised as a non-current financial liability and the call options have been recognised within non 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 16). The fair value attributable to the currency contracts increased by £238k in the year (2019 – decrease of £103k), the movement of which has been recognised in the Statement of Comprehensive Income.

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 and exchange rate swaps as level 2 financial instruments (2019 – 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 (2019 – level 3) financial instruments as their valuations are based on non-observable inputs. The most significant unobservable inputs are store rollout and like-for-like EBITDA development.

Notes to the financial statements

at 31 May 2020

22. Financial instruments (continued)

Borrowing facilities

The group has various borrowing facilities available. The undrawn committed facilities available at each relevant period or year-end were £19.7m (2019-£11m).

23. Authorised and issued share capital

	No.	2020 £	No.	2019 £
Allotted, called up and fully paid				
Ordinary shares of £1 each	1,040	<u>1,040</u>	1,040	<u>1,040</u>

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

24. Contingent liabilities

Group

At the year-end there were no contingent liabilities (2019 – £nil).

A subsidiary of the Group, Rome Bidco Limited, has guaranteed a loan of \$8.5m to its Turkish subsidiary, Caffè Nero Gıda Ürünleri AS. Rome Bidco Limited has also guaranteed a loan of \$3.2m (2019 – \$7.8m) to Caffè Nero Americas Inc., a subsidiary of the group.

25. Capital commitments

At 31 May 2020, capital commitments contracted but not provided for in the financial statements were £nil (2019 – £1.6 million). This is due to capital programs halting as a result of COVID-19.

26. Related party transactions

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

Group

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

	2020 £000	2019 £000
Amounts owed to Saratoga Limited	108	144
Amounts owed to Cheyson Partners	144	126
Amounts owed to Paladin Partners	162	36
Director's Loan	1,300	1,300
Amounts owed to G W Ford	465	430
Amounts due to S. A. Brains – non interest bearing	28	198
Amounts due to S. A. Brains – interest bearing	1,547	1,493

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

Notes to the financial statements

at 31 May 2020

26. Related party transactions (continued)

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 and Paladin Partners. At 31 May 2020, the amounts paid during the year were £36,000, £90,000 and £90,000 respectively (2019 – £108,000, £108,000 and £90,000 respectively).

As part of the acquisition of Coffee #1 Limited in the prior year, S. A. Brains, a minority shareholder of the Group and former controlling party of Coffee #1 Limited, granted an interest-bearing loan to Coffee #1, attracting interest at a rate of 4% per annum. The movement in the interest-bearing related party loan represents interest charged to the Statement of Comprehensive Income of £54k. S.A. Brains also remained the landlord of four Coffee#1 sites after the prior year acquisition. At the year end, £28k was outstanding to S.A Brains in relation to rent for these sites.

At the year end, the Group owed a director's loan of £1.3m. The loan relates to funds extended by G W Ford, a director and the ultimate controlling party. Subsequent to the year end, in August 2020, this loan was assigned to The Nero Company which is now the beneficiary of the loan.

At the year end, the Group owed one of the directors, G W Ford £162k (2019 - £150k) in respect of business use of a personal car and £303k in respect of pensions (2019 - £280k).

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

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2018 £000
Short-term employee benefits	1,222	986	–	–
Post-employment benefits	5	20	–	–
	<u>1,227</u>	<u>1,006</u>	<u>–</u>	<u>–</u>

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'.

27. Change in Accounting Policies

The Group has adopted IFRS 16 'Leases' on 1 June 2019. This new standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and supersedes the previous lease guidance including IAS 17 'Leases' and related interpretations.

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.

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 risk free UK government bond rates). Variable lease payments that do not depend on an index or a rate 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. Lease liabilities may be recalculated in some situations as stipulated by IFRS 16, including where the terms of a lease are modified. Such changes to the amount of

Notes to the financial statements

at 31 May 2020

27. Change in Accounting Policies (continued)

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.

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 Group's 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 Statement of Financial Position. Around 1,100 contracts were identified as leases affected by IFRS 16 on transition.

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.

Impact upon the Company's results and position

The implementation of IFRS 16 has had a substantial impact on the Group's financial captions and metrics, as below:

EBITDA	The removal of most rental costs and their replacements with depreciation and finance charges will result in substantially higher EBITDA
Depreciation	Depreciation will increase significantly to reflect that charged on right-of-use assets
Finance charges	Finance charges will increase significantly to include deemed interest costs on lease liabilities
Gross assets and liabilities	Gross assets and liabilities will both increase by comparable (but not identical) amounts

Transition from IAS 17 to IFRS 16

IFRS 16 provides a choice of two transition approaches, which are often termed 'full retrospective' and 'modified retrospective'.

The Group has chosen to apply the modified retrospective approach, with the effect that the Group's lease portfolio has been assessed and accounted for on transition under IFRS 16 but with the application of some practical expedients and without any restatement of comparative results, disclosures or balances.

Upon transition, the Group's lease liabilities have been measured based upon the remaining term and discounted based upon the Company's incremental borrowing rate on the date of implementation. IFRS 16 provides a choice between two methods in accounting for right-of-use assets on transition:

- Assets may be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; or
- Assets may be measured as if IFRS 16 had been applied since the beginning of each lease, applying however the transition date discount rate

The majority of right-of-use assets have been measured initially to match their corresponding liability.

Notes to the financial statements

at 31 May 2020

27. Change in Accounting Policies (continued)

The Group has taken into account the practical expedients included within IFRS 16, as detailed below:

- Reliance on the previous identification of a lease (as defined by IAS 17) for all contracts that existed at the date of initial application;
- Accounting for operating leases with a remaining lease term of less than 12 months as at the transition date as short-term leases excluded from the scope of IFRS 16 (rental payments associated with these leases are recognised in the income statement on a straight-line basis over the life of the lease); and
- Accounting for operating leases for low-value items as excluded from the scope of IFRS 16;

Financial position at 1 June 2019

The changes set out below were reflected in the Group's results and position on the transition date of 1 June 2019.

	31 May 2019 as Reported £000	IFRS 16 £000	1 June 2019 £000
Non-current assets			
Property, plant and equipment	112,192	-	112,192
Right of use assets	-	352,680	352,680
Intangible assets	209,285	-	209,285
Investment in joint ventures	6,030	-	6,030
Lease premiums	226	-	226
Other receivables	459	-	459
Fair value of Call Option	1,050	-	1,050
Current assets			
Trade and other receivables	25,430	(4,527)	20,903
Inventories	4,694	-	4,694
Lease premiums	143	-	143
Cash and cash equivalents	13,683	-	13,683
Fair value of Call Option	1,104	-	1,104
Total assets	374,296	348,153	722,449
Current liabilities			
Derivative financial instruments	(316)	-	(316)
Trade and other payables	(75,496)	3,982	(71,514)
Other financial liabilities	(4,337)	-	(4,337)
Fair value of put option	(26)	-	(26)
Lease liabilities < 1 year	-	(65,095)	(65,095)

Notes to the financial statements

at 31 May 2020

27. Change in Accounting Policies (continued)

Non-current liabilities

Other financial liabilities	(350,219)	-	(350,219)
Lease liabilities > 1 year	-	(288,538)	(288,538)
Fair value of Put option	(14,512)	-	(14,512)
Provision	(1,203)	1,061	(142)
Deferred tax liability	(4,020)	-	(4,020)
Deferred consideration	(3,815)	-	(3,815)
Total liabilities	(453,944)	(348,590)	(802,534)
Net liabilities	(79,648)	(437)	(80,086)

	31 May 2019 as Reported £000	IFRS 16 £000	1 June 2019 £000
Capital and reserves			
Called up share capital	-	-	-
Share premium account	22,514	-	22,514
Capital redemption reserve	96,320	-	96,320
Other reserves	174,083	-	174,083
NCI on acquisition	7,490	-	7,490
Exchange reserve	(3,864)	-	(3,864)
Retained earnings	(376,191)	(437)	(376,629)
Total equity	(79,648)	(437)	(80,086)

Balances that have been adjusted on transition are as follows:

Right-of-use assets	Newly recognised assets on transition
Prepayments	Prepaid rent balances are now included in right-of-use assets
Lease liabilities	Newly recognised lease liabilities
Trade and other payables	Accruals for unpaid rent, rent reviews and other lease-related items are now removed and incorporated into right-of-use assets
Provisions	The majority of onerous leases related to provisions for rent and are therefore replaced by lease liabilities

Impact on financial performance in the current year

The results used by management to monitor and review the performance of the Company continue to reflect the IAS 17 approach to accounting and a number of the key metrics used in this report are prepared on that basis.

Notes to the financial statements

at 31 May 2020

27. Change in Accounting Policies (continued)

A reconciliation is provided below of the key difference between results under IFRS 16 and the basis for management reporting.

	<i>Current period IAS 17</i>	<i>Adjustments for IFRS 16</i>	<i>Current period IFRS 16</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Revenue	324,480	-	324,480
Cost of sales	(275,266)	16,215	(259,051)
Gross Profit	49,214	16,215	65,429
Administrative expenses	(67,928)	1,635	(66,293)
Exceptional items	(25,236)	(10,975)	(36,211)
Operating Loss	(43,950)	6,874	(37,075)
Interest received and similar income	251	-	251
Finance costs and similar charges	(28,158)	(18,080)	(46,238)
Change in fair value of put and call options	2,602	-	2,602
Share of post tax loss of joint ventures	(1,337)	-	(1,337)
Loss before taxation	(70,591)	(11,206)	(81,797)
Income tax	986	-	986
Loss for the year	(69,605)	(11,206)	(80,811)
Other comprehensive income	106	-	106
Total comprehensive income	(69,499)	(11,206)	(80,705)

The 'Adjustments for IFRS 16' reported above can be seen in the below reconciliation of trading profit before tax from the IAS 17 basis to the IFRS 16 basis of accounting:

	<i>£'000</i>
Trading loss before tax under IAS 17	(70,591)
Removal of rent expenses under IAS 17	77,415
Net change in depreciation	(61,201)
Impairment charge	(10,975)
Interest charges on lease liabilities	(18,080)
Charge relating to disposals	433
Effect of translation to presentational currency	1,202
Trading loss before tax under IFRS 16	(81,797)

Obligations under leases in 2019 (prior to application of IFRS 16)

The Group has entered into commercial leases for property. Operating lease rental costs included within operating profit totalled £65.5m during the year ending 31 May 2019.

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at 31 May 2020

27. Change in Accounting Policies (continued)

The future minimum rentals payable under non-cancellable operating leases were as follows:

	2019 <i>Land and Buildings</i> £000
<i>Operating leases which expire</i>	
No later than one year	52,457
After 1 year but not more than 5 years	130,845
More than 5 years	46,038
	<u>229,340</u>

28. Subsequent events

Company Voluntary Arrangement ('CVA')

On 30 November 2020, the directors of the Group's main UK subsidiary, Nero Holdings Limited, proposed a Company Voluntary Arrangement (CVA) to its stakeholders and creditors. The CVA was approved by a strong majority of creditors (in excess of 92%). As part of the CVA, the rent arrears on 657 sites were compromised and as a consequence are not payable representing a savings of c. £20.2m. This will be reflected in the 2021 accounts.

Brexit

The impact of Brexit on the Group's business was an important consideration for the directors throughout the year especially given the uncertainty as to whether a deal would be agreed between the EU and UK. The directors were particularly concerned by the impact on the business, customers, employees and suppliers but ensured appropriate contingency plans were in place in the event of a no deal Brexit.

Since the end of the Brexit transition period from 1 January 2021, the financial impact on the business as whole is currently unclear however the Group has been able to effectively manage the changes to its supply chain and has been able to minimise business disruption.

Director's loan

In August 2020, the Directors' loan of £1.3m outstanding at the year was re-assigned to The Nero Company which is now the sole beneficiary of the loan.

29. Ultimate parent undertaking

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

Immediate parent undertaking	Rome Intermediate Holdings SARL ⁽¹⁾
Majority shareholder of The Nero Company	G W Ford ⁽²⁾

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

⁽¹⁾ Rome Intermediate Holdings SARL is a company incorporated in Luxembourg. Copies of the financial statements can be obtained from Avenue 46a JF Kennedy, Luxembourg, and L-1855.

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