

# Storm Finance Co Ltd

## Report and Financial Statements

31 May 2021



## Company Information

Registered No. 11779446

### Directors

G W Ford  
B J Price  
G M House

### Secretary

J H Stewart

### Auditor

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

### Solicitor

Linklaters  
1 Silk Street  
London  
EC2Y 8HQ

### Registered Office

9-15 Neal Street,  
London  
WC2H 9QL  
United Kingdom

## Strategic Report

The directors of Storm Finance Co Ltd ('the Company') present their Strategic and Directors' Reports and the financial statements for the year ended 31 May 2021.

### Principal activities and business review

Storm Finance Co Ltd is a parent undertaking that owns Coffee #1 Ltd. Coffee #1 is a distinctive brand of successful coffee houses serving coffee principally in Wales and the south west of England. It is seen as one of the leading brands in that region. Due to the Covid-19 pandemic, no new stores were opened during the year. However due to the measures taken in the year to preserve liquidity and the stability of the estate, only one store closure resulted from the impact of Covid-19. The directors are satisfied with the performance of the investments.

### Principal risks and uncertainties

Due to its principal activity being a parent undertaking, the directors do not consider specific key performance indicators to exist for the Company and investments are performing in line with expectations. The directors continually identify, evaluate and manage material risks and uncertainties that could adversely affect the Company's business, operating results and financial condition. The directors consider the principal risks and uncertainties facing the business to be those relevant to the trading entities in the enlarged Caffè Nero Group, which comprise the following:

#### Company specific risks:

Risk	Mitigation
<p>Covid-19 (risk of further waves)</p> <ul style="list-style-type: none"> <li>• Risk of extensive local lockdowns or national lockdown due to Government action.</li> </ul>	<p>Operational processes developed and rolled out to react to any Covid-19 infections among team members.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• High-level plans in place to manage local or national closures.</li> <li>• Strong cash management processes at group level to mitigate any further national lockdowns.</li> </ul>
<p>Brand reputation</p> <ul style="list-style-type: none"> <li>• Damage to the brand image due to failures in environmental health in the stores or contamination of products.</li> <li>• Risk of guests suffering from failure to deliver our allergens policies and procedures, or inaccurate or insufficient information provided to guests concerning allergens.</li> </ul>	<ul style="list-style-type: none"> <li>• Strict cleaning and store maintenance procedures continuously reviewed and enforced at store level in conjunction with the business Health and Safety officer and with review by the business primary authority.</li> <li>• Clear Allergen policies and procedures established across all brands.</li> <li>• Detailed database built up by ingredient/supplier and testing of database including physical verification.</li> <li>• Allergen training refreshed as part of the reopening training and completed by all restaurant employees across all businesses.</li> <li>• Constantly updated Allergen manual and information available to all customers both on the company website and in physical form in each store.</li> </ul>

## Strategic Report (continued)

Risk	Mitigation
<b>Talent attraction and retention</b> <ul style="list-style-type: none"> <li>• Failure to attract, retain, or develop store teams and head office talent.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of robust recruitment process to ensure the quantity of hires is sufficient but to also protect the quality of hiring.</li> <li>• Continual review and updating of onboarding and induction process focused on core skills and employee engagement.</li> <li>• Career pathway plans discussed with all above store level employees.</li> </ul>
<b>Supply chain management</b> <ul style="list-style-type: none"> <li>• Risk of loss of key suppliers, jeopardising supply and availability.</li> <li>• Risk that the distribution network is unable to meet the demands of our stores.</li> <li>• Brexit risk to supply chain due to product shortages and/or delays causing loss of revenue, customer's satisfaction and reputation.</li> </ul>	<ul style="list-style-type: none"> <li>• Products are sourced from multiple suppliers to mitigate risk.</li> <li>• Regular communication and dialogue with all logistics partners and key suppliers to review performance and assess risk.</li> <li>• Supply contracts in place with all key suppliers.</li> <li>• Regular supplier visits by Group Technical and Buying teams to check operations and procedures.</li> <li>• Contingency planograms and menus to mitigate for adjusted availability and to protect core product availability for customers.</li> </ul>
<b>Breakdowns in internal controls through fraud or error</b>	<ul style="list-style-type: none"> <li>• Strong internal control processes in place throughout the business.</li> <li>• Regular review of processes and systems to ensure a robust control environment is maintained.</li> <li>• Designated members responsible for communicating instances of fraud including how these were prevented and actions taken to ensure no repeat offences.</li> <li>• Regular team updates with the internal audit team to further highlight instances of fraud/error in the business and necessary actions taken.</li> </ul>
<b>Increases in costs</b> <ul style="list-style-type: none"> <li>• Risk of inflationary pressure on the Group's costs</li> </ul>	<ul style="list-style-type: none"> <li>• Work collaboratively with our suppliers to find effective cost savings.</li> </ul>

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

## Strategic Report (continued)

### Financial Instruments

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

#### Interest rate risk

The Company borrows in Sterling at floating rates of interest. The Company's policy is to keep approximately 65% of its borrowings at fixed interest rates. This is achieved by entering into interest rate swaps which are designated to hedge underlying debt obligations. The Company classifies interest rate swaps as derivative financial instruments and measures them at fair value. These instruments do not qualify for hedge accounting.

#### Liquidity risk

The Company ensures a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. Exposure to liquidity risk is managed through regular review of the maturity of liabilities.

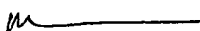
#### Investment impairment risk

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.

#### Capital management

Capital comprises shareholders' equity and financing from third-party lenders. The primary objective of the wider Group (Storm Holdco Ltd), of which the Company is a subsidiary, in relation to the capital management policy, is to ensure that it has adequate capital to support the business. The wider Group monitors the cost of the various sources of capital on an ongoing basis and manages cost through planning future alternative sources of capital. The wider Group has no externally imposed capital restrictions.

On behalf of the board



Ben Price  
Director  
29 September 2021

Registered No. 04129005

## Director's report

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

### Results and dividends

The Company made a loss before taxation for the year of £1.1m (2020 – £1.6m). No dividend is proposed.

### Directors

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

G W Ford

B J Price

G M House

### Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. The directors have looked out to November 2022 to make their going concern assessment, being the period over which there is the most visibility. In forming this expectation, the directors have received confirmation of parental support and that its fellow group undertakings, will not seek repayment of their intra-group loans presented in current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by The Nero Group Ltd, and in making their assessment the directors have therefore considered the going concern position of The Nero Group Ltd, which is explained below.

The Nero Group Limited's 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 Nero Group Limited's 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.

## Directors' Report (continued)

### Going concern (continued)

#### 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 Group 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.

### Subsequent events

On 30 November 2020, the directors of Nero Holdings Limited, a fellow group undertaking of The Nero Group Ltd, 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.

### Financial Instruments

Financial instruments are explained within the strategic report.

### Disclosure of information to the auditor

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

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

### Auditor

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

On behalf of the Board



Ben Price

Director

29 September 2021

## Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STORM FINANCE CO LIMITED

### Opinion

We have audited the financial statements of Storm Finance Co Limited for the year ended 31 May 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholder's Equity and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 May 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

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

### Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the Company is dependent on financial support from The Nero Group Limited, a parent undertaking.

The financial statements of Nero Group Limited for the year ended 31 May 2021 disclose material uncertainties in respect of when its trade will return to pre-pandemic levels; completion of refinancing; and the outcome of an ongoing Company Voluntary Arrangement (CVA). These material uncertainties are relevant to the Company as it is reliant on parental support. As stated in note 1, these represent material uncertainties that may cast significant doubt on company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

## **Other information**

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

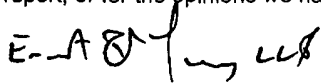
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice), the relevant direct and indirect tax compliance regulation in the United Kingdom, employment laws in the relevant jurisdictions and reporting obligations in the UK including the Modern Slavery Act. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, data protection and anti-bribery and corruption.
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains its policies and procedures, in these areas and corroborated this by reviewing supporting documentation such as the Code of Conduct and correspondence from local legal counsel.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override.
- 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, and enquiries of management, including the existence of significant unusual transactions.

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

### **Use of our report**

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



Zishan Nurmohamed (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date 29/09/2021

## Statement of Comprehensive Income

For the year ended 31 May 2021

		16 months to
	2021	31 May 2020
	£000	£000
Administrative expenses	(45)	(252)
<b>Operating loss</b>	<b>2</b>	<b>(252)</b>
Finance costs and similar charges	4	(1,325)
<b>Loss before taxation</b>	<b>(1,070)</b>	<b>(1,577)</b>
Income tax	5	-
<b>Loss for the year</b>	<b>(1,070)</b>	<b>(1,577)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(1,070)</b>	<b>(1,577)</b>


All amounts relate to continuing activities.

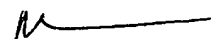
## Statement of Financial Position

At 31 May 2021

	Notes	2021 £000	2020 £000
<b>Fixed assets</b>			
Investments	6	29,845	29,845
<b>Current assets</b>			
Cash and cash equivalents		13	478
<b>Creditors: amounts falling due within one year</b>			
Loans	9	(1,181)	(1,484)
Trade and other payables	8	(3,324)	(1,008)
		<u>(4,505)</u>	<u>(2,492)</u>
<b>Net current liabilities</b>		<u>(4,492)</u>	<u>(2,014)</u>
<b>Creditors: amounts falling due after one year</b>			
Loans	9	(8,455)	(10,293)
Derivative financial instruments	10	(43)	(91)
Deferred consideration	7	(4,722)	(4,244)
		<u>(13,220)</u>	<u>(14,628)</u>
<b>Net assets</b>		<u>12,133</u>	<u>13,203</u>
<b>Capital and reserves</b>			
Called up share capital	12	1	1
Share premium		14,779	14,779
Retained earnings		<u>(2,647)</u>	<u>(1,577)</u>
<b>Total equity</b>		<u>12,133</u>	<u>13,203</u>

The financial statements were approved by the Board of Directors on 29 September 2021 and signed on its behalf by:

  
Director

  
Director

## Statement of Changes in Shareholders' Equity

For the year ended 31 May 2021

	<i>Called up share capital</i> £'000	<i>Share premium</i> £'000	<i>Retained earnings</i> £'000	<i>Total</i> £'000
On incorporation	-	-	-	-
Issued during the period	1	14,779	-	14,780
Total comprehensive loss	-	-	(1,577)	(1,577)
At 31 May 2020	1	14,779	(1,577)	13,203
Total comprehensive loss	-	-	(1,070)	(1,070)
At 31 May 2021	1	14,779	(2,647)	12,133

## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies

#### *Authorisation of financial statements and statement of compliance*

The financial statements were authorised for issue by the Board of the Directors on 29 September 2021. Storm Finance Co Limited is a private limited company incorporated and domiciled in England and Wales.

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

#### *Going concern*

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. The directors have looked out to November 2022 to make their going concern assessment, being the period over which there is the most visibility. In forming this expectation, the directors have received confirmation of parental support and that its fellow group undertakings, will not seek repayment of their intra-group loans presented in current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by The Nero Group Ltd, and in making their assessment the directors have therefore considered the going concern position of The Nero Group Ltd, which is explained below.

The Nero Group Limited's 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 Nero Group Limited's 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.



## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies (continued)

Having assessed the Group's forecasts and mitigating options available, whilst acknowledging the above material uncertainties inherent in the upcoming year, the Group 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.

#### *Basis of preparation*

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

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

#### *Changes in accounting policies*

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

#### *Prior year comparatives*

The prior period to 31 May 2020 was 16 months long. This is due to a longer period required to bring the year end in line with the group. The prior period is therefore not directly comparable to the current year.

#### *New standards and interpretations not yet adopted*

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

- 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 of the Company in future years.

#### *New standards effective for the current financial year*

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

- 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)

## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies (continued)

#### *New standards effective for the current financial year (continued)*

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.

#### *Key sources of estimation uncertainty (continued)*

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

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

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

#### **Judgements**

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

#### *Legal claims and contingency liabilities*

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

#### **Estimates and assumptions**

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

#### *Impairment of investments*

Investments are stated at cost less provision for impairment. The Company determines whether it is necessary to recognise an impairment loss on its investments in subsidiary undertakings. At each reporting date, the Company determines whether there is objective evidence, such as events or changes in circumstances that indicate that the carrying value of the investments in subsidiary undertakings may not be recoverable. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in subsidiary undertaking and its carrying value, and then recognises the loss in the statement of comprehensive income.

Further details of investments is included in note 6.

#### **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.

## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies (continued)

#### *Financial assets (continued)*

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

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

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

#### *Subsequent measurement*

##### *Financial assets at amortised cost - Loans and receivables*

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

##### *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 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.

## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies (continued)

#### *Impairment and collectability of financial assets (continued)*

- 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.

#### *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 cases of loans and borrowings and payables, net of directly attributable transaction costs.

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

#### *Subsequent measurement*

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

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (trade payables)

#### *Financial liabilities at fair value through profit or loss*

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

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

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

#### *Financial liabilities at amortised cost – trade payables*

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

#### *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value.

Derivatives are classified as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### *Derecognition of financial liabilities*

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

## Notes to the financial statements

For the year ended 31 May 2021

### 1. Accounting policies (continued)

#### *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.

#### *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 statement of financial position date.

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

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

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

#### *Investments*

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

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank 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 consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### *Capital instruments*

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

### 2. Operating loss

Operating loss is stated after charging:

	2021	2020
	£000	£000
Fees on acquisition of subsidiary	-	(252)

The above amount represents transaction costs incurred in the prior year in relation to the acquisition of Coffee #1 on 6 February 2019.

## Notes to the financial statements

For the year ended 31 May 2021

### 3. Audit fees, directors' remuneration and staff costs

Auditor's remuneration for the period ended 2020 and year ended 2021 has been met by another group company.

No remuneration was paid or is payable to the directors in their capacity as directors of the Company. The directors of this Company are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors remunerations and pension contributions of £0.7m (2020 - £1.0m) in respect of services to the enlarged Caffè Nero group ('The Nero Group Ltd') of which the Company is a member. It is not possible to identify the proportion of these remunerations that relate to services to this Company.

The Company had no employees during the current year.

### 4. Finance costs and similar charges

	2021 £000	2020 £000
Interest on bank loans	409	646
Intercompany interest	26	35
Fair value of interest rate swap	3	97
Commitment fees	16	18
Amortisation of loan issue costs	93	100
Unwinding of discount on deferred consideration	478	429
	<u>1,025</u>	<u>1,325</u>

### 5. Income tax

#### (a) Tax on loss from ordinary activities

No income tax is payable for the period to 31 May 2021 (2020 - £nil).

#### (b) Factors affecting tax on loss for the year

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

	2021 £000	2020 £000
Loss on ordinary activities before tax	(1,070)	(1,577)
Tax on ordinary activities multiplied by standard average rate of corporation tax in the UK of 19.00% (2020 - 19.00%)	(203)	(300)
<i>Effects of:</i>		
Expenses not deductible	90	130
Transfer pricing adjustments	(64)	(16)
Effects of group and other reliefs	349	43
Amounts not recognised	(172)	143
Income tax reported in the statement of comprehensive income	<u>-</u>	<u>-</u>

## Notes to the financial statements

For the year ended 31 May 2021

### 5. Income tax (continued)

#### (c) Deferred tax

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

	2021		2020	
	Recognised	Not recognised	Recognised	Not recognised
	£000	£000	£000	£000
Tax losses	-	-	-	(143)
Deferred tax asset	-	-	-	(143)

There is no deferred tax at the year end.

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

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.

### 6. Investments

Cost:	£000
As at 1 June 2020 and 31 May 2021	29,845

In the opinion of the directors, the fair value of the investment in subsidiaries is not less than the amount at which it is stated in the statement of financial position.

Name of Company	Proportion of voting rights	Nature of Business
Coffee #1 Limited <sup>(1)</sup>	100%	Coffee retail

<sup>(1)</sup> Registered address for subsidiary is: 9-15 Neal Street, London, WC2H 9QL

## Notes to the financial statements

For the year ended 31 May 2021

### 7. Deferred consideration

The majority of the purchase price consideration was payable on completion of the acquisition. There is a further deferred payment 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 deferred consideration is payable 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 deferred consideration has been discounted to its present value.

	£'000
1 June 2019	3,815
Unwinding of discount	429
At 31 May 2020	4,244
Unwinding of discount	478
At 31 May 2021	4,722

### 8. Trade and other payables

	2021 £000	2020 £000
Accruals and other creditors	7	6
Amounts due to group undertakings	3,317	1,002
	<u>3,324</u>	<u>1,008</u>

### 9. Financial liabilities

	Current £000	Non-current £000	Total 2021 £000
<i>Interest bearing loans and borrowings:</i>			
Senior facility (Term Loan A)	1,181	1,378	2,559
Senior facility (Term Loan B)	-	7,313	7,313
Unamortised loan fees	-	(236)	(236)
	<u>1,181</u>	<u>8,455</u>	<u>9,636</u>
	Current £000	Non-current £000	Total 2020 £000
<i>Interest bearing loans and borrowings:</i>			
Senior facility (Term Loan A)	984	2,559	3,543
Senior facility (Term Loan B)	-	7,313	7,313
Revolving credit facility	-	750	750
Covid-19 liquidity facility	500	-	500
Unamortised loan fees	-	(329)	(329)
	<u>1,484</u>	<u>10,293</u>	<u>11,777</u>



## Notes to the financial statements

For the year ended 31 May 2021

### 9. Financial liabilities (continued)

<i>Loan facilities and repayment dates:</i>	<i>2021</i>	<i>2020</i>
	<i>£000</i>	<i>£000</i>
<b><i>Senior Facility A (Interest charged at LIBOR* + 3.25% margin)</i></b>		
The facility terminates in February 2023 and is repayable in biannual instalments commencing November 2020	2,559	3,543
<b><i>Senior Facility B (Interest charged at LIBOR* + 3.75% margin)</i></b>		
The facility terminates in August 2023	7,313	7,313
<b><i>Revolving credit facility (Interest charged at LIBOR* + 3.0% margin)</i></b>		
The facility expires in February 2023	-	750
<b><i>Covid-19 liquidity facility (Interest charged at Libor + 450bps)</i></b>		
The facility expired in May 2021		
* where LIBOR means the British Bankers Association Interest Settlement Rate for Sterling.	-	500

### 10. Financial Instruments

#### *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 Company classified its interest rate swaps as level 2 financial instruments 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.

In order to hedge exposure to interest rate risk, the Company has entered into an interest rate swap to fix the interest rate on £7,500,375 of the term loans for the period to 28 February 2022. 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 profit and loss. At 31 May 2021, the fair value of the interest rate swap was £0.043m. All loan repayments are to be made in the same currency in which the loan principal is denominated.

The table below summarises the details of the interest rate swap agreement:

	Principal amount £'000	Termination date	Interest rate %
Swap 1 (Lloyds storm swap agreement)	7,500	28 Feb 2022	0.842

### 11. Contingent liability

The Company is part of a group which had provided an unlimited cross guarantee in favour of the bankers of an intermediate parent, The Nero Group Ltd (formerly Rome Topco Limited), covering the term loans of Nero Group Ltd and certain subsidiaries. The carrying value of these loans at 31 May 2021 was £389.5m (2020 – £381.0).

## Notes to the financial statements

For the year ended 31 May 2021

### 12. Authorised and issued share capital

	2021		2020	
	No.	£	No.	£
Allotted, called up and fully paid				
Ordinary shares of £1 each	1,000	<u>1,000</u>	1,000	<u>1,000</u>

The Company has one class of share with equal voting rights. On 19 February 2019, 1,000 ordinary shares of £1 were issued and fully paid in cash. A share premium of £14,779 per share was recognised on issuance.

### 13. Ultimate parent undertaking and controlling party

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

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

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

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

### 14. Subsequent events disclosure

On 30 November 2020, the directors of Nero Holdings Limited, a fellow group undertaking of The Nero Group Ltd, 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.