The Nero Group Ltd

Report and Financial Statements

31 May 2021

Company Information

Registered No. 06002065

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Strategic Report

The directors present their Strategic Report, Directors' Report and financial statements for The Nero Group Ltd and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 May 2021.

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 principal market in which these brands operate 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 and Oman.

The Nero Group principally operates cafes in the territories mentioned above. In addition, Caffè Nero is now active in "non-bricks and mortar" channels, namely digital channels. Caffè Nero has substantially grown its delivery service in the U.K., USA, Sweden and Poland allowing customers to order its in-store product range, and have these orders delivered to their chosen location.

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

Business review

Impact of Covid 19

The Group entered the financial year at the height of the first wave of Covid 19, when there were considerable restrictions on trading in all stores in all territories operated by the Group. At the start of the year, many of the Group's stores were required to be closed. However, in the first quarter (June-August) most territories began to allow a small number of stores to reopen on a takeaway-only basis. Trading restrictions of varying degrees of severity were in effect for the whole of the year ended May 2021 (and indeed have continued into the following year). The results for the financial year under review, therefore, need to be read and understood in the context of this extensive restricted trading that was imposed on the Group

Immediately following the U.K. Government's imposed mandate to close all Group stores in the U.K. toward the end of the previous year (March 2020), the Group negotiated an emergency liquidity facility with its lenders in the UK (which was in place by the end of April 2020). Other adjustments were also made quickly. The UK directors took pay cuts of 35% from April 2020 onwards with other head office staff taking pay cuts of 10%-30%. These pay cuts remained in place for the whole of the year ended May 2021. Directors across the Group's territories also took pay cuts. Significant other costs were cut throughout the Group's business. Capital expenditure was restricted to emergency maintenance only such that the Group has not opened a new store since March 2020 that was not already in construction at that time. 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 the year were to protect the health and job security of its employees, to look after its customers and creditors and to preserve cash.

The severity of the crisis, the restrictions on trading and the consequent revenue shortfall meant that the mitigating actions taken were not sufficient to return the Group to profitability and a significant cash requirement, largely required to pay fixed U.K. 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. As part of the CVA, the rent arrears on 657 sites were compromised and as a consequence c.£20m rent savings has been made and this is reflected in these financial statements.

A full review of performance is included below within the trading overview section and in the KPI section of this report.

Strategic Report (continued)

CVA Transaction

Given the significant impact Covid-19 has had on the retail industry, the Company took action to introduce more flexibility into the cost base. On 30 November 2020, in excess of 92% of Caffè Nero creditors (by value) voted in favour of a proposed Company Voluntary Arrangement ("CVA"). The approval of the CVA has moved the majority of UK leases onto a turnover based model and reduced certain elements of the fixed cost base.

The overall objective of the CVA was to restore the Company's viability through a combination of the following:

i. compromising landlord arrears across the Company's leasehold portfolio to an estimated 30% of their value;
ii. moving the Category B leases to a variable rent model based on turnover levels for a period of three years;
iii. suspending minimum guaranteed payments contained in Category C leases for a period of three years; and
iv. reducing the rent payable on Category D leases (which comprise sites considered to be loss-making or not viable in the long term) to nil after the first month; and
v. compromising other non-critical creditors and intra-group creditors to an estimated 30% of the value of the relevant claims

The proposal classified the stores into one of nine categories. The B category has five subcategories, with each one having a different turnover percentage. The following table summarises the main changes for leases in categories A to C:

	Category A	Category B (split into B1-B5)	Category C (split into C1-C2)
CVA Term	36 months	36 months	36 months
Payment cycle	Monthly	Monthly	Monthly
Rent concession	n/a	% of site turnover paid monthly	Variable and fixed turnover %'s with minimum guarantee suspended
Rent arrears	Paid in full	Compromised in full	Compromised in full
Service charge and Insurance Arrears	Paid in full	Compromised in full	Compromised in full
Rent at the end of rent concession period	No change	Reverts to contractual rent	Reverts to contractual rent
Landlord termination right	As set out in the relevant lease	At any time within 90 days from the Effective Date on at least 30 days' prior written notice	At any time within 90 days from the Effective Date on at least 30 days' prior written notice
Dilapidations	No change	Unaffected, unless the relevant Landlord exercises its break right within 90 days from the Effective Date, in which case compromised in full	Unaffected, unless the relevant Landlord exercises its break right within 90 days from the Effective Date, in which case compromised in full

Strategic Report (continued)

The move to a turnover rent basis has had a material impact on the right of use asset and lease liability for all category B and C stores and will have a further impact on future financial periods throughout the term of the CVA. The Company recognised £3.1m net exceptional items in the statement of comprehensive income during the year (see note 3).

Trading overview

Revenue decreased by 36% to £206.5m (2020 - £324.5m) as a result of Covid-19 discussed above. Gross margin increased to 35% (2020 – 20%) and store profit in turn increased by 11% to £72.9m (2020 - £65.4m).

Pre-tax earnings and the operating result were severely impacted by COVID 19. Pre-tax earnings moved from a loss of £81.8m to a loss of £16.7m, and the operating result moved from a loss of £37.1m to a profit of £13.3m in the year. The partial recovery in profitability was driven by a combination of significant cost savings in every country (including the CVA in the UK) and from Government support designed to offset some of the impact of Covid restrictions. This included grants of £41.7m (2020 - £15.3m) and a temporary reduction in the standard rate of VAT from 20% to 5% for the hospitality industry in the UK resulting in increased cash margins on sales. The Group also benefitted from favourable movement in the fair value of options of £10.4m (2020 - £2.6m) and incurred exceptional costs of £24.7m (2020 - £36.2m), which were reduced by exceptional income of £21.5m (2020 - nil) - these are explained in further detail below.

The CVA resulted in rent across a portion of the Group's store portfolio moving to a turnover basis for a 3 year period from 30 November 2020. The affected leases have been remeasured and/or disposed of to reflect the change in future rental cash flows and/or reclassification from fixed rent to wholly variable leases. As a result, an exceptional gain on disposal of right of use assets and lease liabilities of £20m has been recognised in the year. In addition, due to the significant impact of Covid-19 on trade and the associated under-performance of stores, an £11.9m impairment of right of use assets and £6.5m impairment of property, plant and equipment were incurred. Other exceptional costs recognised in the year include £6.3m of professional advisory fees incurred to assist with the CVA and business restructure, offset by the release of £1.5m of other compromised creditors.

Brands, stores and products

Across the four brands (Caffè Nero, H+H, Coffee #1 and Aroma) the Group had in total 1,015 stores at the year end operating in 10 countries.

Caffè Nero, the largest of the Group's four brands, is a brand of high-quality Italian style coffee houses operating in ten countries, serving a range of premium hand-crafted espresso-based coffees and filter coffee as well as an array of pastries, baked goods, freshly made panini, sandwiches, salads, pastas, cakes and biscotti. Typically, Caffè Nero would expect to open 60-80 new sites worldwide in a year, but this expansion strategy was halted by the disruption and temporary closures forced by the onset of Covid-19 in March 2020. Hence, no new stores were opened during the financial year other than sites that were already committed to and in construction. Indeed, several stores were closed as a result of pandemic. At the year end, there were 874 Caffè Nero stores worldwide, 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 a profitable brand 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 no new stores during the financial year, such that its total number of stores remained stable at 100 at the year end.

Aroma is a brand of premium quality coffee for sale to third parties via licensing or wholesaling. There is one Aroma Limited store in the UK and one Aroma store in the USA. Both have been recently opened.

The Group has also moved into the CPG, "Coffee at Home", market during the year. This product range allows customers to order coffee on-line and have it delivered straight to their home. The range offers bags

Strategic Report (continued)

Brands, stores and products (continued)

of Caffe Nero's signature Classico blend as both whole bean and ground coffee, as well as six coffee products in Nespresso-compatible capsules. All the capsules are fully recyclable and the six-capsule range includes the signature Classico blend, several single-origin coffees and decaffeinated coffee. This range is available in store, on the Group's own App and website and through third party retailers.

Key performance indicators

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

Like for like sales

The Group defines like for like sales as the growth in sales of stores open for more than 12 months compared to the previous year. The Group usually targets an annual range of 3-5% growth in worldwide like for like sales. Following the forced temporary store closures and ongoing trading restrictions throughout the whole year, the Group did not use like for like sales as a key performance measure in the last year. Instead, it assessed trading by comparing sales to the year before the pandemic (FY19) to derive a percentage of 'normal'. In the UK, this figure averaged 56% trading vs normal for the year, but by year end gross sales had reached over 75% of FY19. Other territories varied in their trading vs normal, from Ireland at 35% of normal sales to the UAE with 75% of normal sales for the year as a whole.

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 as well for the year.

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 preserve cash. Only stores which were committed to or under construction prior to the Covid 19 crisis were opened during the year. However, all brands expect to return to a sensible store opening programme during the year to May 2022 as trading restrictions ease.

Trading results

Pre-tax earnings and the operating result were severely impacted by COVID 19. Pre-tax earnings moved from a loss of £81.8m to a loss of £16.7m, and the operating result moved from a loss of £37.1m to a profit of £13.3m in the year. The increase in profit was driven from Government support including Grants of £41.7m and a temporary reduction in the standard rate of VAT from 20% to 5% for the hospitality industry resulting in increased cash margins on sales. The Group also benefitted from favourable movement in the fair value of options of £10.4m and incurred exceptional costs of £3.1m.

EBITDA

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

In both the years to May 2020 and May 2021, 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.

Strategic Report (continued)

EBITDA (continued)

	2021	*2020*
	£000	*£000*
Brand EBITDA		
Caffe Nero UK*	39,293	17,644
Caffe Nero International*	(6,082)	(6,755)
Harris & Hoole*	(52)	311
Coffee #1*	5,354	2,230
Total Brand EBITDA	**38,513**	**13,430**

****In both the year ended May 2021 and May 2020, Brand EBITDA was materially impacted by forced closures and government restrictions as a result of Covid-19 as described earlier.***

Business review

The Group's performance is summarised below:

	2021	*2020*
	£000	*£000*
Revenue	206,478	324,480
Store profit	72,857	65,429
Operating profit/(loss)	13,272	(37,075)
Loss before tax	(16,679)	(81,797)

Expansion

Caffè Nero worldwide new store openings	19	37
Harris + Hoole new store openings	-	-
Coffee#1 acquired and opened	-	8
Aroma new store openings	-	1
Total worldwide stores at the year end	**1,015**	**1,057**
Countries*	10	11

**Due to Covid-19 the Group closed its franchise store in the Paris airport.*

	New stores in the year	*Total stores at close*	
UK & Ireland	2	645	39 stores handed back to landlords, largely as a result of the CVA, resulting in a net decrease of 37 stores
Turkey	8	63	13 stores closed or relocated.
Poland	3	69	1 store closed. The brand is known as Green Caffè Nero in Poland.
USA	4	36	New sites opened in Massachusetts. 1 store was closed.
Sweden	-	6	All stores acquired from Coffeehouse by George were converted to Caffe Nero

Strategic Report (continued)

			during prior years. 4 stores closed. The directors are pleased with the start these stores have made notwithstanding the pandemic.
Franchises	2	55	The Group has a number of franchises operating around the world. The revenue from these franchises are included in these financial statements. 3 franchises closed during the year.
Caffè Nero worldwide	**19**	**874**	
Harris + Hoole	-	40	The acquisition of Harris + Hoole in June 2016 added 36 stores to the Nero Group.
Coffee #1	-	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	The first Aroma store was opened in September 2019.
Total worldwide stores	**19**	**1,015**	

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

	New stores in the year	*Total stores at close*
UAE	1	33
Cyprus	1	17
Croatia	-	2
Oman	-	3
Total stores	2	55

Taxation

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

	2021 *£000*	*2020* *£000*
VAT	(424)	30,461
Employment taxes	13,549	15,834
Business rates	(58)	16,015
Total tax paid	13,067	62,310
Tax paid per store	17	77

The Group paid a total tax bill of £13.0m (2020 - £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 6% of total UK sales (2020 – 22%) for the Group or £17k per store (2020 – £77k per store).

The decrease on the prior year has been driven by Covid 19. This is due to a large fall in trade and the government has responded by reducing the rate of VAT that was in place for the majority of the year and providing business rates relief that was in place for the full year. As the business recovers and government support is withdrawn we anticipate the tax bill reverting to its more normal prior year level.

Strategic Report (continued)

Due to its significant finance charges and the considerable impact of Covid-19 throughout the year the Group had a loss before taxation of £16.7m (2020 - £81.8m), reducing its tax liability for the year.

Taxation (continued)

Interest due to third party banks (charged at an arm's length basis) was in isolation greater than the Group's operating profit, see note 7. This interest bill and the financial impact of Covid-19 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://Caffènero.com/company/uk-tax-policy/. This detail forms part of our Directors' report.

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 and race, 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 year end Caffè Nero operated in 10 countries and employed over 6,155 individuals worldwide from 105 different countries.

In the financial year, Caffè Nero trained employees in the UK. This consisted of role refresher training for all store teams when stores reopened following periods of enforced closure due to the Covid-19 Pandemic. The Group also continued to make existing e-learning courses available to all employees throughout the year which included technical job skills, business skills, leadership and team development skills as well as behavioural development training.

The business continued to provide a mental health first aid programme for all employees regionally in the UK.

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

Local Communities

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

Supporting the NHS and Communities during Covid-19

In June 2020, Caffè Nero continued to provide 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, dozens of team members from Caffè Nero UK 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 Farmers and their Communities

The Group continues to support coffee farmers and the communities where it sources its green beans. We buy coffee directly from the farmers who grow coffee beans and we also support their communities to ensure they have essential facilities. We also run a program whereby in specific locations the Group creates a fund, paying above market price for our coffee beans, to ensure our farmers can survive difficult times and to fund their sustainability projects. Our project 'LIFT' is dedicated to funding farming quality improvements and supporting schools and clean water programmes. An example of further support Caffe Nero has provided in these communities over the years is in the La Esmeralda region of Nicaragua, where we have funded clean water projects for five schools and partnered 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, providing funding for a school library and beginning the construction of a high school. Caffè Nero has also provided funding for the ongoing expansion of the school and teaching staff. Over 300 pupils are now enrolled in the school.

In Ethiopia, money raised through the sale of filter coffee funds bee keeping kits and the training to use them. This provides funding to coffee farmers in the off-season.

Caffè Nero also works closely with Rainforest Alliance in buying its green beans delivering support to farmers working in a sustainable and environmentally friendly way.

Humanitarian Projects

Historically, Caffè Nero has also supported 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.

The Environment - The World Around Us

Cups, Recycling and Landfill

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

Strategic Report (continued)

Cups, Recycling and Landfill (continued)

We also encourage minimising the use of papers cups by selling "Keep Cups" and filling our customers "Keep Cups" with coffee if requested and offering double loyalty points for doing so. Further, Caffè Nero has 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 reducing the fossil fuel content of our cups to zero.

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

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

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

In the UK, Caffè Nero has tried to tackle the issue of food waste as well. We have signed up to the government "Step up to the Plate" programme, a commitment to reducing food waste. In March 2021, following a successful trial, Caffè Nero expanded its partnership with 'Too Good To Go' to all UK stores, offering end of line food to customers at a significantly reduced cost to avoid it being put in the bin at the end of the day. The programme is now in at least four countries where the Group operates, including the U.K., Sweden, the USA and Poland. This has proven to be a very effective way of reducing food waste.

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

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

Principal risks and uncertainties

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

Group and Company specific risks

Risk	*Mitigation*
Covid-19 (risk of further waves) • Risk of extensive local lockdowns or national lockdown due to Government action.	• Operational processes developed and rolled out to react to any Covid-19 infections among team members. • All stores and head office adjusted to be Covid safe, including social distancing, Perspex screens, PPE for teams, hand sanitiser stations, enhanced cleaning regimes and clear signage for customers. • High-level plans in place to manage local or national closures. • Strong cash management processes and cost cutting at group level to mitigate any further national lockdowns.
Brand reputation • Damage to the brand image due to failures in environmental health in the stores or contamination of products. • Risk of guests suffering from failure to deliver our allergens policies and procedures, or inaccurate or insufficient information provided to guests concerning allergens.	• Strict cleaning and store maintenance procedures continuously reviewed and enforced at store level in conjunction with the business Health and Safety officer and with review by the business primary authority. • Clear Allergen policies and procedures established across all brands.

Strategic Report (continued)

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

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.

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

Strategic Report (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 at least 50% of its borrowings at fixed interest rates. This is achieved by entering into interest rate swaps which are designed to hedge underlying debt obligations. The Group classifies interest rate swaps as derivative financial instruments and measures them at fair value. These instruments do not qualify for hedge accounting. The Group expects to refinance its loan facilities within the next 12 months from the year end date and have therefore not put in place a long-term swap. In order to manage the short-term risk, the Group has fixed interest on its senior debt for a 6 month period to November 2021. As such, the Group is not exposed to any interest rate fluctuations during the period from and up to the time the refinancing is negotiated.

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. The directors are satisfied with the performance of the investments. 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.

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

Strategic Report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY21
Shareholders /Lenders	▪ Long-term profitability ▪ Sustainable growth, including entry to new markets and technology development to match consumer trends. ▪ Receiving accurate and reliable information on the business ▪ Maintaining high brand standards and reputation	▪ Lenders receive monthly financial updates and regular meetings, including monthly zoom calls with the banking group. ▪ A lender representative sits as an Observer on the Group Supervisory Board ▪ Regular calls are held with shareholder groups by the CEO to gain direct feedback and to maintain clear dialogue.	▪ During the Covid period, the Group maintained weekly reporting to lenders to provide cash forecasts as well as monthly updates on trading and progress of the CVA and the challenge to it ▪ The Group has continued its expansion into new channels, including delivery, advance ordering ("click and collect") and online platforms, as well as its 'At Home' range through partnership with Sainsbury's and will continue to pursue additional retailers.
Employees	▪ Regular quality communication and engagement. ▪ Up to date information on the business. ▪ Feeling valued by the business and part of the community.	▪ Regular weekly and monthly newsletters in addition to an internal social media platform. ▪ Regular store manager engagement through listening groups, and regular Store Manager conference calls with Q&A sessions. ▪ Weekly calls at board level with each territory in the group to provide business support and ensure key decision making in each country is visible and overseen.	▪ 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 operational information ahead of stores re-opening post Covid lockdowns. ▪ Investment in additional and appropriate health and safety measures in all locations during Covid to protect and reassure staff against any concerns. ▪ Working from home was maintained for all office-based staff through the financial year.

Strategic Report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY21
Customers	▪ Clean well-maintained stores which are safe and Covid compliant. ▪ 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.	▪ 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.	▪ Strict social distancing and PPE measures were maintained in store throughout the year to protect customers. ▪ The business ensured availability of its core products and most popular items throughout Covid and continued to adapt and grow its channels to market to ensure customers were still able to access products where and when they wanted them. This included Click and Collect, the continued expansion of Delivery via Uber Eats and the Coffee at Home programme. ▪ Outdoor seating was extended to accommodate more customers when seating restrictions permitted.
Suppliers (including Landlords)	▪ Regular and timely payment. ▪ Communication on business status, objectives, growth strategy and cash position.	▪ Designated point of contact for all suppliers ▪ Proactive and regular communication through the supply chain.	▪ Regular supplier communication calls and forums. ▪ Open channel communication maintained will all suppliers to: ▪ Support regular payment plans following business continuity interruption in March 2020 due to Covid ▪ Find effective cost savings and revised service levels. ▪ Support and reassure during the transition between distribution partners in June 2021 ▪ To advise and inform of the decision to launch a CVA and to provide reassurance on any impact to them.

Strategic Report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY21
Community & Environment		▪ This section is covered in the "Ethics, Sustainability and supporting the Community" section on page 9.	▪ 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. ▪ Caffè Nero continued to push forward sustainability with the continued roll out of a plant lined paper cup across the group and continued support for key recycling schemes. ▪ Caffè Nero expanded its partnership with "Too Good To Go" to the entire UK business minimising food waste. ▪ Further information can be found in the "Ethics, Sustainability and supporting the Community" section on page 9.

Principal Decisions

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

Decisions related to Covid-19

It has been an unprecedented period of difficulty for the hospitality sector and the wider economy. Covid-19 also caused an extraordinary and dramatic impact upon the Caffè Nero business, including the forced closure of all stores by the government and the resulting catastrophic impact on sales for significant periods of the financial year.

The board acted to ensure the health and safety of the 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:

- The continued reduction and management of fixed costs during lockdown
- Continuing the agreed temporary pay cuts with employees
- Continued accessing of government support where appropriate, including Business Rates and VAT holidays and the Coronavirus Job Retention Scheme ('CJRS')
- Taking the decision to launch a CVA to best protect creditors and the business
- Maintaining strict social distancing and PPE measures in store to protect staff and customers from Covid-19.
- The repayment of our liquidity facility to our banking syndicate

Additional decisions 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.

Strategic Report (continued)

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

On behalf of the Board

Ben Price

Director

29 September 2021

Registered No. 06002065

Directors' Report

The directors present their report and financial statements for the year ended 31 May 2021.

Results and dividends

The Group generated a loss before taxation but after finance charges of £16.7m (2020 – loss of £81.8m). No dividend is proposed (2020 – £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. The Group is performing well post year end as explained in the going concern section below.

Financial Instruments

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

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Company will be able to meet its liabilities as they fall due for the foreseeable future. The directors have looked out to November 2022 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario whereby sales steadily return to pre-Covid 19 levels. As at the date of signing these accounts, UK sales had reached over 85% of pre-Covid 19 levels, which is on target. In preparing these forecasts, the directors acknowledge the existence of material uncertainties, which are explained below. If these uncertainties were to result in significantly adverse consequences for the Group then they may cast significant doubt upon the Company and Group's ability to continue as a going concern. Nevertheless, the Group has options open to it including equity cure rights. No adjustments have been made to reflect the following uncertainties:

i) Covid-19

The forecasts assume a gradual return to normal trading over the period to November 2022 in line with existing government guidance. However, if there were to be a severe 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 could also have an impact on the Group's liquidity position and therefore its ability to meet its liabilities as they fall due.

ii) Refinancing

The Group's senior and mezzanine loan facilities do not fall due for repayment until September 2022 and September 2023 respectively. The Group's forecasts show that all payments due under these facilities are met until their repayment date and until that date all covenants are met together with at least 11% headroom under a base case forecast. The Group is in advanced negotiations around specific terms regarding a refinancing of both its senior and mezzanine facilities and as a result the directors are confident that the risk of not being able to repay the senior loan when it falls due in September 2022 will be mitigated by a successful refinancing.

iii) CVA Challenge

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 £ payout on their rent due for the period April-November 2020 and for most of them to move to a turnover-based percentage rent model for the next three years. The CVA was subject to a legal challenge process, but this was dismissed in a High

Directors' Report (continued)

Going concern (continued)

Court verdict published on 29 September 2021 with the CVA remaining in force as a result. There is a possibility that the challenger may appeal the High Court verdict.

Having assessed the 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 therefore do not contain adjustments that would result if the Group were unable to continue as a going concern.

Directors of the company

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

	At 31 May 2021	*At 31 May 2020*
	£20 each	*£20 each*
G W Ford (1)	17,150	15,853
B J Price (2)	310	310

(1) G W Ford's interest in ordinary shares is registered as follows:
G W Ford 15,203
Paladin Partners 1 1,947

(2) B J Price's interest in ordinary shares is registered as follows:
Paladin Partners 1 310

During the year G W Ford converted loans to The Nero Company into 885 new shares and also subscribed for an additional 412 new 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 in the prior year, FY20, as a direct result of the pandemic. Due to the sudden loss of revenue in March 2020, the Group sought to secure as much liquidity as possible and agreed payment plans with all main suppliers. Many of these payment plans had completed by May 2021 and therefore creditor days decreased to 34 (2020 – 43 days).

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.

Directors' Report (continued)

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

Donations and Charities

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

Energy Consumption and Carbon Emissions

The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2018 requires disclosure of annual UK energy consumption and Greenhouse Gas (GHG) emissions from SECR regulated sources. Energy and GHG emissions have been independently calculated by The Utility Buyers Ltd for the reporting period 1 June 2020 to 31 May 2021.

Reported energy and GHG emissions data is compliant with SECR requirements and has been calculated in accordance with the GHG Protocol and SECR guidelines. Energy and GHG emissions are reported from buildings and transport where operational control is held – this includes electricity, natural gas, and business car travel. The table below details the regulated SECR energy and GHG emission sources from the current and prior reporting period.

	1 June 2020 to 31 May 2021	1 June 2019 to 31 May 2020
Natural Gas	29,483	244,458
Electricity	39,367,444	42,005,579
Transport	2,133,337	2,248,187
Total Energy (kWh)	**41,530,264**	**44,498,224**
Natural Gas	5.42	44.94
Electricity	9,178.13	10,736.63
Transport	537.23	553.17
Total SECR emissions*	**9,720.78**	**11,334.74**
SECR emissions per intensity metric (tCO_2e / £1m Revenue)	0.010	0.011
*Uses location based electricity emissions		

Directors' Report (continued)

Energy Consumption and Carbon Emissions (continued)

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

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

Data Records & Methodology

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

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

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

Section 172 statement

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

Statement of corporate governance arrangements

Effective corporate governance is a key guideline for The Caffè Nero Group for the year ending May 2021. The Group has applied the Wates Corporate Governance Principles for Large Private Companies as its framework for disclosure regarding its corporate governance arrangements.

Principle 1 – Purpose and Leadership

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

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

- **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 9.

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 territory Boards and directors on key specific issues to ensure impartial and expert information is provided to help guide decision making.

Principle 4 – Opportunity and Risk

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.

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.

Directors' Report (continued)

Principle 4 – Opportunity and Risk (continued)

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 was put in place in March 2020 and remained in place throughout the financial year 2021 and continues moving forward.

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

The principal risks and uncertainties which are reviewed by the Main Board are listed on pages 11 to 13.

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 renumeration 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. This process is still in place and is assessed against trading levels.

Principle 6 – Stakeholder relationships and Engagement

Information addressing the Board's engagement with stakeholders is contained in the section 172 statement on pages 13 to 16.

Statement of disclosure of information to the auditor

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

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

On 30 November 2020, the directors of Nero Holdings Limited, the Group's main UK subsidiary, 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%) and was accounted for in FY21. At the year end date 31 May 2021, the CVA was subject to a legal challenge process. Following the year end, the High Court heard the challenge in July 2021. On 29 September 2021, the High Court dismissed the challenge and ruled that the CVA should remain in force. There is a possibility that the challenger may appeal the High Court verdict.

On Behalf of the Board

Ben Price

Director

29 September 2021

Registered No. 06002065

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 (IFRS's) 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 2021 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 Shareholders 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 2021 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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 uncertainties 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; completion of refinancing; 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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following:

- We assessed the risk around going concern at the planning and year-end phases of the audit
- We confirmed our understanding of the group's going concern assessment process as well as the review process over the going concern model
- The audit engagement partner increased his time directing and supervising the audit procedures on going concern and with the assistance of our economics modelling team, we assessed whether the sales growth assumptions included within the forecasts were within a reasonable range.
- We discussed with management and their legal advisers the prospect of the CVA challenge and any potential appeal being successful
- We obtained copies of potential funding agreements in respect of the ongoing refinancing
- We assessed the adequacy of the going concern review period to the end of November 2022, considering whether a longer review period would be appropriate
- We obtained cash flow forecast models used by management in their assessment, checked their arithmetical accuracy and assessed the group's historical forecasting accuracy to determine its bearing on the going concern assessment
- We considered the adequacy of headroom and applied a sensitivity analysis
- We challenged the support for the level of government assistance included in the projections and agreed this to government announcements or applied a downside sensitivity where these were not announced
- We assessed the group's forecast banking covenant compliance and other obligations through to the end of the review period
- We considered management's reverse stress test which breached liquidity and covenant headroom and whether these scenarios had a possibility of occurring
- We assessed management's ability to execute feasible mitigating actions available to respond to the downside scenario based on our understanding of the group and sector
- We assessed the appropriateness of the going concern disclosures in describing the risks associated with the group's ability to continue as a going concern for the review period to the end of November 2022

In meeting its Corporate Governance obligations, the Group has applied the Wates Corporate Governance Principles for Large Private Companies, we have nothing material to add or draw attention to in respect of the directors' identification of material uncertainties over the Groups forecasts and when its trade will return to pre-pandemic levels; completion of refinancing; or the outcome of an ongoing Company Voluntary Arrangement (CVA) for the going concern review period to the end of November 2022.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and determined that the most significant are those that relate to the reporting framework (International Accounting Standards and the Companies Act 2006), the relevant direct and indirect tax compliance regulation in the United Kingdom, employment laws in the relevant jurisdictions and reporting obligations in the UK including the Modern Slavery Act. In addition, the group has to comply with laws and regulations relating to its operations, including health and safety, data protection and anti-bribery and corruption.
- We understood how the Group and Parent Company are complying with those frameworks by making enquiries of management and those charged with governance to understand how the group maintains its policies and procedures, in these areas and corroborated this by reviewing supporting documentation such as the Code of Conduct and correspondence from local legal counsel.
- We obtained the Fraud and Corruption Perceptions Index rating for all in-scope international components. We identified a component in a higher risk location and instructed our local EY office to perform specific procedures around bank payments
- We communicated our identified fraud risk to all component teams and evaluated the sufficiency of their procedures
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk.
- We incorporated data analytics into our testing of revenue and manual journals. We performed audit procedures to address the fraud risk, including testing manual journals which were designed to provide reasonable assurance that the financial statements were free from material misstatement, whether due to fraud or error. We tested specific transactions back to source documentation or independent confirmations as appropriate.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, enquiries of management and journal entry testing, with a focus on manual journals and journals indicating significant unusual transactions identified by specific risk criteria based on our understanding of the business.

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

Use of our report

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

Ernst & Young LLP

Zishan Nurmohamed (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date 29/09/2021

Group Statement of Comprehensive Income

for the year ended 31 May 2021

	Notes	2021 £000	2020 £000
Revenue	2	206,478	324,480
Cost of sales		(133,621)	(259,051)
Gross profit		72,857	65,429
Administrative expenses		(56,462)	(66,293)
Exceptional items	3	(3,123)	(36,211)
Operating profit / (loss)	3	13,272	(37,075)
Interest receivable and similar income	6	1,200	251
Finance costs and similar charges	7	(38,602)	(46,238)
Change in fair value of put and call options		10,422	2,602
Share of post-tax loss of joint ventures	15	(2,971)	(1,337)
Loss before taxation		(16,679)	(81,797)
Income tax credit/(expense)	8	10,936	986
Loss for the year		(5,743)	(80,811)
Other comprehensive income:			
Exchange differences on translation of foreign operations		3,424	106
Total comprehensive loss for the year		(2,319)	(80,705)
Loss attributable to non-controlling interest		778	157
Loss attributable to the shareholders of The Nero Group Ltd		(6,521)	(80,968)
Loss for the year		(5,743)	(80,811)
Total comprehensive loss attributable to non-controlling interest		778	157
Total comprehensive loss attributable to the shareholders of The Nero Group Ltd		(3,097)	(80,862)
Total comprehensive loss for the year		(2,319)	(80,705)

All amounts relate to continuing activities.

Group Statement of Financial Position

at 31 May 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	12	59,082	85,148
Right of use assets	13	85,525	165,913
Intangible assets	14	202,496	206,148
Investment in joint ventures	15	1,895	4,862
Lease premiums	16	100	153
Trade and other receivables	17	13	80
Deferred tax asset	8	8,566	-
Fair value of call option	23	4,238	4,323
		361,915	466,627
Current assets			
Inventories	18	4,552	5,673
Trade and other receivables	17	9,351	15,309
Lease premiums	16	81	108
Monies held in restricted accounts and deposits	11	1,115	-
Cash and cash equivalents	10	40,031	20,051
Fair value of call option	23	669	76
		55,799	41,217
Total assets		417,714	507,844
Current liabilities			
Derivative financial instruments	23	(43)	(1,182)
Trade and other payables	19	(69,083)	(65,801)
Fair value of put option	23	(128)	(554)
Other financial liabilities	21	(2,290)	(20,429)
Lease liabilities	13	(19,141)	(69,207)
		(90,685)	(157,173)
Non-current liabilities			
Lease liabilities	13	(88,061)	(117,830)
Other payables	19	(171)	(663)
Other financial liabilities	21	(388,120)	(368,824)
Fair value of put option	23	(4,138)	(13,627)
Deferred tax liability		-	(2,842)
Deferred consideration	22	(4,722)	(4,244)
Provisions	20	(4,926)	(3,431)
		(490,138)	(511,461)
Total liabilities		(580,823)	(668,634)
Net liabilities		(163,109)	(160,790)

Group Statement of Financial Position (continued)

at 31 May 2021

	Notes	2021 £000	2020 £000
Capital and reserves			
Called up share capital	24	1	1
Share premium account		22,513	22,513
Capital redemption reserve		96,320	96,320
Other reserves		174,083	174,083
Foreign exchange translation reserve		(334)	(3,758)
Retained earnings		(464,117)	(457,596)
Non-controlling interest		8,425	7,647
Total equity		**(163,109)**	**(160,790)**

The financial statements were approved by the Board of Directors on 29 September 20201 and signed on its behalf by:

Gerry Ford (Director)

Ben Price (Director)

Company Statement of Financial Position

at 31 May 2021

	Notes	*2021* *£000*	*2020* *£000*
Non-current assets			
Investments	15	454,442	454,442
		454,442	454,442
Current assets			
Trade and other receivables	17	286,257	262,056
		286,257	262,056
Total assets		740,699	716,498
Current liabilities			
Trade and other payables	19	(27,865)	(8,846)
Other financial liabilities	21	-	(10,000)
Non current liabilities			
Other financial liabilities	21	(368,830)	(349,365)
Total liabilities		(396,695)	(368,211)
Net assets		344,004	348,287
Capital and reserves			
Called up share capital	24	1	1
Share premium account		22,513	22,513
Capital contribution		96,320	96,320
Other reserves		174,083	174,083
Retained earnings		51,087	55,370
Total equity		344,004	348,287

The financial statements were approved by the Board of Directors on 29 September 20201 and signed on its behalf by:

Gerry Ford (Director)

Ben Price (Director)

Group Statement of Cash Flows

for the year ended 31 May 2021

	2021 £000	2020 £000
Operating activities		
Loss before taxation	(16,679)	(81,797)
Adjustments to reconcile loss for the year to net cash flow from operating activities:		
Exceptional items	3,123	36,211
Finance costs and similar charges	38,602	46,238
Interest receivable and similar income	(60)	(251)
Unrealised profit or loss on foreign exchange	3,474	(240)
Other unrealised income – PPP loan	(1,743)	
Movement in fair value of options	(10,422)	(2,602)
Movement in fair value of interest rate swaps	(1,140)	-
Depreciation of property, plant and equipment, right of use assets	50,516	86,257
Amortisation of intangible assets and lease premiums	3,760	3,879
Payments in respect of exceptional items	(2,755)	-
Disposal of property, plant and equipment, intangible assets and right of use assets	3,978	607
Share of profit of joint venture	2,971	1,337
	73,625	89,639
Working capital movements:		
Decrease/(increase) in inventories	1,121	(979)
Decrease in trade and other payables	(2,329)	(9,032)
Re-measurement of right of use assets	(10,775)	-
Re-measurement of lease liabilities	(11,661)	-
Decrease in trade and other receivables	7,413	6,011
Decrease in provisions	(512)	-
Net cash from operating activities	56,882	85,639
Investing activities		
Payments to acquire intangible fixed assets	(155)	(1,055)
Payments to acquire property, plant and equipment	(3,624)	(22,352)
Investment in joint ventures	(4)	-
Interest received	60	13
Net cash used in investing activities	(3,723)	(23,394)

Group Statement of Cash Flows

for the year ended 31 May 2021

Financing activities		
New third-party long-term loans	-	21,727
Repayments of loans	(14,497)	(394)
Proceeds from PPP Loan	1,368	1,806
Interest paid	(7,272)	(15,446)
Loan issue costs and other bank fees paid	(238)	(525)
Loan advanced from companies under common control	450	900
Payment of lease liabilities	(11,741)	(63,981)
Net cash used in financing activities	(31,930)	(55,913)
Net increase in cash and cash equivalents	21,229	6,332
Cash and cash equivalents at 1 June	20,051	13,683
Foreign exchange movements in cash	(134)	36
Cash and cash equivalents at 31 May	41,146	20,051
Included within cash and cash equivalents	40,031	20,051
Included within restricted cash	1,115	-
Cash and cash equivalents at 31 May	41,146	20,051

Company Statement of Cash Flows

for the year ended 31 May 2021

	2021 £000	2020 £000
Operating activities		
Loss before taxation	(4,283)	(5,265)
Finance costs and similar charges	25,470	24,017
Amortisation of loan issue costs	388	1,562
Interest receivable and similar income	(21,938)	(20,314)
	(363)	-
Working capital movements		
(Increase)/decrease in trade and other receivables	-	-
Increase/(decrease) in trade and other payables	19,019	(4,353)
Net cash flow from / (used in) operating activities	19,019	(4,353)
Financing activities		
Movement in third-party loans	-	18,500
Repayment of loans	(12,263)	-
Interest paid	(6,393)	(14,147)
Net cash flow from financing activities	(18,656)	4,353
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 2021

	Called up share capital £000	*Share premium account £000*	*Capital redemption reserve £000*	*Other reserves * £000*	*Foreign exchange translation reserve £000*	*Retained earnings £000*	*Non-controlling interest £000*	*Total £000*
At 1 June 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	–	–	–	–	–	(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)
Loss for the year	–	–	–	–	–	(6,521)	778	(5,743)
Other comprehensive income	–	–	–	–	3,424	–	–	3,424
Total comprehensive loss	–	–	–	–	3,424	(6,521)	778	(2,319)
At 31 May 2021	1	22,513	96,320	174,083	(334)	(464,117)	8,425	(163,109)

*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 2021

	Called up share capital £000	Share premium account £000	Capital contribution £000	Other reserves* £000	Retained earnings £000	Total £000
At 1 June 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
Loss for the year	–	–	–	–	(4,283)	(4,283)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	(4,283)	(4,283)
At 31 May 2021	1	22,513	96,320	174,083	51,087	344,004

*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 2021

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 29 September 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 and Company will be able to meet its liabilities as they fall due for the foreseeable future. The directors have looked out to November 2022 to make their going concern assessment, being the period over which there is the most visibility. The directors have prepared detailed forecasts and cash flow projection models which have been stress tested to allow them to assess the going concern assumption. These forecasts indicate that the Group can continue as a going concern under a base case scenario whereby sales steadily return to pre-Covid 19 levels. As at the date of signing these accounts, UK sales had reached over 85% of pre-Covid 19 levels, which is on target. In preparing these forecasts, the directors acknowledge the existence of material uncertainties, which are explained below. If these uncertainties were to result in significantly adverse consequences for the Group then they may cast significant doubt upon the Company and Group's ability to continue as a going concern. Nevertheless, the Group has options open to it including equity cure rights. No adjustments have been made to reflect the following uncertainties:

i) Covid-19

The forecasts assume a gradual return to normal trading over the period to November 2022 in line with existing government guidance. However, if there were to be a severe 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 could also have an impact on the Group's liquidity position and therefore its ability to meet its liabilities as they fall due.

ii) Refinancing

The Group's senior and mezzanine loan facilities do not fall due for repayment until September 2022 and September 2023 respectively. The Group's forecasts show that all payments due under these facilities are met until their repayment date and until that date all covenants are met together with at least 11% headroom under a base case forecast. The Group is in advanced negotiations around specific terms regarding a refinancing of both its senior and mezzanine facilities and as a result the directors are confident that the risk of not being able to repay the senior loan when it falls due in September 2022 will be mitigated by a successful refinancing.

iii) CVA Challenge

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 £ payout on their rent due for the period April-November 2020 and for most of them to move to a turnover-based percentage rent model for the next three years. The CVA was subject to a legal challenge process, but this was dismissed in a High Court verdict published on 29 September 2021 with the CVA remaining in force as a result. There is a possibility that the challenger may appeal the High Court verdict.

Having assessed the 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

Notes to the financial statements

at 31 May 2021

Going concern (continued)

should continue to adopt the going concern basis in preparing its financial statements, which therefore do not contain adjustments that would result if the Group were unable to continue as a going concern.

Basis of preparation

The Company has taken advantage of the 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 £4,283k (2020 - £5,625k).

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

Changes in accounting policies

There were no changes in accounting policies, presentation and methods of computation in these financial statements.

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:

- IBOR Phase 2 (effective date 1 January 2021)
- 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.

New standards effective for the current financial year

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

- 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)
- Covid-19 related rent concessions - Amendments to IFRS 16 (effective date 1 June 2020)

No 2020 amounts have been restated as a result of these standards becoming effective nor have the current year figures changed as a result of their application with the exception of covid-19 related rent concessions.

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

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 crystalise, 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 crystalise 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 19). A contract liability is recognised for entitlements awarded but not yet redeemed. The Group estimates the standalone selling price of points awarded under the customer loyalty programme based on the value of the points to the customer adjusted for expected redemption rates. As points issued under the programme do not expire, such estimates are subject to uncertainty. At 31 May 2021, the estimated liability for unredeemed points was approximately £1.6m (2020 – £1.7m), which is presented within deferred income (in current liabilities) in note 19.

Fixed asset useful lives

An annual review of the fixed asset register to ensure residual values, useful lives and depreciation methodologies are appropriate requires management to estimate useful lives, which can have a material impact on how the capital cost of equipment is expensed to the income statement and therefore on the results of the business. Further details on property plan and equipment are provided in note 12 and later on in note 1.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group (see note 14).

Leases – estimating the incremental borrowing rate

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

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 (see note 13).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the group and its subsidiaries at 31 May 2021. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

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

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

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

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

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

Interests in joint ventures

The group has contractual arrangements with other parties, which represent joint ventures. These take the form of an agreement to share control over another entity. Where the joint venture is established through an interest in a company, partnership or other entity (a jointly controlled entity), the group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post–acquisition changes in the group's share of its net assets, less distributions received and any impairment in value of individual investments. The group statement of comprehensive income reflects the share of the joint ventures-controlled entity's results after tax. Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised. To the extent that the net fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the group's share of the entity's profit or loss in the period in which the investment is acquired.

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Business combinations

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. If after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost

of the business combination, the excess is recognised immediately in the statement of comprehensive income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Further details are set out in note 14. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the group of stores at which goodwill is monitored internally.

Intangible assets

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

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

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

Property, plant and equipment

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

Depreciation

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

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

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable immediately and are written down to their recoverable amount. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

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

Leases

IFRS 16 "Leases" 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.

Group as lessee

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

a) Right of use assets

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

b) Lease liabilities

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

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

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

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

Investments in subsidiaries

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

Impairment of non-financial assets

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

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

Cash and cash equivalents

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

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

Financial assets

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flow that are 'Solely payments of principal and interest (SPPI)' on the principal amount outstanding. The assessment is referred to as SPPI test and is performed at instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through Statement of profit and loss account (called the Statement of Comprehensive income in these accounts), irrespective of business model.

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

Subsequent measurement

Financial assets at amortised cost - Loans and receivables

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
The Group and Company's financial assets at amortised cost include trade receivables, and loans to other group companies included under non-current financial assets.

Trade receivables

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Financial assets at fair value through profit or loss

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

Impairment and collectability of financial assets

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

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previous recognised in the statement of comprehensive income;
- For assets carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.
- For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, with lifetime expected credit losses (ECLs) recognised from initial recognition of the receivable. These assets are grouped, based on shared credit risk characteristics and days past due, with ECLs for each grouping determined, based on the Company's historical credit loss experience. Adjustments are made for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

Derecognition of financial assets

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Financial liabilities at fair value through profit or loss

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

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Trade payables

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

Borrowing costs

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories comprise food, coffee beans and packaging goods for resale. The Group applies a first in first out basis of inventory valuation.

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Provisions

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

Capital instruments

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

Group as lessor

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

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

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

Income taxes

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Revenue recognition

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

Sale of goods (store and e-commerce sales)

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

Customer loyalty programme

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

Royalty fee income

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

Management and handling fee income

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

Interest income

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

Grant income

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

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

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

Notes to the financial statements

at 31 May 2021

1. Accounting policies (continued)

Foreign currency translation

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

Exceptional items

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

Deferred consideration

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

Pensions

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

Notes to the financial statements

at 31 May 2021

2. Revenue

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

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:

	2021	*2020*
	£000	*£000*
Store sales	195,525	310,298
Customer loyalty programme	8,254	12,140
Royalty fees	857	1,241
Management and handling fee income	244	421
E-commerce sales	1,598	380
Total revenue from contracts with customers	206,478	324,480

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 17 and 19 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:

	2021	*2020*
	£000	*£000*
UK and Ireland	187,136	291,228
Turkey	6,876	13,526
USA	10,007	16,361
Sweden	1,429	1,816
Poland	66	70
Oman	19	60
Croatia	17	70
UAE	603	767
France	19	31
Cyprus	306	552
	206,478	324,480

Notes to the financial statements

at 31 May 2021

3. Operating Profit

Operating profit is stated after charging/(crediting):

	2021 £000	2020 £000
Auditor's remuneration– audit of group financial statements	164	171
– audit of financial statements of subsidiaries	101	129
– tax compliance and advisory	23	79
Costs relating directly to opening new sites	16	220
Exceptional items* – see note 3.3	3,123	36,211
Government grants	(41,667)	(15,281)
Depreciation of property, plant and equipment	18,058	25,056
Movement in fair value of share options	(10,422)	(2,602)
Movement in fair value of interest rate swaps	(1,140)	795
Amortisation of intangible assets	3,680	3,716
Amortisation of lease premiums	80	108
Depreciation of right of use assets	32,458	61,201
Loss on disposal of property, plant and equipment	3,905	608
Finance charges payable on lease liabilities	10,384	18,080

* On 30 November 2020, in excess of 92% of Caffè Nero unsecured creditors voted in favour of the proposed Company Voluntary Arrangement ("CVA"). During the year ended 31 May 2021, the Company recognised £3.1m of exceptional costs. A summary of these costs can be found in note 3.3 below.

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
- The COVID restrictions support scheme (CRSS)

Amounts received and receivable during the year are disclosed below:

	2021 £000	2020 £000
Grant income in respect of CJRS included in cost of sales	24,576	13,068
Grant income in respect of CJRS included in administrative expenses	2,756	1,095
Grant income in respect of RHLGF included in administrative expenses	11,298	800
Grant income in respect of TWSS included in cost of sales	941	219
Grant income in respect of CRSS included in cost of sales	239	-
Grant income in respect of the US Paycheck Protection Programme	1,857	99

Notes to the financial statements

at 31 May 2021

3. Operating Profit (continued)

3.1 Government grants and assistance (continued)

At 31 May 2021, receivables in respect of the CJRS of £1.1m 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 £1.9m in respect of the Paycheck Protection Programme (PPP).

3.2 Reconciliation to reported EBITDA

	2021	*2020*
	£000	*£000*
Loss before taxation	**(16,679)**	**(81,797)**
Interest receivable	(1,200)	(251)
Finance costs	38,602	46,238
Depreciation and amortisation	21,716	90,178
Unadjusted EBITDA	**42,439**	**54,368**
[1] Reversal of IFRS 16	(489)	(77,415)
[2] Foreign exchange differences	(2,602)	(1,807)
[3] Movement in fair value of derivatives	(10,422)	(2,602)
[4] Impairment	6,481	36,211
[5] Gain / loss on disposal	3,977	608
[6] Fees and exceptionals	(1,934)	226
[7] Share of loss before tax of joint ventures	2,971	1,337
[8] Caffe Nero Poland (Green Coffee Sp.z.o.o)	(1,441)	113
[9] Royalties and group overheads	(467)	2,391
Brand total EBITDA	**38,513**	**13,430**

[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.*

3.3 Exceptional items

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

	£'000	**£'000**
Costs and income arising from the CVA	**2021**	**2020**
Net gain on disposal of right of use assets and lease liabilities	20,013	-
Professional advisory fees	(6,279)	-
Release of other compromised creditors	1,526	-

Notes to the financial statements

at 31 May 2021

3. Operating Profit (continued)

	£'000	£'000
Costs and income arising from the CVA	2021	2020
Store impairments resulting from significant trading disruption due to the Covid-19 pandemic	(18,383)	(36,211)
Exceptional items (pre-tax)	**(3,123)**	**(36,211)**
Tax impact of exceptional items	(1,077)	-
Exceptional items (post-tax)	**(4,200)**	**(36,211)**

The Directors have concluded these costs are material to the financial statements and are non-recurring in nature. The exceptional costs arose as a result of the severe impact of Covid-19 on the business and the wider hospitality industry, which resulted in the Groups main trading entity, Nero Holdings Limited entering into a CVA (described in more detail in the strategic report) and multiple creditors being compromised as a consequence. Professional fees were also incurred in entering into the CVA. The disposal of right of use assets and lease liabilities arose as rental costs are now based on store-level revenues rather than being fixed in nature.

4. Directors' remuneration

	2021	*2020*
	£000	*£000*
Amount paid in respect of qualifying services	-	-
Aggregate directors' remuneration	542	750
Aggregate directors' pension scheme contributions	1	5

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 £0.5m (2020 – £0.8m) in the year. It is not possible to identify the proportion of these remunerations that relate to services to each individual company within the Group.

The highest paid director was paid remuneration of £331k. No pension contribution was paid due to the director opting out of his pension membership during the year.

Directors of other Group companies also remunerated by Nero Holdings Limited were paid £0.4m for their services.

At the year end, the Company owed a director Gerry Ford £174k (2020 - £162k) in respect of business use of a personal car and £322k in respect of pensions (2020 - £303k).

Notes to the financial statements

at 31 May 2021

5. Staff costs

	2021 £000	2020 £000
Wages and salaries[1]	63,217	102,346
Social security costs	6,764	7,229
Other pension costs	214	18
	70,195	109,593

[1] Staff costs reported above are after the deduction of government grants received in respect of these costs of £30.13m (2020 - £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	4,575	5,241
Administration	974	979
	5,549	6,220

6. Interest received and similar income

	2021 £000	2020 £000
Bank interest received	37	8
Movement in fair value of currency contracts	-	238
Movement in fair value of interest rate swaps	1,140	
Interest received from related parties	23	5
	1,200	251

7. Finance costs and similar charges

	2021 £000	2020 £000
Senior debt interest	6,869	6,394
Mezzanine debt interest	-	7,843
Mezzanine debt interest (rolled up)	19,077	9,992
Amortisation of loan issue costs	481	1,637
Finance charges on lease liabilities	10,384	18,080
Movement in fair value of interest rate swap	-	795
Other interest payable	521	1,068
Unwinding of discount on deferred consideration	478	429
Movement in fair value of currency options	792	-
	38,602	46,238

Notes to the financial statements

at 31 May 2021

8. Income tax

Other taxation, excluding corporation tax
The Group has paid a total tax bill of £13m in the UK this year. This is made up of VAT, employment taxes (including PAYE and apprenticeship levy) and business tax rates, representing 6% of total UK sales of £17k per store (2020 - £77k per store). Corporate tax affairs are evaluated at this group level.

Corporation tax

The Group generated a loss before taxation of £17m (2020 - £82m).The reduced loss was driven from Government support including Grants of £41.7m (2020 - £15.3m) and a temporary reduction in the standard rate of VAT from 20% to 5% for the hospitality industry resulting in increased cash margins on sales. The Group also benefitted from favourable movement in the fair value of options of £10.4m and incurred net exceptional costs of £3.1m.

	2021	*2020*
	£000	*£000*
Current tax:		
Current tax on profits for the year	418	169
Foreign tax charge	76	-
Adjustments in respect of prior years	(5)	43
Total current tax	489	212
Deferred tax:		
Current year	(11,737)	(1,381)
Adjustment in respect of previous periods	(17)	(241)
Effect of changes in UK deferred tax rates	329	424
Total deferred tax	(11,425)	(1,198)
Tax per income statement	(10,936)	(986)

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:

	2021	*2020*
	£000	*£000*
Loss on ordinary activities before tax	(16,679)	(81,797)
Loss on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 19.00% (2019 – 19.00%)	(3,169)	(15,541)
Effects of		
Adjustments in respect of prior years	(23)	(198)
Expenses not deductible for tax purposes	4,643	8,407
Tax on share of JV loss	(53)	-
Income not taxable	(6,462)	(1,087)
Transfer pricing adjustments	11	6
Impact of difference in current and deferred tax rates	(2,613)	-

Notes to the financial statements

at 31 May 2021

8. Income tax (continued)

Difference in statutory tax rates of overseas jurisdictions vs UK standard rate	(590)	94
Foreign tax charges	76	-
Effect of changes in UK deferred tax rates	329	424
Recognition of deferred tax asset on provisions	-	(55)
Amounts not recognised / (released)	(3,086)	6,966
Rounding	1	(2)
Tax credit for the year	(10,936)	(986)

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

	2021	*2021*	*2020*	*2020*
	Recognised	*Not recognised*	*Recognised*	*Not recognised*
	£000	*£000*	*£000*	*£000*
Temporary non trading differences	-	-	-	3,440
Temporary trading differences	2,173	1,772	45	592
Fixed assets	208	4,398	(4,139)	3,338
Tax losses	6,189	5,240	1,303	5,746
Other	(4)	-	(51)	18
Deferred tax asset/(liability)	8,566	11,410	(2,842)	13,134

	2021	*2020*
	Recognised	*Recognised*
	£000	*£000*
Deferred tax liability at 1 June	(2,842)	(4,020)
Adjustments in respect of prior periods	17	241
Losses	-	957
Origination and reversal of timing difference	11,737	-
Other	(346)	(20)
Deferred tax asset / (liability) at 31 May	8,566	(2,842)

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. A deferred tax asset has been recognised by the Group. 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 substantively enacted at the balance sheet date and hence have 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 £4.3m (2020 – £5.3m).

Notes to the financial statements

at 31 May 2021

10. Cash and cash equivalents

	Group 2021 £000	Company 2021 £000	Group 2020 £000	Company 2020 £000
Cash and cash equivalents	40,031	-	20,051	-

11. Monies held in restricted accounts and deposits

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions that restrict the use of these monies by the Group and, as such, does not meet the definition of cash and cash equivalents. Restrictions include funds held by the Group's Escrow Agent, GLAS Trustees Limited as well as separate funds held as collateral for guarantees issued to landlords in the United States. Holding cash in restricted accounts does not prevent the Group from optimising returns by putting these monies on short-term deposit.

	Group 2021 £000	Company 2021 £000	Group 2020 £000	Company 2020 £000
Cash at bank and in hand	1,115	-	-	-

12. Property, plant and equipment

Group	*Leasehold improvements £000*	*Furniture, fittings and equipment £000*	*Assets under construction £000*	*Total £000*
Cost:				
At 1 June 2020	201,171	128,608	38	329,817
Additions	2,682	890	52	3,624
Disposals	(8,942)	(4,074)	(17)	(13,033)
Transfers	3	-	(3)	-
Effect of translation to presentational currency	(1,395)	(932)	-	(2,327)
At 31 May 2021	193,519	124,492	70	318,081
Depreciation and impairment:				
At 1 June 2020	142,293	102,376	-	244,669
Provided during the year	11,641	6,417	-	18,058
Disposals	(7,107)	(2,021)	-	(9,128)
Impairment	2,568	3,913	-	6,481
Effect of translation to presentational currency	(734)	(347)	-	(1,081)
At 31 May 2021	148,661	110,338	-	258,999
Net book value:				
At 31 May 2021	44,858	14,154	70	59,082
At 1 June 2020	58,878	26,232	38	85,148

Notes to the financial statements

at 31 May 2021

12. Property, plant and equipment (continued)

Asset written down to nil net book value but with a gross cost of £85.4m (2020 – £67.8m) 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.

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 2.5%.

Discount rates as used in the value in use calculations are estimated with reference to the wider Caffe Nero Group's weighted average cost of capital. For 2021, a discount rate of 10.2% has been applied to discount future cash flow projections (2020 - 8.6%).

Impairment has been recorded in a number of cash generating units, reflecting weaker trading following the Covid-19 pandemic. A charge of £6.5m was recorded against Property, Plant & Equipment ('PPE') and a further £11.9m against right-of-use assets (see note 13).

Disposals arose following Covid-19 driven store closures.

13. Right-of-use assets and lease liabilities

	£000
Right-of-use assets at 1 June 2020	165,913
Additions	25,748
Disposals	(72,552)
Depreciation	(32,458)
Re-measurements	10,775
Impairments	(11,901)
Right-of-use assets at 31 May 2021	85,525

	£000
Lease liabilities at 1 June 2020	187,037
Additions	25,748
Liabilities extinguished on disposals	(92,565)
Finance charges	10,384
Cash payments made	(11,741)
Remeasurements	(11,661)
Lease liabilities at 31 May 2021	107,202

Within the lease liabilities at 31 May 2021, £19.1m (2020 - £69.2m) is presented as current.

Notes to the financial statements

at 31 May 2021

14. Intangible assets

Group

	Software *£000*	*Brand* *£000*	*Goodwill* *£000*	*Trademarks* *£000*	*Total* *£000*
Cost:					
At 1 June 2020	6,370	83,509	181,288	247	271,414
Additions	155	-	-	-	155
Disposals	(80)	-	-	-	(80)
Effect of translation to presentational currency	(54)	-	-	-	(54)
At 31 May 2021	6,391	83,509	181,288	247	271,435
Amortisation and impairment:					
At 1 June 2020	4,799	40,167	20,300	-	65,266
Charge for the year	680	3,000	-	-	3,680
Disposals	(7)	-	-	-	(7)
At 31 May 2021	5,472	43,167	20,300	-	68,939
Net book value:					
At 31 May 2021	919	40,342	160,988	247	202,496
At 1 June 2020	1,571	43,342	160,988	247	206,148

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

Notes to the financial statements

at 31 May 2021

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

14. Intangible assets (continued)

Turkey (Caffè Nero Gida Urunleri AS) CGU

The recoverable amount has been determined based on a value in use calculation. The value in use has been determined using a discounted cash flow model. The model incorporates projected cash flow forecasts over a period of 10 years and incorporates a terminal value based on expected long-term growth. A longer forecast period has been used compared to the UK due to the longer expected volatility in inflation rates before this CGU is forecast to reach a stable level. The cash flows have been discounted to a present value using an appropriate discount rate. As a result of this analysis no impairment has been recorded in the current year. The model uses the following key assumptions.

Discount rate

A post-tax discount rate ranging from 10.2% to 15.2% has been used (2020 – 8.6% to 13.6%) and an appropriate country risk premium has been used where applicable. The discount rate has been derived from the group's weighted average cost of capital, adjusted to reflect a market assessment of the risks specific to the cash generating assets.

EBITDA growth

The discounted cash flow model was driven by EBITDA, representing the operating cash flows of the business. The EBITDA growth assumption used was 2.5% (2020 – 2.5%). The most significant assumptions and estimates relate to a like for like sales assumption of 2.5%. It is assumed that our business maintains a steady recovery in revenues. The forecast EBITDA is based on existing stores and excludes projected earnings from future store openings. Forecast capital expenditure on new stores has been excluded from the cash flow projections.

A terminal growth rate in the range of 1.9 to 5% (2020 - 1.9% to 5%) has been used to calculate expected cash flows of Italian Coffee Holdings Ltd after 5 years and Caffè Nero Gida after 10 years respectively. This assumption is consistent with the long–term growth projections for the industry.

Sensitivity to changes in assumptions

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

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

Intangible asset base:

	Caffe Nero UK (including H&H) £'000	Coffee #1 £'000	Caffè Nero Gida Urunleri AS £'000	Total £'000
Goodwill	145,003	3,866	12,119	160,988
Brand	18,501	21,841	-	40,342
Subtotal	**163,504**	**25,707**	**12,119**	**201,330**

Notes to the financial statements

at 31 May 2021

14. Intangible assets (continued)

Sensitivities:

	Caffe Nero UK (including H&H) £'000	Coffee #1 £'000	Caffè Nero Gida Urunleri AS £'000	Total £'000
Headroom under base case	271,172	19,988	7,502	298,662
Headroom: 1% increase in discount factor	220,596	14,258	4,623	239,477
Headroom: 10% reduction in terminal value EBITDA	232,666	14,986	5,798	253,450

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

15. Non-current asset investments

	Investment in joint ventures	
	2021	*2020*
	£000	*£000*
Group		
Cost:		
At 1 June	4,862	6,030
Share of loss for the year	(2,971)	(1,337)
Contributions in the year	4	169
At 31 May	1,895	4,862

	Investments in subsidiary undertakings
	£000
Company	
As at 31 May 2021	454,442
As at 31 May 2020	454,442

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

Notes to the financial statements

at 31 May 2021

15. Non-current asset investments (continued)

Limited, Caffè Nero Ireland Limited, Aroma Limited and Coffee #1 Limited, which operate Italian style coffee bars. The Company is also an indirect parent of Nero Coffee Roasting Limited, which roasts and packages coffee for the worldwide operations of the group. The results of these companies have been consolidated in these financial statements. All these companies are incorporated in England and Wales.

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

The execution price of the above is dependent on company performance. The call and put options are accounted for at fair value through profit and loss, the call option is recognised as a financial asset and the put option is recognised as a financial liability (note 23). At 31 May 2021, the options had a fair value of £1.43m and £0.05m respectively. The fair value of the options increased in the year by £0.8m (2020 - decrease of £1.56m), 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 2021 are as follows:

	2021	*2020*
	£000	*£000*
Share of the joint venture's balance sheet:		
Non-current assets	4,559	6,301
Current assets	2,264	1,416
Share of gross assets	6,823	7,717
Current liabilities	(4,793)	(3,864)
Non-current liabilities	(3,084)	(2,306)
Share of gross liabilities	(7,877)	(6,170)
Share of net assets	(1,054)	1,547

	2021	*2020*
Share of the joint venture's results:	*£000*	*£000*
Revenue	9,931	15,991
Cost of sales	(7,895)	(10,974)
Administrative expenses	(4,878)	(6,527)
Finance costs	(182)	(135)
(Loss)/ profit before tax	(3,024)	(1,645)
Tax charge	53	308
(Loss) / profit for the year	(2,971)	(1,337)

Notes to the financial statements

at 31 May 2021

15. 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:

Name of company	*Proportion of voting rights and shares held*	*Nature of Business*
Directly held subsidiaries		
Rome PIK Holdco Ltd[1]	100%	Holding

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		
Caffe Nero Group Holdings[1]	100%	Holding
Rome Bidco Limited [1]	100%	Financing
Italian Coffee Holdings Ltd [1]	100%	Holding
Harris and Hoole Limited [1]	100%	Coffee retail
Nero Holdings Limited [1]	100%	Coffee retail
Aroma Limited [1]	100%	Coffee retail
Caffè Nero Ventures Limited [1]	100%	Holding
Caffè Nero Investments Limited [1]	100%	Holding
Caffè Nero Americas Limited [1]	100%	Holding
Caffe Nero Americas, Inc[3] *(Incorporated in the United States)*	100%	Holding
Caffe 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 Gida Urunleri 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 #1Ltd [1]	43.5%	Coffee retail
Joint ventures		
Green Coffee Sp Z.o.o. [6]	90%	Coffee retail
(Incorporated in Poland)		
Muffia Sp. Zo.o Sp.k[7]	30%	Food production
(Incorporated in Poland)		

Notes to the financial statements

at 31 May 2021

15. Non-current asset investments (continued)

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

16. Lease premiums

	Lease premiums
	£000
Cost:	
At 1 June 2020	5,273
Additions	-
At 31 May 2021	5,273
Amortisation:	
At 1 June 2020	5,012
Charge for the year	80
At 31 May 2021	5,092
Net book value:	
At 31 May 2021	181
At 1 June 2020	261

	Lease premiums
The net book value at 31 May 2021 is split as follows:	*£000*
Non-current assets	100
Current assets	81
The net book value at 31 May 2020 is split as follows:	
Non-current assets	153
Current assets	108

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

Notes to the financial statements

at 31 May 2021

17. Trade and other receivables

	Group 2021 £000	Company 2021 £000	Group 2020 £000	Company 2020 £000
Non-current:				
Other debtors	13	-	80	-
	13	-	80	-
Current:				
Amounts due from related party	1,870	-	1,895	-
Amounts due from group undertakings	-	286,257	-	262,056
Trade debtors	3,053	-	4,139	-
Prepayments and other debtors	4,375	-	8,966	-
Fair value of currency contract	-	-	309	-
Corporation tax	53	-	-	-
	9,351	286,257	15,309	262,056

At 31 May 2021, receivables in respect of the CJRS of £1.1m (2020: £2.9m) were included in prepayments and other debtors.

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

	Total £000	*Neither past due nor impaired* £000	*< 30* £000	*30 – 60 days* £000	*> 60 days* £000
2021	3,053	303	-	347	2,403
2020	4,139	683	-	322	3,134

18. Inventories

	Group 2021 £000	Company 2021 £000	Group 2020 £000	Company 2020 £000
Goods for resale	4,552	-	5,673	-

Notes to the financial statements

at 31 May 2021

19. Trade and other payables

	Group 2021 £000	Company 2021 £000	Group 2020 £000	Company 2020 £000
Non-current:				
Other payables	171	-	663	-
	171	-	663	-
Current:				
Trade payables	14,876	-	23,750	-
Amounts due to parent undertakings	5,627	-	1,800	-
Amounts due to subsidiary undertaking	-	27,192	-	8,124
Accruals and other creditors, including taxation and social security*	43,602	673	36,201	722
Directors' loan	-	-	1,300	-
Other amounts due to directors	496	-	465	-
Amounts due to related parties	414	-	414	-
Deferred income**	3,195	-	1,659	-
Corporation tax	390	-	118	-
Fair value of currency contracts	483	-	-	-
Foreign tax	-	-	94	-
	69,083	27,865	65,801	8,846

* Included within accruals and other creditors is a payable of £145k in respect of TWSS overpayments received.

** Included within deferred income are contract liabilities of £1.6m (2020 - £1.7m) representing the transaction price allocated to loyalty points not yet redeemed.

19.1 Contract liabilities

	2021 £000	2020 £000
At 1 June	1,659	1,188
Customer loyalty points issued in the year	8,236	12,611
Revenue recognised for loyalty points redeemed	(8,254)	(12,140)
At 31 May	1,641	1,659

These amounts relate to the accrual and release of customer loyalty point transactions. As at 31 May 2021, the estimated liability for unredeemed points amounted to £1,641,000.

Notes to the financial statements

at 31 May 2021

20. Provisions

	2021	*2020*
	£000	*£000*
At 1 June	3,431	1,203
Adjustment on transition to IFRS 16[1]	-	(1,061)
Reclassifications	-	671
Provided during the year	2,224	2,618
Utilised during the year	(729)	-
At 31 May	4,926	3,431

[1] Due to the transition to IFRS 16 in the previous financial year, 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.

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.

21. Other financial liabilities

Group

At 31 May 2021	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
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	-	70,830	70,830
Storm senior term loan (Facility A and B)	1,181	8,691	9,872
Unamortised loan fees	-	(236)	(236)
Loan to S.A Brains	-	1,606	1,606
Non-secured third-party loans*	-	9,229	9,229
PPP Loan**	1,109	-	1,109
	2,290	388,120	390,410

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 2021

21. Other financial liabilities (continued)

At 31 May 2020	*Current* *£000*	*Non-current* *£000*	*Total* *£000*
Interest bearing loans and borrowings:			
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
	20,429	368,824	389,253

Amounts disclosed above are net of issue costs.

Company

At 31 May 2021	*Current* *£000*	*Non-current* *£000*	*Total 2021* *£000*
Interest bearing loans and borrowings:	-	368,830	368,830
	-	368,830	368,830

At 31 May 2020	*Current* *£000*	*Non-current* *£000*	*Total 2020* *£000*
Interest bearing loans and borrowings:	10,000	349,365	359,365
	10,000	349,365	359,365

Loan facilities and repayment dates

	£000 *2021*	*£000* *2020*
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

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21. Other financial liabilities (continued)

30 September 2022	5,000	5,000
Capex facility (Interest charged at LIBOR* + 3.0% margin)		
30 September 2022	10,000	10,000
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	3,938
Storm Senior Facility B (Interest charged at LIBOR* + 3.75% margin)		
31 August 2023	7,313	7,313
Storm Revolving credit facility (Interest charged at LIBOR* +3.0% margin)		
28 February 2023	750	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 had entered into interest rate swaps to fix £185.0 million of the term loans (excluding Storm) over a period of 15 months, expiring on 28 May 2021. Further interest rate swaps have been 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.

22. Deferred consideration

	£000	*£000*
	2021	*2020*
At 1 June 2020	4,244	3,815
Unwinding of discount	478	429
At 31 May 2021	4,722	4,244

Deferred consideration relates to the acquisition of Coffee #1 Limited 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 Caffe Nero Group).

During the year ending 31 May 2021, Coffee #1 Limited remained resilient against the impact of Covid-19 on trade, recovering strongly from the peak of the pandemic which hit in the first 6 months of the year.

Notes to the financial statements

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23. Deferred consideration (continued)

The brand remained profitable despite the ongoing uncertainty of Covid-19 and the associated restrictions on trade, generating a profit before tax of £0.1m for the year. Against the challenges faced by the retail industry at this time, the directors consider that, in the context of the overall market, this is a solid result. The Group's forecasts assume a gradual return to normal trading over the period from June 2021 to May 2022 and based on this it is highly probably that the 42 or 54 month target will be achieved due to a continued strong recovery of store sales and 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 deferred consideration has been discounted to its present value at the date of acquisition.

23. 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, related parties 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.

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 at least 50% of its borrowings at fixed interest rates. This is achieved by entering into interest rate swaps which are designed to hedge underlying debt obligations. The Group classifies interest rate swaps as derivative financial instruments and measures them at fair value. These instruments do not qualify for hedge accounting. The Group expects to refinance its loan facilities within the next 12 months from the year end date and have therefore not put in place a long-term swap. In order to manage the short-term risk, the Group has fixed interest on its senior debt for a 6 month period to November 2021. As such, the Group is not exposed to any interest rate fluctuations during the period from and up to the time the refinancing is negotiated.

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 stabilised amidst the ongoing uncertainty of Covid-19 and are forecasted to recover to pre Covid levels of performance from 1 June 2021 to 31 May 2022. As such, the directors do not consider the investments to be exhibiting indicators of impairment.

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

Notes to the financial statements

at 31 May 2021

23. Financial instruments (continued)

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 2021 and 31 May 2020 based on contractual undiscounted payments.

As at 31 May 2021

Group

	On Demand *£000*	*Within 1 year* *£000*	*1-5 years* *£000*	*More than 5 years* *£000*	*Total* *£000*
Trade and other payables	-	21,753	171	-	21,924
Mezzanine loan	-	-	153,000	-	153,000
RCF facility	-	-	5,000	-	5,000
Capex facility	-	-	10,000	-	10,000
Variable interest on capex loan	-	310	104	-	414
Variable interest on RCF loan	-	154	51	-	205
Rolled up interest on mezzanine loan	-	8,028	81,541	-	89,569
Variable interest on mezzanine loan	-	11,129	15,001	-	26,130
Senior loans	-	-	130,000	-	130,000
Variable interest on senior loans	-	4,024	1,345	-	5,369
Storm term loan A	-	1,181	1,378	-	2,559
Storm term loan B	-	-	7,313	-	7,313
Variable interest on Storm loan A	-	110	82	-	192
Variable interest on Storm loan B	-	281	352	-	633
Derivative (swap)	-	43	-	-	43
Put option	-	128	4,138	-	4,266
Non-secured third party bank loans	-	-	9,455	-	9,455
PPP Loan	-	1,109	-	-	1,109
Lease liabilities	-	25,437	89,041	8,638	123,116
Loans from S.A Brains	-	-	1,705	-	1,705
	-	73,687	509,677	8,638	592,002

Notes to the financial statements

at 31 May 2021

23. Financial instruments (continued)

Company

	On Demand £000	*Within 1 year £000*	*1-5 years £000*	*More than 5 years £000*	*Total £000*
Amounts due to subsidiary	-	27,192	-	-	27,192
Third party loans	-	23,645	396,042	-	419,687
	-	50,837	396,042	-	446,879

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

Notes to the financial statements

at 31 May 2021

23. Financial instruments (continued)

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
		34,452	247,442		281,894
	-	42,576	247,442	-	290,018

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 21.

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).

	Increase / decrease in basis points	*Effect on result before tax £000*
Floating rate loans		
2021	+100	61
	-100	(61)
2020	+100	222
	-100	(222)
Financial assets		
2021	+100	(4)
	-100	4
2020	+100	(14)
	-100	14

Notes to the financial statements

at 31 May 2021

23. 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 conclude there were no material differences between the book values and fair values at each year end.

	2021	*2020*
	£000	*£000*
Investments in joint ventures	1,895	4,862
Trade and other receivables	9,311	15,080
Cash at bank and in hand (including monies held in restricted accounts)	41,146	20,051
Trade and other payables	(18,981)	(27,729)
Lease liabilities	(107,202)	(187,037)
Current portion of third-party long-term borrowings	(2,290)	(20,429)
Long term third party borrowings	(388,120)	(368,824)
Interest rate swap	(43)	(1,182)
Call options	4,907	4,399
Put options	(4,266)	(14,181)
Fair value of currency contracts	(483)	309

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 £1.14m to a total liability of £0.43m (2020 – liability of £1.18m). The table below summarises the details of the new interest rate swap agreements:

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

	Principal amount	*Termination*	*Interest rate*
	£000	*Date*	*%*
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

at 31 May 2021

23. Financial instruments (continued)

Put and call options

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

	2021 *£000*	*2020* *£000*
Non current assets		
Fair value of call option (Coffee #1 Limited)	4,238	4,323
Current assets		
Fair value of call option (Green Coffee Sp Z.o.o)	669	76
Non current liabilities		
Fair value of put option (Coffee #1 Limited)	4,138	13,627
Current liabilities		
Fair value of put option (Green Coffee Sp Z.o.o)	128	554

The group has granted a put option (£128k) 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 (£0.7m) 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 (£4.2m) and put options (£4.1m) 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 17). The fair value attributable to the currency contracts decreased by £792k in the year (2020 – increase of £238k), 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.

Borrowing facilities

The group has various borrowing facilities available. The undrawn committed facilities available at each relevant period or year-end were £750k (2020-£19.7m).

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24. Authorised and issued share capital

	2021 No.	2021 £	2020 No.	2020 £
Allotted, called up and fully paid				
Ordinary shares of £1 each	1,040	1,040	1,040	1,040

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

25. Contingent liabilities

Assets of the Group are held as security against loans and borrowings in note 21. A contingent liability also exists in respect of the possibility of a challenger appeal to the outcome of the CVA, described further in note 1. The outcome of which could result in certain creditors released to the income statement in note 3 being re-instated.

26. Capital commitments

At 31 May 2021, capital commitments contracted but not provided for in the financial statements were £nil (2020 – £nil). This is due to capital programs halting as a result of COVID-19.

27. Related party transactions

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

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

	2021 *£000*	*2020* *£000*
Amounts owed to Saratoga Limited	90	108
Amounts owed to Cheyson Partners	108	144
Amounts owed to Paladin Partners	216	162
Director's loan	-	1,300
Amounts owed to G W Ford	496	465
Amounts due to S. A. Brains – non interest bearing (included within trade payables)	26	28
Amounts due to S. A. Brains – interest bearing	1,606	1,547
Amounts owed to Rome Intermediate Co Ltd	4,870	-
Amounts owed to the Nero Company	1,239	2,161
Amounts owed by Rome Intermediate Holdings SARL	(482)	(361)

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

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

Rome Bidco Limited has paid monitoring fees to Saratoga Limited, Cheyson Partners Limited and Paladin Partners. At 31 May 2021, the amounts paid during the year were £54,000, £18,000 and £nil respectively (2020 – £36,000 £90,000 and £90,000 respectively).

In prior year, the Group owed a director's loan of £1.3m. The loan was in relation to funds extended by G W Ford, a director and the ultimate controlling party. In August 2020, this loan was re-assigned to The Nero Company, a parent undertaking. In December 2020, the loan was subsequently re-assigned to

Notes to the financial statements

at 31 May 2021

27. Related party transactions (continued)

another company under common control, Rome Intermediate Co. Ltd, who is now the beneficiary of the loan.

At the year end, the Group owed one of the directors, G W Ford £174k (2020 - £162k) in respect of business use of a personal car and £322k in respect of pensions (2020 - £303k).

As part of the acquisition of Coffee #1 Limited in the prior year, S. A. Brains, a minority shareholder of a subsidiary, Coffee #1 Limited, granted an interest-bearing loan to Coffee #1, attracting interest at a rate of 4% per annum. The movement in the interest-bearing related party loan represents interest charged to the Statement of Comprehensive Income of £59k. S.A. Brains also remained the landlord of four Coffee#1 sites after the prior year acquisition. At the year end, £26k (2020: £28k) was outstanding to S.A Brains in relation to rent for these sites.

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

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

	Group	*Group*	*Company*	*Company*
	2021	*2020*	*2021*	*220*
	£000	*£000*	*£000*	*£000*
Short-term employee benefits	542	750	–	–
Post-employment benefits	1	5	–	–
	543	755	–	–

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'.

28. Subsequent events

On 30 November 2020, the directors of Nero Holdings Limited, the Group's main UK subsidiary, 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%) and was accounted for in FY21. At the year end date 31 May 2021, the CVA was subject to a legal challenge process. Following the year end, the High Court heard the challenge in July 2021. On 29 September 2021, the High Court dismissed the challenge and ruled that the CVA should remain in force. There is a possibility that the challenger may appeal the High Court verdict.

29. Ultimate parent undertaking

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

Immediate parent undertaking	Rome Intermediate Holdings SARL(1)
Ultimate parent undertaking	The Nero Company(1)
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 and The Nero Company are companies 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.