Nero Holdings Limited

Report and Financial Statements

31 May 2022

Company Information

Registered No. 03288178

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Strategic Report

The directors present their Strategic Report, Directors' Report, and financial statements for The Nero Holdings Ltd ('the Company') for the year ended 31 May 2022. The results of Nero Holdings Limited are also reported within the wider group accounts (collectively referred to as 'the Group').

Principal activity

Caffè Nero is a brand of high-quality Italian style coffee houses operating in ten markets 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.

Caffè Nero principally operates through cafes. However, it is additionally active in "non-bricks and mortar" channels, namely digital channels. Caffè Nero has substantially grown its delivery service in the U.K.

Caffè Nero also continues 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

Overview

The business of the Caffè Nero for most of the year was dominated by the impact of Covid throughout the territories where we trade, and the respective government restrictions put in place to cope with Covid. The pandemic and government restrictions meant the Company's business was hampered for the first three quarters of the financial year. Management spent considerable time and energy coping with these external circumstances. Two more factors also affected the year: (1) a hostile takeover attempt against the Company, which was also linked to a High Court case, and (2) the refinancing of the wider Group's debt. Both of these pressures made an already challenging situation even more difficult. However, by the last quarter of our year (March-May 2022), many of these factors had dissipated or disappeared and the trading and operations of the Company was returning to normal.

Covid-19 and trading

At the start of the company's financial year in June 2021, there were still significant government restrictions on trading and gatherings in the UK.

The Company entered the financial year with considerable restrictions on trading in all stores. Trading restrictions of varying degrees of severity were in effect for the whole of the year ended May 2022. 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 Company. At the end of the previous financial year May 2021, sales in the UK had reached 60% of pre-Covid levels. As restrictions were lifted following the UK government's step plan and vaccine roll out programme in the summer and autumn 2021, sales increased from 60% to 88% of pre-Covid levels. The outbreak of the Omicron variant, in December 2021, stalled the progress of growing sales. New U.K. government restrictions were put in place and not removed until March 2022. Once these restrictions were removed, namely by April and May 2022, sales began growing again. In May 2022, sales in the UK had reached 100% of pre-Covid levels. By the end of the financial year sales had returned to pre-Covid levels. The results for the financial year and comparisons to the previous financial year therefore need to be read and understood in the context of a recovering trading environment which did not return to normal pre-Covid levels until the last quarter of the financial year. 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 and Challenge

In the previous financial year, the company proposed a Company Voluntary Arrangement ("CVA") to its stakeholders and creditors in November 2020. The details of the CVA and its terms were set out in the Group's Strategic Report for the year ended 31 May 2021. The CVA was approved by a strong majority of creditors (in excess of 92%) but was however subject to a legal challenge process on behalf of one landlord. This challenge was dismissed in a High Court verdict published on 29 September 2021 with NHL winning the court case, resulting in the CVA remaining in full force. The challenger did not appeal the verdict and agreed a settlement to pay the majority of NHL's legal costs in defending the challenge.

Further developments arose when it emerged that the EG Group was financing the landlord and High Court case and had bought part of the Group's debt in a hostile takeover attempt. EG's hostile takeover manoeuvring consumed a great amount of management time and was unhelpful to the management of the company during FY22. However, once the court case finished and the refinancing (mentioned below) was completed, management was able to return to a strong focus on operational issues.

Trading overview

In the financial year FY22, its revenue increased by 65% to £253.8m (FY21 - £153.4m) as a result of the easing of U.K. government restrictions and a steady return to normal trading levels. Gross profit increased by 44% to £78.5m (FY21 - £54.7m) although as a percentage of sales this represented a reduction to 31.0% (FY21 – 35.7%) due to the withdrawal of VAT support by the U.K. government during COVID 19.

Operating profit and pre-tax earnings were also significantly impacted by the recovery from Covid-19. Operating profit decreased to £38.8m (FY21 - £50.2m), and pre-tax earnings moved from a gain of £44.9m to a gain of £37.1m. The reduction in profitability was driven principally by the recovery in sales but was offset by removal of government support and grants, and ongoing cost restraint in every country (including the CVA in the UK) partially through a reduction in Government support and removal of trade restrictions. For example, VAT in the UK at the start of the year was 5%. This rose to 12.5% in October 2021 and returned to pre-Covid levels of 20% in April 2022.

The Company incurred exceptional costs of £5.4m (FY21 - £44.1m), which were reduced by exceptional income of £2.6m (FY21 - £15.9m) - these are explained in further detail below.

Exceptional costs were mostly comprised of professional fees incurred by the Group in relation to defending the legal challenge to the CVA. This was offset by a settlement figure reached with opposing parties which was concluded in Q4 of FY 22.

Key performance indicators

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

Like for like sales

The Company defines like for like sales as the growth in sales of stores open for more than 12 months compared to the previous year. The Company usually targets an annual range of 3-5% growth in like for like sales. Following the forced temporary store closures and ongoing trading restrictions throughout the whole year the Company did not use like for like sales as a key performance measure in FY22. Instead, it assessed trading by comparing sales in FY 22 to the year prior to the pandemic (FY19) to derive a percentage versus a 'normal foundation'". In the UK, this figure averaged 87% trading vs normal for the year (compared to 56% in FY21), but by year end FY22 gross sales had reached 100% of FY19.

Strategic report (continued)

Store profit (gross profit)
The success of the Company 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 and variations in the rate of VAT in the UK made this measure irrelevant for the year.

Store Expansion
A key part of the Company's strategy is to increase revenue by increasing 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. As a result, only 4 stores were opened in the year. However, the Company is now returning to a more typical level of openings as trading returns to normal levels.

Business review

The Company's performance is summarised below:

	2022	*2021*
	£000	*£000*
Revenue	253,823	153,394
Store profit	78,516	54,696

Expansion

Nero Holdings Limited new store openings	4	-

Taxation

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

	2022	*2021*
	£000	*£000*
VAT	6,929	(310)
Employment taxes	15,387	12,026
Business rates	13,091	(45)
Corporation tax payable	390	-
Total tax paid	35,797	11,671
Tax paid per store	57	19

The Company paid a total tax bill of £35.8m (2021 - £11.7m) in the UK in the year. This was made up of VAT, employment taxes (including PAYE & apprenticeship levy) and business rate taxes, representing 14% of total UK sales (2021 – 8%) for the Company or £57k per store (2021 – £19k per store). This represents the tax paid and due for the average number of stores over the year.

The increase is a combination of the furlough scheme halting during the year as restrictions relation to COVID 19 were eased, increase in trade and hence VAT bill larger and corporate tax being paid in subsidiary companies at a higher level than before.

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

Strategic report (continued)

through our regular dialogue with HMRC. The Group's approach to tax is in line with our ethical approach, which is to think responsibly about our business and everything we do. The Board of Directors is accountable for how we approach our tax affairs and our Group Finance Director, who sits on the Board, is responsible for ensuring that the approach set by the Board is implemented within our business. We are committed to paying the correct amount of tax and at the correct time, in accordance with the tax laws in which we operate.

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

Ethics, Sustainability and Supporting Communities

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

Our People

Diversity and Inclusiveness

The Company operates as part of the enlarged Café Nero group. The Group strives for an inclusive and open culture. We believe in hiring diverse and talented individuals who share our values of fairness, decency, warmth, kindness and the pursuit of excellence. We are fully committed to equality and believe that all individuals, regardless of gender and race, can build a successful career within the Group. All employees are remunerated according to their job role, and salaries are determined by bench marking roles against similar positions at comparable organisations. At the year end, the Group operated in 10 countries and employed over 8,385 individuals worldwide from 116 different countries.

The Group trained 4,762 people during the current financial year. This consisted of role refresher training for all store teams and ongoing barista skills and development training. The Group also continued to make existing e-learning courses available to all employees throughout the year which included technical job skills, business skills, leadership and team development skills as well as behavioural development training.

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

All funds and cash profit generated by the business throughout its 10 territories in the year were reinvested in the Group to create further jobs, pay employees, pay creditors and drive growth. No dividend has been paid to shareholders in the year (nor in its 26-year history). In other words, Caffè Nero reinvests all of its money in the business.

Supporting Local Communities

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

Strategic report (continued)

Coffee Farmers and their Communities

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

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

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

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

Supporting Humanitarian Projects

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

- Medecins San Frontieres – Helping fund the construction of a hospital for Syrian refugees in Lebanon.
- Room to Read – Following an earthquake in Nepal, funding the rebuilding of a school.
- Spinal Research UK – Providing funding to support important research concerning the rehabilitation of individuals who have suffered devastating spinal injuries.
- Humanitarian relief for children and those displaced in the Ukraine. – During FY22, the Group began fundraising to support children and families in the Ukraine impacted by the war. Fundraising consisted of shareholder contributions and team member donations. The target is €100,000. In June 2022, the fundraising campaign expanded to include a donation from every cup of coffee sold on a designated Saturday, generating even further funds.

The Environment - The World Around Us

Cups, Recycling and Landfill

The Company 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)

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

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 the financial year Caffè Nero continued its partnership with 'Too Good To Go' across all UK stores, offering end of line food to customers at a significantly reduced cost to avoid it being put in the bin at the end of the day. The company has now saved over 131,000 meals in the UK as a result of the partnership. This has proven to be a very effective way of reducing food waste.

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

The Company 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 Company which could adversely affect the Company's business, operating results, and financial condition. The directors consider the principal risks and uncertainties facing the business to comprise the following:

Company specific risks

Risk	Mitigation
Covid-19 (risk of further waves) • Risk of reduced staff levels due to a resurgence of infection levels. • Risk of falling customer confidence in safety due to rising infections, leading to reduced footfall.	• Operational processes developed and rolled out to react to any Covid-19 infections among team members. • All stores able to re-activate in-store Covid safety measures to protect staff and customers quickly. Including social distancing, Perspex screens, PPE for teams, hand sanitiser stations, enhanced cleaning regimes and clear signage for customers. • High-level plans able to be activated to manage local or national closures if necessary. Covenants with lenders can be temporarily halted if a lockdown is initiated. • Strong cash management processes and cost cutting at group level to mitigate any further national lockdowns.
Brand reputation Brand reputation (continued)	• Strict cleaning and store maintenance procedures continuously reviewed and enforced at store level in

Strategic report (continued)

Risk	Mitigation
• 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.	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. • Detailed database built up by ingredient/supplier and testing of database including physical verification. • Allergen training continuously reviewed and regularly completed by all restaurant employees across all businesses. • Constantly updated Allergen manual and information available to all customers both on the company website and in physical form in each store.
People attraction and retention • Failure to attract, retain, or develop store *teams and key head office individuals.* • Availability of baristas	• Implementation of robust recruitment process to ensure the quantity of hires is sufficient but to also protect the quality of hiring. • Continual review and updating of onboarding and induction process focused on core skills and employee engagement. • Career pathway plans discussed with all above store level employees. • Competitive employment propositions.
Supply chain management • Risk of loss of key suppliers, jeopardising supply, and availability. • Risk that the distribution network is unable to meet the demands of our stores. • Brexit risk to supply chain due to product shortages and/or delays causing loss of revenue, customer's satisfaction, and reputation. • Risk that the effects of climate change will disrupt the supply of coffee from overseas.	• Products are sourced from multiple suppliers to mitigate risk. • Regular communication and dialogue with all logistics partners and key suppliers to review performance and assess risk. • Supply contracts in place with all key suppliers. • Regular supplier visits by 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 and the current cost of living crisis and rising inflation.	• Work collaboratively with our suppliers to find effective cost savings.

Strategic report (continued)

Risk	Mitigation
	• Revision of range of products being sold and ways to reengineer pricing of those products whilst maintaining brand standard. • Increase in price of products where appropriate.

Broader sector or macroeconomic risks

- Adverse economic conditions in the UK markets;
- Inflation, principally on energy and cost of good sold;
- 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 Company 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 Company uses various financial instruments including cash, trade & other debtors, bank, Intercompany balances, loans, trade & other creditors and derivatives. The Company is also exposed to risk in respect of its holding of investments in subsidiary undertakings. Existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below.

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

Interest rate risk

The Company 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.

Credit risk

The Company monitors its exposure to third party credit risk through detailed checks on customers and regular review of outstanding receivables. The Company 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 Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. The Company regularly reviews its exposure and ensures funds are available as required. The Company refinanced its facilities during the year, and this has provided access to a Revolving Credit Facility as well as a Capex Facility.

Investment Impairment risk

The directors understanding of the risks associated with the investments held by the entity relate to the potential impairment of those investments. To identify any risk of impairment in a timely manner, the Company 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 the Company's fellow group undertakings. The primary objective of the Company's capital management policy is to ensure that the Company has

Strategic report (continued)

adequate capital to support the business. The Company monitors the cost of the various sources of capital on an ongoing basis and manages cost through planning future alternative sources of capital. No changes in these factors were made during the year. The Company has no externally imposed capital restrictions.

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. The directors are satisfied with the performance of the investments. This is expected to continue for the foreseeable future.

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 Company 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 Company's employees

(c) The need to foster the Company's business relationships with suppliers, customers and others

(d) The impact of the Company's operations on the community and the environment

(e) The desirability of the Company maintaining a reputation for high standards of business conduct, and

(f) The need to act fairly as between members of the Company.

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

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY22
Shareholders / Lenders	▪ Long-term profitability ▪ Sustainable growth, including entry to new markets and technology development to match consumer trends. ▪ Receiving accurate and reliable information on the business. • Maintaining high brand standards and reputation.	▪ Lenders receive monthly financial updates and regular meetings. ▪ A lender representative sits as an Observer on the Group Supervisory Board. • Regular calls are held with shareholder groups by the CEO to gain direct feedback and to maintain clear dialogue.	▪ The Company maintained weekly/regular reporting to lenders to provide cash forecasts as well as monthly updates on trading and progress of the CVA and the challenge to it.
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 CEO Company calls are maintained each Monday. ▪ CEO update video calls have also taken place at regular intervals throughout the year with Store Managers. ▪ Focus group meetings were also held across the

Strategic report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY22
		• 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.	country to gain feedback on satisfaction and focus areas for Store Managers and teams. ▪ Company communications documents provide key ops focuses on a weekly and monthly basis. Culture communications channels including print magazines and internal social media channels are utilised daily to engage all levels of teams. ▪ Hybrid working (A mix of office and home) for all office-based staff through the financial year has been established.
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.	▪ The business ensured availability of its core products and most popular items throughout supply chain challenges caused by residual Covid impact and Brexit. Caffè Nero continued to grow its delivery channels, including an additional partnership with Just Eat, to ensure customers were still able to access products where and when they wanted them. ▪ Caffè Nero continued to innovate its menu with a new summer food range and iced drinks range launched in April 2022. ▪ Caffè Nero also continued to expand its brand partnership programme to provide greater value and choice to customers, including a Partnership with Compare The Market and a drinks and marketing tie-in with the cinema film, 'The Batman'. ▪ Extended outdoor seating was maintained to

Strategic report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY22
			accommodate more customers who wished to sit outside when using Caffè Nero. ▪ The Company has continued the expansion of its new channels, adding Just Eat to its delivery options and continuing to grow its 'At Home' range, available both in-store, on-line and through retail partnerships including Amazon and Sainsbury's. The business will continue to pursue additional retailers and channels to market.
Suppliers (including Landlords)	▪ Regular and timely payment. • Communication on business status, objectives, growth strategy and cash position.	▪ Designated point of contact for all suppliers. • Proactive and regular communication through the supply chain.	▪ Regular supplier communication calls and forums. ▪ Open channel communication maintained with all suppliers to: ▪ Find effective cost savings and revised service levels. ▪ Support and reassure during the transition between distribution partners in June 2021. ▪ To advise and inform of updates and conclusion to the court challenge connected to the CVA process.
Community & Environment		• This section is covered in the "Ethics, Sustainability and supporting the Community" section on page 5 to 6.	▪ Caffè Nero and Caffè Nero employees continued to fundraise for, and support, local causes and the business supported good causes in Ukraine caused by the war. ▪ Caffè Nero continued to push forward sustainability with the completion of the roll out of a plant lined paper cup across the group and continued support for key recycling schemes.

Strategic report (continued)

Material Stakeholders	What is important to the stakeholder	Methods of Engagement	Consideration and impact FY22
			▪ Caffè Nero further expanded its partnership with "Too Good To Go" saving over 133,000 meals from going to waste. ▪ Further information can be found in the "Ethics, Sustainability and supporting the Community" section on page 5 to 6.

Principal Decisions

We have outlined above, examples of how the Directors of the Company have had regard to the matters set out in section 172, including considering the Company'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 in the Strategic Report.

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

On behalf of the board

Ben Price
Director

10 October 2022

Registered No. 03288178

Directors' Report

The directors present their report and financial statements for the year ended 31 May 2022.

Results and dividends

The Company generated a profit before tax of £37.1m (2021 – profit before tax of £44.9m). Finance charges are applied in the consolidated financial statements of The Nero Group Ltd, which includes the results of the Company. No dividend is proposed (2021 – £nil).

Future Developments

Following a return to normal levels of sales after the Covid-19 pandemic, the Company is cautiously returning to its store growth schedule with a roll-out programme for FY23 of over 32 stores in the UK for the Company.

Financial Instruments

Further details explaining the Company'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 Company will be able to meet its liabilities as they fall due for the foreseeable future. In forming this expectation, the directors have received confirmation of parental support and that the Company's fellow group undertakings will not seek repayment of their intra-group loans presented as current liabilities until such time as the Company is able to repay these liabilities. The Company is controlled by the Nero Group Limited, and in making their assessment the directors have therefore considered the going concern position of the Nero Group Limited, which is explained below.

The directors have looked out to November 2023 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 and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.
2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

Employees

The Group provides employees with information concerning trading, development and other appropriate matters through formal and informal briefings. Employees are consulted on a regular basis to ensure their views are taken into account in making decisions likely to affect their interests. Among the forums used to gather information are "village meetings" and "listening groups".

Directors' Report (continued)

The Company 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.

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Donations and Charities

Extensive details of charitable activities are set out in the 'Ethics, Sustainability and Supporting Communities' section of the Strategic Report. In addition, the UK Group contributes to The Nero Foundation which distributes money to charities in the UK and overseas, including fundraising in this financial year for good causes in Ukraine, created due to the war. Local charities are selected by store teams and funds raised by the team are matched by The Nero Foundation.. The Company'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 2021 to 31 May 2022.

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 2021 to 31 May 2022	*1 June 2020 to 31 May 2021*
Energy (kWh)		
Natural Gas	380	386
Electricity	33,431,941	35,419,975
Transport	337,387	1,789,100
Total Energy (kWh)	33,769,708	37,209,461
Emissions (tCO_2e)		
Natural Gas	0.07	0.07
Electricity	7,098.60	8,257.81
Transport	370.53	450.57
Total SECR emissions*	7,469.20	8,708.45
Intensity metric		
SECR emissions per intensity metric (tCO_2e / £1m Revenue)	0.0075	0.0087

**Uses location based electricity emissions*

Directors' Report (continued)

Energy Type	June 2020 - May 2021	June 2021 - May 2022 kWh
Natural Gas	386	380
Electricity	35,419,975	33,431,941
Transport	417,244	337,387
Total Energy	35,837,605	33,769,707
Emissions Type		**tCO^2e**
Natural Gas	0.07	0.07
Electricity	8,257.81	7,098.60
Transport	450.57	370.53
Total SECR Emissions*	8,708.45	7,469.20
Intensity Metric		
SECR Emissions per Intensity Metric (tCO^2e / £1m revenue)	0.0087	0.0075

SECR Report FY22

Nero Holdings Limited are committed to reducing their environmental impact and contribution to climate change through increased energy management and awareness and changes to operational procedures. Furthermore, the upcoming ESOS Phase 3 deadline will provide Nero Holdings Ltd with an opportunity to restudy their energy savings opportunities and formulate an updated action plan.

As part of their commitment to reducing their environmental impact, Nero Holdings Limited have continued to introduce and build upon existing energy saving measures. This includes but is not limited to further installations of smart meters across the estate, monitoring of energy consumption via bespoke energy management reporting and use of energy efficient fixtures. Travel emissions have also been reduced where possible by increased use of virtual meetings. The result of these efforts has helped towards a 16.6% reduction in GHG emissions compared to the previous financial year.

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 2022. The Company has applied the Wates Corporate Governance Principles for Large Private Companies as its framework for disclosure regarding its corporate governance arrangements.

Directors' Report (continued)

Principle 1 – Purpose and Leadership

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

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

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

Further details of these sections can be found in the Ethics, sustainability and supporting communities' section of the strategic report on page 5 and 6.

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

Principle 2 – Board Composition

The Caffè Nero's Board structure consists of a Supervisory Board or Main Board. It is chaired by the Founder and Group CEO and other members include the Group CFO, the U.K. CEO and U.K. MD as well as independent financial lender representation 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.

Directors' Report (continued)

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 business plans are then sent to the Supervisory Board which, through discussion, aligns them with the Group's wider strategic annual, 3-year and 5-year plans.

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:

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

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

The principal risks and uncertainties which are reviewed by the Main Board are listed on pages 7 to 10.

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. This was reinstated in the FY 22 financial year.

In the UK, each employee receives a twice-yearly performance review as well as an annual pay review, and an annual bonus review, which assesses an individual against personal performance and Company performance. During the Covid-19 crisis, those employees above store level in the UK were asked to take a temporary and proportionate pay reduction to help ensure the employee pool could retain their jobs and income for the duration of the crisis. This process was halted in September 2021, and since then all applicable employees are back to their original pay Principle 6 – Stakeholder relationships and Engagement

Information addressing the Board's engagement with stakeholders is contained in the section 172 statement on pages 10 to 13.

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Information addressing the Board's engagement with stakeholders is contained in the section 172 statement on pages 10 to 13.

Statement of disclosure of information

Directors of the Company

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

G W Ford
B J Price
G M House

Directors' Report (continued)

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.

On behalf of the board

Ben Price
Director
10 October 2022

Directors' Responsibilities Statement

The directors are responsible for preparing the 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.

Opinion

We have audited the financial statements of Nero Holdings Limited for the year ended 31 May 2022, which comprise the statement of comprehensive income, statement of financial position, statement of changes in shareholders equity and the related notes 1 to 23, 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 2022 and of its profit 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 as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- An assessment of the risk around going concern at the planning and year-end phases of the audit
- Understanding the basis for managements going concern assessment, which is dependant upon the going concern status of the group of which the company is a member
- Obtaining the proposed support letter provided by The Nero Group Limited and considering whether The Nero Group Limited is in a position to provide financial support
- Performing the following on The Nero Group Limited's going concern assessment:
    - Confirming our understanding of the group's going concern assessment process as well as the review process over the going concern model

- Obtaining cash flow models used by management in their assessment, checking their arithmetical accuracy and assessing the group's historical forecasting accuracy to determine its bearing on the going concern assessment
- Assessing whether the sales and cost growth assumptions included within cash flow models were within a reasonable range.
- Assessing management's ability to execute feasible mitigating actions available to respond to their downside scenarios based on our understanding of the group and sector
- Considering the adequacy of headroom and applying sensitivities
- Reconsidering the material uncertainties identified when the FY21 financial statements were authorised for issue and determining whether those material uncertainties still exist
- Obtaining evidence to support the removal of material uncertainties that existed when the FY21 financial statements were authorised for issue, which included obtaining the new loan agreement and reviewing correspondence from the Group legal advisors.
- Assessing the adequacy of the going concern review period to the end of November 2023 and considering whether a longer review period would be appropriate
- Assessing the group's forecast banking covenant compliance and other obligations through to the end of the review period
- Assessing the appropriateness of the going concern disclosures in describing the risks associated with the group's ability to continue as a going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period from when the financial statements are authorised for issue, to 30 November 2023.

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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 20, 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 explained below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the 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 with group legal advisors.
- 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 and by assuming revenue to be a fraud risk.
- We incorporated data analytics into our testing of revenue and manual journals, including segregation of duties. We performed audit procedures to address each identified fraud risk, including testing manual journals which were designed to provide reasonable assurance that the financial statements were free from material misstatement, whether due to fraud or error. We tested specific transactions back to source documentation or independent confirmations as appropriate.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, enquiries of management and journal entry testing, with a focus on manual journals and journals indicating significant unusual transactions identified by specific risk criteria based on our understanding of the business.

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

Use of our report

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

Ernst & Young LLP

Zishan Nurmohamed (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date
18/10/2022

Statement of Comprehensive Income

for the year ended 31 May 2022

	Notes	*2022* *£000*	*2021* *£000*
Revenue	2	253,823	153,394
Cost of sales		(175,307)	(98,698)
Gross profit		78,516	54,696
Administrative expenses		(36,911)	(32,635)
Exceptional (charges)/income	3	(2,827)	28,117
Operating profit	3	38,778	50,178
Interest payable	6	(1,638)	(5,261)
Profit before taxation		37,140	44,917
Income tax*	7	(2,209)	9,902
Profit for the year		34,931	54,819
Other comprehensive income		-	-
Total comprehensive income		34,931	54,819

All amounts relate to continuing activities.

* As set out in Note 23, the Company is part of a UK Group (The Nero Group Limited). Tax for this Company is therefore dependant on the UK Group results, which are heavily impacted by finance charges. Please see the tax note in the financial statements of "The Nero Group Limited" for a full understanding.

Statement of Financial Position

for the year ended 31 May 2022

	Notes	2022 £000	2021 £000
Fixed Assets			
Property, plant and equipment	9	33,660	37,968
Right of use assets	10	53,422	47,189
Intangible assets	11	783	1,224
Investments	12	17,353	17,353
Lease premiums	13	130	100
Trade and other receivables	14	141	149
		105,489	103,983
Current assets			
Inventories	15	2,589	2,487
Lease premiums	13	191	81
Trade and other receivables	14	6,575	3,262
Amounts due from other group companies		322,069	276,465
Other financial instruments	16	118	-
Deferred tax asset	7	8,019	9,902
Monies held in restricted accounts and deposits	8	-	1,000
Cash and cash equivalents		13,532	28,827
		353,093	322,024
Creditors: amounts falling due within one year			
Trade and other payables	17	(55,332)	(58,483)
Other financial instruments	16	-	(483)
Lease liabilities	10	(8,251)	(7,162)
		(63,583)	(66,128)
Net current assets		289,510	255,896
Creditors: amounts falling due after one year			
Lease liabilities	10	(49,877)	(48,971)
Long term liabilities	17	(118)	(171)
Provisions	18	(2,609)	(3,273)
Net assets		342,395	307,464
Capital and reserves			
Called up share capital	19	1	1
Share premium account		15,972	15,972
Retained earnings		326,422	291,491
Total equity		342,395	307,464

The financial statements were approved by the Board of Directors on 10th October 2022 and signed on its behalf by:

Gerry Ford
Director

Ben Price
Director

Statement of Changes in Shareholder's Equity

for the year ended 31 May 2022

	Called up share capital	*Share premium account*	*Retained earnings*	*Total*
	£000	*£000*	*£000*	*£000*
At 31 May 2020	1	15,972	236,672	252,645
Total comprehensive income for the year	-	-	54,819	54,819
At 31 May 2021	1	15,972	291,491	307,464
Total comprehensive income for the year	-	-	34,931	34,931
At 31 May 2022	1	15,972	326,422	342,395

Notes to the financial statements

For the year ended 31 May 2022

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 10 October 2022. Nero Holdings Limited is a private limited Company incorporated and domiciled in England and Wales.

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

These financial statements have been prepared for the individual Company only. The Company has taken advantage of the exemption available under section 400 of the Companies Act 2006 not to prepare group financial statements as the results of the Company are included in the consolidated financial statements of an intermediate parent undertaking and are publicly available (as set out in note 23).

Going concern

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

The directors have looked out to November 2023 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 and after stress tests are applied. These stress tests factored in current economic conditions including inflationary adjustments. As at the date of signing these accounts, sales had reached approximately 110% of pre-Covid 19 levels, which is on target with our forecasts.

Material uncertainties were identified in the FY21 annual report. In the 12 months that have since elapsed, each of these material uncertainties has been either closed or considered as normal business risk and not material:

1. Regarding trading and Covid-19, sales have now reached 110% of pre-Covid levels (compared to 80-85% a year ago). This is in line with the Group's latest forecasts. Although Covid-19 and associated restrictions could return the Group considers that the risk of this is significantly reduced compared to a year ago.
2. The CVA challenge was dismissed just prior to signing the accounts last year although some uncertainty remained as to whether the judgement could be appealed. Since then, the challenger declined to appeal and indeed made a settlement as to the Group's costs. The case is now closed.
3. The Group successfully refinanced all of its facilities in January 2022. Additional headroom and flexibilities were negotiated which puts the Group in a firmer financial position than was the case under the previous debt structure.

Having made due and careful enquiry, the directors have satisfied themselves that the Group and Parent Company should continue to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements

1. Accounting policies

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*;

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

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:

- Property, plant and equipment: Proceeds before intended use – Amendments to IAS 16 (effective date 1 January 2022)
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (effective date 1 January 2023)
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective date 1 January 2023)
- Disclosure of Accounting Estimates - Amendments to IAS 8 (effective date 1 January 2023)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction- Amendments to IAS 12 (effective date 1 January 2023)

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

New standards effective for the current financial year
There has been no material impact on the Financial Statements as result of:

- IBOR Phase 2 (effective date 1 January 2021)

Notes to the financial statements

1. Accounting policies (continued)

No 2021 amounts have been restated as a result of these standards becoming effective nor have the current year figures changed as a result of their application.

Key sources of estimation uncertainty and accounting judgement

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

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

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

Judgements

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

Legal claims and contingency liabilities

Management judgement along with legal counsel advice is required to determine the risk of any claims brought against the Company crystallising into a future liability. When it is more likely than not that a claim will be lost by the Company and a material liability will 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 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.

Timing of revenue recognition and allowance for expected credit losses

The Company operates a customer loyalty programme that carries an entitlement to free coffee (note 17.1). A contract liability is recognised for entitlements awarded but not yet redeemed. IFRS 15 introduced a change in the valuation of this entitlement: from the standalone fair value to the relative standalone selling prices (note 17.1). The Company 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 2022, the estimated liability for unredeemed points was approximately £2.3m (2021 – £1.4m), which is presented within deferred income (in current liabilities).

Notes to the financial statements

1. Accounting policies (continued)

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 a useful life, 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 are given in note 9 below.

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 Company 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 company would have paid which requires estimation when no observable rate is available. The Company estimates its IBR using observable inputs such as market interest rates, the borrowing rate of another entity within the wider group ('The Nero Group Ltd') and is required to make certain specific estimates and judgements. Further details are given in note 10 below.

Impairment of investments

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

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

Goodwill

Goodwill on acquisition of businesses acquired separately is initially measured at cost. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill carries an indefinite life and is not amortised, but is tested annually for impairment, either individually or at the cash generating level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

The Company considers each of its stores to be a cash generating unit.

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. Intangible assets have a finite life and are amortised on a straight-line basis over their expected useful lives, as follows:

Software	–	3 years
Trademarks	–	Indefinite useful life

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 to making an asset capable of operating as intended.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the derecognition of the asset is included as an expense in the Statement of Comprehensive Income in the period of derecognition.

Notes to the financial statements

1. Accounting policies (continued)

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 estimated useful lives and residual values applied are reviewed at each reporting date with any changes in estimates being applied prospectively.

Leases

The Company leases various retail properties and vehicles. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value for the following lease payments:

- Fixed payments, less any lease incentives receivable
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for all leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions.

Lease payments are allocated firstly to finance costs and the remaining to principal. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities are remeasured:

- where there is a change in the assessment of exercise of an option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- at each anniversary of the CVA to reflect the minimum rent clause which applies to year two of the CVA under which the minimum rent will be payable
- where the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss. Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Notes to the financial statements

1. Accounting policies (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term. The respective leased assets are included in the balance sheet based on their nature. Payments associated with short-term leases, low-value leases and turnover rents are recognised on a straight-line basis as an operating expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value leases are leases on assets with a value of less than £6,000.

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that a store may be impaired. If any such indication exists, or when annual impairment testing for a store is required, the Company makes an estimate of a store's recoverable amount. A store's recoverable amount is the higher of a store's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual store, unless the store does not generate cash inflows that are largely independent of those from other stores or groups of stores. Where the carrying amount of a store exceeds its recoverable amount, the store 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 store. Impairment losses of continuing operations are recognised in the Statement of Comprehensive Income in those expense categories consistent with the function of the impaired store.

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 an indication of impairment exists, the recoverable amount is estimated. A previously recognised impairment loss is only reversed if there has been a change in the estimate 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 profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Any impairment recognised in relation to goodwill cannot be reversed.

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.

Store opening costs
Operating costs incurred by stores prior to opening are written off to the Statement of Comprehensive Income in the period in which they are incurred.

Notes to the financial statements

1. Accounting policies (continued)

Inventories

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

Provisions

Provisions are recognised when the Company 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.

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.

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 loans to other group companies included under non-current financial assets.

Trade receivables

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

Financial assets at fair value through profit or loss

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

Notes to the financial statements

1. Accounting policies (continued)

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;

a) 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;

b) 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

c) 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.

d) 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 and liabilities
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
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, group balances 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.

Notes to the financial statements

1. Accounting policies (continued)

Financial liabilities at amortised cost
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
The Company uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into a subsequently remeasured at fair value.

Derivative are carried 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.

Capital instruments
Ordinary shares and share premium 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.

Exceptional items
Exceptional items 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 company.

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:

- 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.

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 are 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.

Revenue recognition
Revenue is income arising from the sale of goods and services in the ordinary course of the Company's activities, net of value added taxes. Revenue is recognised when performance obligations are satisfied and control has transferred to the customer.

Notes to the financial statements

1. Accounting policies (continued)

Sale of goods (including e-commerce)

The sale of goods represents the vast majority of the Company's revenue. The performance obligation is satisfied upon transfer of control to the customer which is at the point of sale in store or on delivery to the customer for e-commerce sales.

Customer loyalty programme

The Company 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.

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.

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.

2. Revenue

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

All of the revenue is derived in the United Kingdom.

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

	2022	*2021*
	£000	*£000*
Store sales	240,605	143,104
Customer loyalty programme	10,942	7,955
E-Commerce sales	2,276	2,335
Total revenue from contracts with customers	253,823	153,394

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

Notes to the financial statements

2. Revenue (continued)

Performance obligations for all revenue streams are explained within the revenue accounting policy. Contract liabilities of £2.3m (2021 – £1.4m) exist in respect of the customer loyalty programme and are presented within deferred income (in current liabilities – see note 17.1). Revenue related to the customer loyalty programme has increased due to increase in store sales due to the removal of Covid-19 related government restrictions in the year. Trade / contract receivables arising from e-commerce sales are included within trade receivables (see note 14).

3. Profit before taxation

Profit before taxation is stated after charging:

	2022	*2021*
	£000	*£000*
Auditor's remuneration – audit services	320	235
Auditor's remuneration – taxation advisory and compliance	-	23
Exceptional items - see note 3.2	2,827	28,117
Costs relating directly to opening new sites	-	16
Government grants – see note 3.1	(3,000)	(36,084)
Depreciation of property, plant and equipment	11,266	13,572
Amortisation of intangible assets	468	623
Amortisation of lease premiums	67	80
Depreciation of right of use assets	9,430	21,083
Finance charges payable on lease liabilities	1,638	5,261
Expenses relating to leases of low value assets	13	56
(Profit)/loss on disposal of property, plant and equipment	653	2,200

3.1 Government grants and assistance

During the year the Company 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)

Amounts received and receivable during the year are disclosed below.

	2022	*2021*
	£000	*£000*
Grant income in respect of CJRS included in cost of sales	555	22,118
Grant income in respect of CJRS included in administrative expenses	102	2,668
Grant income in respect of RHLGF included in administrative expenses	2,343	11,298

At 31 May 2022, receivables in respect of the CJRS was £Nil (2021 – £994) included within other debtors.

Notes to the financial statements

3. Profit before taxation (continued)

3.2 Exceptional items

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

	2022	2021
	£	£
Item		
Release of amounts owed to other group undertakings as part of the provisions of the CVA	-	24,242
Net gain on disposal of right of use assets and lease liabilities at date of CVA	-	18,292
Professional advisory fees in relation to business restructure and the CVA	(5,316)	(5,895)
Release of other compromised creditors at date of CVA	-	1,523
Reimbursement of CVA professional fee items	2,591	-
Store Closure costs	(102)	-
Store impairments resulting from significant trading disruption due to the Covid-19 pandemic	-	(10,045)
Exceptional items (pre-tax)	2,827	28,117
Tax impact of exceptional items	(537)	(1,506)
Exceptional items (post-tax)	2,290	26,611

The Directors have concluded these costs are material to the financial statements and are non-recurring in nature. The exceptional costs arose in the prior year as a result of the severe impact of Covid-19 on the business and the wider hospitality industry, which resulted in the Company 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 in the prior year as rental costs are now based on store-level revenues rather than being fixed in nature. The remaining exceptional costs in the current year are professional fees for remaining work around business restructure.

4. Directors' remuneration

	2022	2021
	£000	£000
Amount paid in respect of qualifying services	-	-
Aggregate directors' remunerations	1,049	705
Aggregate directors' pension scheme contributions	3	2

The directors were paid £1.1m (2021 – £0.7m) by the Company in respect of services rendered to the enlarged UK Group of which the Company is a member. No remuneration was paid or is payable by other members of the enlarged group. It is not possible to identify the proportion of these remunerations that relate to services rendered to the Company.

The Company also paid remuneration and pension contributions of £110k (2021: 80k) to directors of other companies within the enlarged Caffe Nero group ('The Nero Group Ltd').

The highest paid director was paid remuneration of £491k (2021: £331k). No pension contribution was paid due to the director opting out of his pension membership during the year.

At the year end, the Company owed a director Gerry Ford £186k (2021 – £174k) in respect of business use of a personal car and £344k in respect of pensions (2021 – £322k).

Notes to the financial statements

5. Staff costs

	2022 £000	2021 £000
Wages and salaries[1]	79,444	45,916
Social security costs	5,408	4,654
Other pension costs	4	2
	84,856	50,572

Of the staff costs reported above £4.5m (2021 – £2.75m) was recharged to fellow subsidiaries, Harris & Hoole Limited and Aroma Limited.

The average monthly number of employees during the year was as follows:	*No.*	*No.*
Operational	3,968	3,216
Administration	838	849
	4,806	4,065

[1]Staff costs reported above are after the deduction of government grants received in respect of these costs of £0.7m (2021 – £24.8m).

6. Interest payable and similar expenses

	2022 £000	2021 £000
Finance charges	1,638	5,261

Finance charges represent interest costs on lease liabilities.

7. Income tax

The Company has paid a total tax bill of £35.4m in the UK this year (2021 – £11.7m). This is made up of VAT, employment taxes (including PAYE & apprenticeship levy) and business rate taxes, representing 14% of total UK sales at £41k per store (2021 – £19k per store). The Company is part of a wider group, ("Caffè Nero Group Holdings") and corporate tax affairs are evaluated at group level.

The enlarged group, of which the Company is a member, generated a loss before taxation of £7.6m (2021 – loss before tax £16.7m), which has been explained further in the strategic report.

The group's UK tax computations do not contain any overseas profits or losses, just its UK results.

(a) Tax on profit on ordinary activities

	2022 £000	2021 £000
Current tax – Adjustments in respect of prior periods	(64)	–
Current tax	390	
Deferred tax – Origination and reversal of timing differences	1,780	(9,902)
Deferred tax – Adjustments in respect of prior periods	103	-
Income tax reported in the Statement of Comprehensive Income	2,209	(9,902)

Notes to the financial statements

7. Income tax (continued)

(b) Factors affecting tax on profit 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% (2021 – 19.00%). The differences are explained below:

	2022 *£000*	*2021* *£000*
Profit on ordinary activities before tax	37,140	44,917
Profit on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 19.00% (2021 – 19.00%)	7,057	8,534
Effects of		
Expenses not deductible for tax purposes	72	836
Fixed asset differences	149	619
Benefit of tax incentives	(284)	-
Income not taxable	-	(4,609)
Other permanent differences	-	(4)
R&D expenditure credits	-	18
Adjustments in respect to previous periods – deferred tax	103	-
Transfer pricing adjustments	2,885	4,996
Group relief claimed for nil payment (due to finance charges)	(8,136)	(11,139)
Remeasurement of deferred tax for changes in tax rates	427	(2,377)
R&D tax credit in respect of prior periods	(64)	-
Movement on deferred tax not recognised	-	(6,776)
Income tax charge / (credit) reported in the Statement of Comprehensive Income	2,209	9,902

(c) Deferred tax

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

		2022		*2021*
	Recognised *£000*	*Not recognised* *£000*	*Recognised* *£000*	*Not recognised* *£000*
Decelerated capital allowances	7,995	-	9,764	-
Short term timing differences	(11)	-	-	-
Deductable temporary differences	138	-	138	-
Adjustments for prior periods	(103)	-	-	-
Deferred tax asset	8,019	-	9,902	-

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 Company.

On 23 September 2022 the Chancellor of the Exchequer announced that the corporation tax rate will remain at 19% from 1 April 2023, reversing a previously enacted measure to increase the rate to 25%. This reversal in the tax rate from 1 April 2023 has not been enacted or substantively enacted and accordingly has no impact on the tax balances at 31 May 2022.

The potential impact of this change on the deferred tax balances at 31 May 2022 is expected to be £427k.

The Company has claimed UK group relief in the year to mitigate its UK corporation tax liability.

Notes to the financial statements

8. Monies held in restricted accounts and deposits

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

	2022	*2021*
	£000	*£000*
Cash at bank and in hand	-	1,000

9. Property, plant and equipment

	Leasehold improvements	*Furniture, fittings and equipment*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 June 2021	173,144	92,606	265,750
Additions	3,084	3,999	7,083
Disposals	(2,260)	(1,723)	(3,983)
At 31 May 2022	173,968	94,882	268,850
Depreciation and impairment:			
At 1 June 2021	139,990	87,792	227,782
Provided during the year	6,823	4,444	11,267
Disposals	(2,579)	(1,363)	(3,942)
Impairment	-	83	83
At 31 May 2022	144,234	90,956	235,190
Net book value:			
At 31 May 2022	29,734	3,926	33,660
At 1 June 2021	33,154	4,814	37,968

Assets written down to nil net book value but with a gross cost of £103.7m (2021 – £85.4m) are still in use by the Company at 31 May 2022.

The significant trading disruption in the prior period due to the COVID-19 pandemic was judged to be an indicator of potential impairment of assets and as such the directors decided to assess all assets for impairment in accordance with IAS 36. The current year began in the same way and was also impacted by COVID-19, causing a disruption to trade. The directors, again, decided to re-assess all assets for impairment with the same principles as the prior year.

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

In this base case forecast, it is assumed that trading performance will gradually return to a pre-Covid level over the period from June 2022 to May 2023 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 Caffè Nero Group's weighted average cost of capital. For 2022, a discount rate of 10.5% has been applied to discount future cash flow projections (2021 – 10.2%).

Impairment was recorded in a number of cash generating units in the prior year, reflecting weaker trading following the Covid-19 pandemic. This year asset impairment was lower, reflecting the increase in trading due to the uplift following the end of restrictions from the Covid-19 pandemic. A charge of £0.08m (2021:

Notes to the financial statements

9. Property, plant and equipment (continued)

£5.1m) was recorded against Property, Plant & Equipment ('PPE') and a further Nil (2021: £4.9m) against right-of-use assets (see note 10).

10. Right-of-use assets and lease liabilities

	2022
	£000
Right-of-use assets at 1 June 2021	47,189
Additions	19,202
Disposals	(2,667)
Depreciation	(9,430)
Re-measurements	(872)
Right-of-use assets at 31 May 2022	53,422

	2022
	£000
Lease liabilities at 1 June 2021	56,133
Additions	19,202
Liabilities extinguished on disposals	(5,881)
Finance charges	1,638
Cash payments made	(12,366)
Remeasurements	(598)
Lease liabilities at 31 May 2022	58,128

Within the lease liabilities at 31 May 2022, £8.3m (2021 – £7.2m) is presented as current.

11. Intangible assets

	Software	*Goodwill*	*Trademarks*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 1 June 2021	5,597	365	247	6,209
Additions	27	-	-	27
Disposals	(1)	-	-	(1)
At 31 May 2022	5,623	365	247	6,235
Amortisation:				
At 1 June 2021	4,985	–	–	4,985
Charge for the year	468	-	-	468
Disposals	(1)	-	-	(1)
At 31 May 2022	5,452	-	-	5,452
Net book value:				
At 31 May 2022	171	365	247	783
At 1 June 2021	612	365	247	1,224

Notes to the financial statements

11. Intangible assets (continued)

Goodwill relates to the acquisition of the Caffè Nero business in 1997 and is allocated to the Group of cash generating units that comprise the stores acquired.

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

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.

The model uses the following key assumptions:

Discount rate

A post-tax discount rate of 10.5% has been used (2021 – 10.2%). The discount rate has been derived from the Company'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% (2021 – 2.5%). The growth rate is consistent with historic performance and expected future market conditions. The forecast EBITDA is based on existing stores and excludes projected earnings from future store openings. Forecast capital expenditure on new stores has been excluded from the cash flow projections.

A terminal growth rate of 2.5% (2021 – 2.5%) has been used to calculate expected cash flows after 5 years. This assumption is consistent with the long–term growth projections for the industry.

Sensitivity to changes in assumptions

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

12. Investments

	£000
Cost:	
At 1 June 2021	17,353
As at 31 May 2022	17,353

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.

Details of subsidiary undertakings:

Name of Company	*Proportion of voting rights*	*Nature of Business*
Harris and Hoole Limited[1]	100%	Coffee retail
Aroma Limited[1]	100%	Coffee retail
Caffè Nero Ireland Limited[2] (Incorporated in the Republic of Ireland)	100%	Coffee retail

[1] Registered address for subsidiary is: 9-15 Neal Street, London, WC2H 9QL

[2] Registered address for subsidiary is: 2nd floor Beaux Lane House, Mercer Street Lower, and Dublin 2

Notes to the financial statements

13. Lease premiums

	Lease premiums £000
Cost:	
At 1 June 2021	5,273
Additions	207
At 31 May 2022	5,480
Amortisation:	
At 1 June 2021	5,092
Charge for the year	67
At 31 May 2022	5,159
Net book value:	
At 31 May 2022	321
At 1 June 2021	181

The net book value at 31 May 2022 is split as follows:

	Lease premiums £000
Non-current assets	130
Current assets	191

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

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

14. Trade and other receivables

Current:	*2022 £000*	*2021 £000*
Trade debtors and accrued income	3,501	1,481
Prepayments and other debtors[1]	3,074	1,781
	6,575	3,262

	£000	*£000*
Other debtors (rent deposits)	141	149

[1]Included within prepayments and other debtors is a receivable of £994k in respect of the CJRS.

Notes to the financial statements

15. Inventories

	2022 £000	2021 £000
Goods for resale	2,589	2,487

16. Financial instruments

	2022 £000	2021 £000
Fair value of currency contracts	118	(483)

17. Trade and other payables

	2022 £000	2021 £000
Due within one year		
Trade payables	10,731	11,083
Amount due to other group companies	10,817	10,366
Other creditors, including taxation and social security	13,697	11,124
Accruals and deferred income	19,267	25,414
Corporation tax	290	-
Amounts due to directors	530	496
	55,332	58,483

	2022 £000	2021 £000
Due after one year		
Accruals and deferred income	118	171

Included within accruals and deferred income are contract liabilities of £2.3m (2021 – £1.4m) representing the transaction price allocated to loyalty points not yet redeemed. The increase in contract liabilities in the current year is due to the impact of the removal of Covid-19 related government restrictions on store footfall. This is also reflected in the higher stores sales compared to the previous year seen in note 2.

17.1 Customer loyalty programme transactions

	2022 £000	2021 £000
At 1 June	1,410	1,518
Customer loyalty points issued in the year	11,880	7,847
Customer loyalty points redeemed in the year	(10,943)	(7,955)
At 31 May	2,347	1,410

These amounts relate to the accrual and release of customer loyalty point transactions. As at 31 May 2022, the estimated liability for unredeemed points amounted to £2,347,000 (2021 – £1,410,000).

Notes to the financial statements

18. Provisions

	2022 £000	2021 £000
As at 1 June	3,273	2,687
Provided during the year	65	1,315
Utilised during the year	(729)	(729)
At 31 May 2022	2,609	3,273

Provisions for dilapidations are based on the future expected repair costs required to restore the Company'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.

19. Called up share capital

Authorised	*No.*	*2022 £000*	*No.*	*2021 £000*
Ordinary shares of 5p	200,000	10	200,000	10

Issued and fully paid	*No.*	*2022 £000*	*No.*	*2021 £000*
Paid ordinary shares of 5p	16,410	1	16,410	1

20. 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, in the prior year covering the term loans of The Nero Group Ltd and certain subsidiaries. In the current year the cross guarantee covers the term loans of Caffe Nero Group Holdings Ltd held in Rome Bidco Ltd. Both companies are also subsidiaries of The Nero Group Ltd. The carrying value of these loans at 31 May 2022 was £363 million (2021 – £389.5 million).

21. Capital commitments

At 31 May 2022, capital commitments contracted but not provided for in the financial statements were £921k (2021 – £nil). This was due to capital programs halting as a result of COVID-19 in the prior year.

22. Related party transactions

In accordance with IAS 24, the Company has taken advantage of the related party disclosure exemption from disclosing transactions and balances with other wholly owned companies within 'The Nero Group Ltd'. Transactions with related parties are also disclosed in 'Note 4 – Directors' Remuneration'.

Notes to the financial statements

23. Ultimate parent undertaking and controlling party

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

Immediate parent undertaking	Italian Coffee Holdings Ltd[1]
Parent undertaking of the smallest group for which group financial statements are prepared that include the results of the Company	Caffe Nero Group Holdings Ltd[2]
Parent undertaking of the largest group for which group financial statements are prepared that include the results of the Company	The Nero Group Ltd[2]
Largest shareholder of The Nero Company	G W Ford[3]

[1] Copies of the financial statements for Italian Coffee Holdings Ltd can be obtained from 9-15 Neal Street, London, WC2H 9QL.
[2] Copies of the group financial statements for The Nero Group Ltd and Caffe Nero Group Holdings Ltd can be obtained from 9-15 Neal Street, London, WC2H 9QL.
[3] G W Ford is the largest shareholder of the Company.