

REGISTERED NUMBER 00174706

Thorntons Limited (formerly known as Thorntons PLC)

Annual Report and Financial Statements

For the period ended 26 August 2017

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Thorntons Limited (formerly known as Thorntons PLC)

COMPANY INFORMATION

DIRECTORS

G D'Angelo (resigned 18 October 2017)
B Bloomer (resigned 17 February 2017)
F Minneci (resigned 18 October 2017)
J de Moragas Rague (resigned 18 October 2017)
P Oldano (appointed 18 October 2017)
S Castelli (appointed 17 February 2017)
M Pescarolo (appointed 18 October 2017)

SECRETARY

T J Shirley

REGISTERED OFFICE

889 Greenford Road
Greenford
Middlesex
UB6 0HE

AUDITORS

PricewaterhouseCooper LLP
1 Harefield Road
Uxbridge
UB8 1EX

Thorntons Limited (formerly known as Thorntons PLC)

CONTENTS

Contents	Page
Strategic Report	4 - 5
Directors' Report and Statement of Directors' Responsibilities	6 - 7
Independent Auditors' Report	8 - 9
Income Statement	10
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 - 35

Thorntons Limited (formerly known as Thorntons PLC)

**Strategic Report
For the period ended 26 August 2017**

The directors present their Strategic Report for the period ended 26 August 2017.

Business review and future developments

The principal activity of the Company is the manufacture, retail and distribution of high-quality confectionery and other sweet foods.

On 15 November 2016 the Company de-registered as a public company and re-registered as a private limited company and subsequently changed its name to Thorntons Limited.

Turnover for the period ended 26 August 2017 is £139,794,000 (53 week period ended 27 August 2016: £191,301,000). The loss for the financial period ended 26 August 2017 is £31,060,000 (53 week period ended 27 August 2016: £18,948,000), including exceptional items of £19,346,000 (2016: £10,191,000). Exceptional items include impairment and onerous lease charges, shop closure and restructuring costs (see note 6).

At the period end the Company is in a net liabilities position of £47,468,000 (2016: net liabilities £25,285,000).

The Company will continue to accelerate management's "rebalance, revitalise and restore" strategy of recent years which will continue to evolve as the transition and integration into the Ferrero Group progresses towards establishing Thorntons Limited as an emerging FMCG brand with a strong UK multi-channel retail presence.

Business key performance indicators

The key performance indicators ("KPIs") are reflective of the Company's emphasis on improving market share and margin performance whilst controlling operating costs. These are the key measures for monitoring the Company's continuing "rebalance, revitalise and restore" program:

	2017	2016
	£000	£000
Turnover	139,794	191,301
Gross profit % of turnover	30.5%	38.3%
Operating loss % of turnover	(25.0%)	(8.8%)
Loss before tax % of turnover	(26.8%)	(10.0%)

Principal risks and uncertainties

The directors and senior management evaluate and manage the risks faced by the business on a continual basis. The key business and financial risks affecting the Company are considered to be as follows:

Interest rate risk

Borrowings of a longer-term nature have been consolidated into the loan from the parent with the objective of reducing exposure to fluctuations in rates. The loan is still based on LIBOR which is considered to be a reliable measure of the base cost of borrowing in the wider market.

Liquidity risk

In November 2015, the Company repaid and cancelled the existing borrowing facilities in their entirety following Group funding arrangements via an intercompany loan from Ferrero International S.A., the ultimate parent undertaking. At the end of the financial period the Company has a short-term committed overdraft facility of £5,000,000 therefore reducing liquidity risk.

Thorntons Limited (formerly known as Thorntons PLC)

Strategic Report (Continued)
For the period ended 26 August 2017

Principal risks and uncertainties (continued)

Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for Ferholding UK Limited, the immediate parent undertaking, and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in note 22) less cash at bank. Total equity is shown in the Statement of financial position.

The Company's aim is to seek to maintain or reduce the level of net debt and improve operating cash flow.

Price risk

The Company seeks to limit its exposure to volatility in raw material and energy costs by buying these forward, where possible, for a period of up to a year. Under IAS 39 the Company takes advantage of the "own use" exemption and does not fair value these contracts.

Foreign currency risk

The Company's exposure to foreign currency risk on trading transactions is not significant, however hedging arrangements are made in respect of the largest purchase contracts when placed. It is the Company's policy to hedge significant fixed asset or capital transactions where appropriate.

Credit risk

Retail sales represent a large proportion of the Company's sales and present no credit risk as they are made for cash. Where credit sales are concerned, the Company operates effective credit control procedures in order to minimise exposure to overdue debts and, where possible, also carries insurance against the cost of bad debts. The insurance counterparties involved in transactions are limited to high quality financial institutions.

At 26 August 2017 there were no significant concentrations of credit risk.

This report was approved by the board and signed on its behalf by:


S Castelli
Director
27 July 2018

**Directors' Report and Statement of Directors' Responsibilities
For the period ended 26 August 2017**

The directors present their report and the audited Financial Statements of the Company for the period ended 26 August 2017.

Results and dividends

The results for the financial period can be seen in the Income Statement on page 10.

The directors do not recommend the payment of a dividend (2016: £Nil).

Comparative information

The comparative information provided in the Financial Statements is for a 53 week period ended 27 August 2016.

Going concern

The directors are satisfied, on the basis of current financial projections and the Group funding facilities available, that the Company has adequate financial resources to continue to operate for the foreseeable future. In addition, the directors have received financial commitment from the ultimate parent undertaking, Ferrero International S.A. in writing and are satisfied that Ferrero International S.A. can support the Company if needed. The company therefore continues to adopt the going concern basis in preparing its Financial Statements.

Charitable and political contributions

During the period, the Company made no charitable contributions (2016: £nil). It is the policy of the Board not to make political donations and accordingly none were made in the period (2016: £nil).

Future developments and financial risk management

Future developments and financial risk management policies are set out in the Strategic Report on pages 4 and 5 respectively.

Directors

The directors who served during the period ended 26 August 2017 and up to date of signing the Financial Statements, unless otherwise indicated are given below:

S Castelli (appointed 17 February 2017)
P Oldano (appointed 18 October 2017)
M Pescarolo (appointed 18 October 2017)
G D'Angelo (resigned 18 October 2017)
B Bloomer (resigned 17 February 2017)
F Minneci (resigned 18 October 2017)
J de Moragas Rague (resigned 18 October 2017)

Qualifying third party indemnity provisions

Qualifying third party indemnity insurance was provided to the directors and officers of the Company for the entire period covered by these Financial Statements and has continued to the date of approval of this report.

Employee involvement

It is policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing the Company's performance. The views of employees are taken into account in making decisions affecting their interests and information of relevance to all employees is communicated through a council system of employee representation and regular business updates. Encouragement is given to colleagues to contribute towards the Company's financial performance by annual bonus schemes.

Equal opportunities and employment of disabled persons

Employment policies are designed to provide equal opportunity, irrespective of age, gender, sexual orientation, disability, religion, race or marital status. Full consideration is given to applications for employment and the continuing employment, training and career development of disabled people.

Research and development

The Company continues an active programme of research and development in all areas of its activities, with a constant review of existing products and development of new products being an integral part of this programme.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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

Independent auditor

The independent Auditors, Pricewaterhousecoopers LLP, were appointed on 8 August 2017. Pricewaterhousecoopers LLP have indicated their willingness to continue in office and a reselection concerning their reappointment will be proposed at the Annual General meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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), including FRS 101 'Reduced Disclosure Framework'.

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 of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will remain in business.

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.

This report was approved by the board on 27 July 2018 and signed on its behalf by:



S Castelli
Director

Independent auditors' report to the members of Thorntons Limited

Report on the audit of the financial statements

Opinion

In our opinion, Thorntons Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 26 August 2017 and of its loss for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 26 August 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Thorntons Limited

Report on the audit of the financial statements (Continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

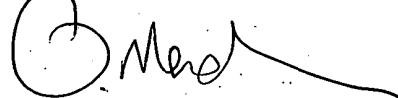
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge

27 July 2018

Thorntons Limited (formerly known as Thorntons PLC)

Income Statement

For the period ended 26 August 2017

	Note	52 weeks ended 26 August 2017			53 weeks ended 27 August 2016		
		Before exceptionals £'000	Exceptional items (note 6) £'000	Total £'000	Before exceptionals £'000	Exceptional items (note 6) £'000	Total £'000
Turnover	4	139,794	-	139,794	191,301	-	191,301
Cost of sales		(97,133)	-	(97,133)	(118,036)	-	(118,036)
Gross profit		42,661	-	42,661	73,265	-	73,265
Administrative expenses	6	(59,554)	(19,346)	(78,900)	(81,181)	(10,191)	(91,372)
Other operating income	7	1,259	-	1,259	1,270	-	1,270
Operating loss	5	(15,634)	(19,346)	(34,980)	(6,646)	(10,191)	(16,837)
Interest receivable and similar income	11	20	-	20	377	-	377
Interest payable and similar expenses	12	(1,620)	-	(1,620)	(1,342)	-	(1,342)
Other finance expenses	13	(943)	-	(943)	(1,343)	-	(1,343)
Loss before taxation		(18,177)	(19,346)	(37,523)	(8,954)	(10,191)	(19,145)
Tax on loss on ordinary activities	14	3,216	3,247	6,463	(1,841)	2,038	197
Loss for the financial period		(14,961)	(16,099)	(31,060)	(10,795)	(8,153)	(18,948)

Statement of Comprehensive Income

For the period ended 26 August 2017

	Note	52 weeks period ended 26 August 2017 £'000	53 weeks period ended 27 August 2016 £'000
Loss for the financial period		(31,060)	(18,948)
Other comprehensive income/(expense):			
Actuarial gain/(loss) on defined benefit schemes	30	11,311	(13,541)
Movement in deferred taxation relating to pension liability	24	(2,434)	1,657
		8,877	(11,884)
Total comprehensive expense for the period		(22,183)	(30,832)

Thorntons Limited (formerly known as Thorntons PLC)

Statement of Financial Position
As at 26 August 2017

	Note	26 August 2017 £'000	26 August 2017 £'000	27 August 2016 £'000	27 August 2016 £'000
Fixed assets					
Intangible assets	15		2,815		2,135
Tangible assets	16		26,091		23,156
Fixed asset investments	17		23,555		23,555
			<u>52,461</u>		<u>48,846</u>
Current assets					
Inventory	18	41,915		40,617	
Debtors: Amounts falling due after more than one year	19	9,062		9,602	
Debtors: Amounts falling due within one year	19	19,247		18,999	
Cash at bank		<u>3,022</u>		<u>293</u>	
		73,246		69,511	
Creditors: Amounts falling due within one year	20	<u>(45,791)</u>		<u>(26,167)</u>	
Net current assets/ (liabilities)			<u>27,455</u>		<u>43,344</u>
Total assets less current liabilities			<u>79,916</u>		<u>92,190</u>
 Creditors: Amounts falling due after one year	 21	 <u>(76,242)</u>	 <u>3,674</u>	 <u>(62,530)</u>	 <u>29,660</u>
Provisions for liabilities					
Other Provision	25		(16,045)		(3,810)
Pension liability	30		<u>(35,097)</u>		<u>(51,135)</u>
Net liabilities			<u>(47,468)</u>		<u>(25,285)</u>
 Capital and reserves					
Called up share capital	26		7,005		7,005
Share premium account	27		14,625		14,625
Accumulated losses			<u>(69,098)</u>		<u>(46,915)</u>
 Shareholder's deficit			<u>(47,468)</u>		<u>(25,285)</u>

The notes on pages 13 to 35 are an integral part of these financial statements.

The financial statements of Thorntons Limited (registered number 00174706) were approved by the board of Directors and authorised for issue on 27 July 2018. They were signed on its behalf by:


S. Castelli
Director

Thorntons Limited (formerly known as Thorntons PLC)

**Statement of Changes in Equity
As at 26 August 2017**

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Shareholder's deficit £'000
At 23 August 2015	6,911	14,098	(16,083)	4,926
Loss for the financial period	-	-	(18,948)	(18,948)
Other comprehensive expense	-	-	(11,884)	(11,884)
Shares issued during the period	94	527	-	621
At 27 August 2016	7,005	14,625	(46,915)	(25,285)
Loss for the financial period	-	-	(31,060)	(31,060)
Other comprehensive income	-	-	8,877	8,877
At 26 August 2017	7,005	14,625	(69,098)	(47,468)

Thorntons Limited (formerly known as Thorntons PLC)

**Notes to the Financial Statements
For the period ended 26 August 2017**

1 General information

Thorntons Limited ("the Company"), formerly known as Thorntons PLC, is a private limited company incorporated and domiciled in the UK. The address of the Company's registered office is 889 Greenford Road, Greenford, Middlesex, UB6 0HE.

The principal activity of the Company is the manufacture, retail and distribution of high-quality confectionery and other sweet foods.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation of Financial Statements

The individual Financial Statements of Thorntons Limited have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

The Financial Statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The Company obtained confirmation of on-going financial support from Ferrero International S.A., the ultimate parent undertaking, in order to operate as a going concern; see Directors' report.

The preparation of Financial Statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these Financial Statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of Financial Statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment'; and
 - (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliation's between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of Financial Statements':
 - 10(d), (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies and changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation); and
- The requirements in IAS 24, 'Related party disclosures' to related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Note 33 gives details of the Company's parent and from where its consolidated Financial Statements, prepared in accordance with IFRS, may be obtained.

The reporting period is for the year ended 26 August 2017. The comparative information is for the 53 week period ended 27 August 2016.

2 Summary of significant accounting policies (Continued)

Changes in accounting policy and disclosures

(I) New and amended standards adopted by the Company

There are no new standards that are effective for the first time for the financial period beginning on or after 23 August 2015 that have been adopted or have an impact on the Financial Statements of the Company.

Consolidation

The Financial Statements contain information about Thorntons Limited as an individual company. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated Financial Statements as it and its subsidiary undertakings are included in the Financial Statements of its ultimate parent undertaking, Ferrero International S.A., a company incorporated in Luxembourg, which are publicly available.

Going concern

The Company meets its day-to-day working capital requirements through its bank or group facilities. The Company's forecasts, taking account of reasonably possible changes in trading performance, show that the Company will be able to operate within the level of its current facilities. After making enquiries, the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future, supported by the receipt in writing of the financial commitment from the ultimate parent undertaking, Ferrero International S.A. and are satisfied that Ferrero International S.A. can support the Company if needed. The Company therefore continues to adopt the going concern basis in preparing its Financial Statements. Further information on the Company's borrowings (finance leases) is given in note 22.

Functional and presentational currency

The Company's functional and presentational currency is Pound Sterling. All financial information presented in Pound Sterling has been rounded to the nearest thousand.

Turnover

Turnover comprises the amounts receivable for goods and services in the normal course of business, net of trade discounts and value added tax.

Retail sales and allowances are recognised at the date of the transaction with consumers. In addition, provisions are made for expected returns as necessary. For sales promotion purposes, the Company operates a variety of schemes that give rise to goods being sold at a discount to the standard retail price. These include staff discounts and the redemption of promotional vouchers. Turnover is adjusted to show sales net of all related discounts.

Wholesale sales, including sales to franchise outlets, are recognised either when goods are dispatched to customers or the customer has accepted the products, depending on the sales channel. Provision is made for expected returns and allowances as necessary, including discounts and rebates.

Turnover from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the stock have passed to the customer, which is the point of dispatch.

Grants

Grants and other contributions towards the cost of tangible fixed assets are included in creditors as deferred income and credited to the Income Statement over the life of the asset. They are recognised at fair value where there is a reasonable assurance that the grant will be received and that the Company will comply with the conditions of the grant.

Foreign currency translation

Transactions in foreign currencies are translated to Pound Sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Pound Sterling at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to the Income Statement.

Operating leases

The costs of all operating leases are charged against operating profit on a straight-line basis at existing rental levels. Incentives to sign leases, including reverse premiums and rent-free periods, are treated as deferred income and are credited to the Income Statement in equal instalments over the term of the lease.

Rental income from operating leases is recognised on a straight-line basis over the period of the lease at current rental levels.

Exceptional items

Exceptional items are significant items that derive from events, transactions or changes in the bases of accounting estimates that individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the Financial Statements are to give a true and fair view.

2 Summary of significant accounting policies (Continued)

Other operating income

Other operating income comprises amounts receivable in respect of licensing income, franchise fees and rental income, net of value added tax where applicable. Licence and rental income are recognised on an accruals basis in accordance with the risks and rewards of the relevant agreements. Franchise fees are non-refundable and are charged in return for the initial grant of a five-year franchise and the income is therefore held as deferred income on the Statement of financial position and released to the Income Statement on a straight-line basis over this five year period. Fees in respect of subsequent renewals are likewise amortised over the renewal period.

Interest receivable and similar income

Interest receivable is recognised in the Income Statement using the effective interest method.

Interest payable and similar charges

Interest payable is charged to the Income Statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated instrument.

Dividends

Final dividends are recognised as a liability in the period in which they are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

Current and deferred taxation

The charge for current tax is based on the results for the period after making allowance for non-assessable or disallowance items, calculated using rates of tax that have been enacted at the balance sheet date.

Deferred taxation is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax liabilities are recognised in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit, it is not accounted for. Deferred taxation is measured based on tax rates and laws enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legal, enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and where the Company intends to settle its current tax assets and liabilities on a net basis.

Tangible assets

Tangible fixed assets are recognised at cost and subsequently stated at cost less accumulated depreciation. Cost comprises the purchase price of tangible fixed assets together with any incidental costs of acquisition.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditure is charged to the Income Statement.

Land and assets in the course of construction are not depreciated. Other tangible fixed assets are depreciated to write their cost down to residual value over their remaining useful lives by equal annual instalments as follows:

Long leasehold and freehold premises	- 50 years
Short leasehold land and buildings	- Period of the lease
Other plant, vehicles and equipment	- Up to 15 years
Retail fittings and equipment	- Up to 10 years

2 Summary of significant accounting policies (Continued)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The need for an impairment write-down is assessed by comparison of the carrying value of the asset against the higher of its net realisable value or value in use.

Non-financial assets that are not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds (net of disposal costs) with the carrying amount and are recognised within operating expenses in the Income Statement.

Pre-trading expenditure on new stores is charged to the Income Statement as incurred.

Expenditure in respect of research and development is written off against profits in the period in which it is incurred, unless the development costs meet the criteria for capitalisation under IAS 38 'Intangible assets'.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Investments

Investments in subsidiaries are recognised at cost and carried at cost with provision being made where appropriate for impairment. Impairment is assessed by comparing the carrying value to the higher of net realisable value or value in use.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads, based on normal operating capacity, according to the stage of production reached and valued on a first-in, first-out basis. It excludes borrowing costs. Net realisable value is the estimated value which would be realised after deducting all costs of completion, marketing and selling. Provision is made to reduce the cost to net realisable value having regard to the age and condition of stock, as well as its anticipated saleability.

Trade debtors

Trade debtors are amounts due from customers for goods and services in the ordinary course of business, classified as current as all are expected to be received within one year.

Trade debtors are recognised initially at fair value and subsequently carried net of provisions for impairment. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade debtor is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, apportioned depending on the age. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement within administrative expenses. When a trade debtor is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Income Statement.

Cash at bank

Cash at bank includes cash in hand, deposits on call with banks, other short-term liquid investments with maturities of three months or less and bank overdrafts. Bank overdrafts, if applicable, are shown within current liabilities on the Statement of financial position.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers, classified as current as all are expected to be received within one year.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

Derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Where appropriate, the Company enters into derivatives in order to minimise relevant currency and interest rate exposure. These are designated as hedges of the cost of a highly probable forecast transaction or commitment ("cash flow hedging instrument").

To qualify for hedge accounting the Company is required, at inception, to document in advance the relationship between the item being hedged and the hedging instrument, and to document and reassess at each reporting date whether the hedge will be highly effective in offsetting changes in cash flows of the hedged item on an on-going basis.

The effective portion of changes in the fair value of cash flow hedging derivatives is recognised in the Statement of Comprehensive Income within the hedging reserve. The change in fair value relating to the ineffective portion of the hedge is recognised in the Income Statement immediately within interest payable and similar charges. Amounts accumulated within equity are recycled to the Income Statement in the periods when the hedged item will affect profit.

When a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. If the hedged transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the Income Statement.

The Company seeks to limit its exposure to volatility in raw material and energy costs by buying these forward, where possible, for a period of up to a year. Under IAS 39 'Financial Instruments: Recognition and measurement' the Company takes advantage of the "own use" exemption and does not fair value these contracts.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Subsequent measurement is based on amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the expected period of the borrowings using the effective interest rate method. If borrowings are renegotiated before the end of their term, remaining non-amortised transaction costs are written off to the Statement of Comprehensive Income.

Net debt is cash and cash equivalents, bank and other loans and finance leases.

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

Tangible fixed assets held under finance leases are capitalised in the Statement of financial position at fair value of leased assets or, if lower, the present value of the minimum lease payments. Assets are depreciated over the shorter of their lease term and their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the Income Statement over the period of the lease.

Provisions

Provisions for onerous leases and dilapidations are recognised in the Statement of Financial Position when the Company has a legal or constructive obligation whereby, as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds, when applicable.

2 Summary of significant accounting policies (Continued)

Post-retirement benefits

Defined benefit pension scheme

The retirement benefit liability recognised in the Statement of Financial Position represents the present value of the defined benefit liability and unfunded liabilities as reduced by the fair value of defined benefit scheme assets. This scheme was closed to new entrants with effect from August 2002 and closed to future accrual in April 2013.

The defined benefit liability is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised directly in equity and are presented in the Statement of Comprehensive Income. Administrative expenses and interest associated with the defined benefit scheme are recognised in the Income Statement.

The contributions made by the employees (up to the date of closure) and the Company are held in a trust fund separate from the Company's finances.

Defined contribution pension scheme

The Company also operates a defined contribution pension scheme that requires contributions to be made to a separately administered fund. Contributions to the fund are determined as a percentage of employees' earnings and are charged to the Income Statement as incurred.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with FRS 101 requires management to make estimates and assumptions. Actual results could differ from these estimates. Information about such judgements and estimates is contained in the accounting policies and notes to the Financial Statements, and the key areas are summarised below:

(i) Provisions and impairment

The Company makes judgements to determine whether there is objective evidence that indicates that stock should be held at net realisable value.

The store dilapidation provision is estimated based on past experience of cash outflows.

The Company provides against onerous leases based on future estimated trading cash flows and a discount rate is used in this calculation. A 1% change in this discount rate would result in a £373,000 change in the provision at the year end.

Assets are reviewed for impairment on a regular basis and a provision made where necessary. For tangible fixed assets held in retail stores a discounted cash flow is calculated for each store, including attributable overheads. Assets attributable to the stores are impaired to the extent that the net present value of the cash flows is lower than the net book value. Any increase to the discount rate will have no effect on the provision value as the underlying assets are now fully impaired.

(ii) Retirement benefit liability

The valuation of the retirement benefit liability is dependent upon a series of assumptions, the key ones being discount rates, mortality rates, investment returns and inflation on the rate of salary and pension increases. These judgements and estimates are determined after taking into account the requirements of IAS 19 'Retirement benefit obligations' and after taking expert advice from the Company actuaries.

These assumptions are set out in note 30 to the Financial Statements.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

4 Turnover

Turnover is derived from the sale of goods as part of the Company's principal activity.

An analysis of turnover by geographical market is given below:

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
United Kingdom	138,028	187,481
Rest of Europe	980	1,588
Rest of the world	786	2,232
	139,794	191,301

5 Operating loss

The operating loss is stated after charging/(crediting):

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Depreciation of tangible fixed assets	7,520	6,369
Amortisation of intangible assets	1,010	621
Loss on disposal of tangible fixed assets	30	698
Exceptional items (see note 6)	19,346	10,191
Auditors' remuneration (see note 8)	107	109
Employee costs (see note 9)	53,758	55,709
Impairment of inventory	1,578	1,532
Pension costs	2,405	2,893
Cost of stocks recognised as an expense	53,325	76,495
Operating lease charges	12,068	17,151
Bad debts	(180)	104

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

6 Exceptional administrative expense

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Impairment and onerous lease charges	16,861	3,136
Shop closure costs	1,607	656
Business integration and restructuring costs	1,278	1,677
Provision for fines	(400)	400
Refinancing costs	-	516
Impairment of investments in subsidiary undertakings	-	3,806
	19,346	10,191

Exceptional items relate to the following costs:

Impairment and onerous lease charges

As a result of the performance of Retail Own Stores during the financial period, further impairment and onerous lease charges have been required. Further detail of the impairment charge can be found in note 16 and the onerous lease charge in note 25.

Shop closure costs

One-off costs incurred in the store closure programme, including redundancy, legal, strip-out, rectification and asset write-off costs.

Business integration and restructuring costs

One-off business integration costs comprising the disposal of intangible assets, commercial contract exit fees and restructuring costs. Prior year restructure costs were incurred independently of the acquisition to deliver a sustainable FMCG focused head office function.

Provision for fines

The credit relates to the reversal of a provision concerning an incident in one store that was subject to court review. This has fallen in favour of Thorntons Ltd, the fine has consequently been waived and the provision released.

Refinancing costs

Refinancing costs in 2016 relate to the write-off of amortised arrangement fees triggered by the early termination of the Group's external borrowing facility which allowed the change to the Ferrero Group borrowing facility.

Impairment of investments in subsidiary undertakings

There is no impairment charge in the current financial period (53 week period ended 27 August 2016: £3,806,000), see note 17.

Tax credit attributable to exceptional items

A tax credit of £3,216,000 (53 week period ended 27 August 2016: £1,277,000) arising in relation to the exceptional items which are an allowable deduction for tax has been recognised in the tax credit for the period.

7 Other operating income

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Franchise fees	32	28
Rental income	26	78
Licensing income	1,201	1,164
	1,259	1,270

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

8 Auditors remuneration

The Company paid the following amounts to its auditors in respect of the audit of the Financial Statements and for other services provided to the Company:

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Fees payable for the audit of the Company's Financial Statements	100	87
- audit of subsidiaries	7	7
- tax compliance services	-	15
Total charged to income statement	107	109

9 Employees

Staff costs were as follows:

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Wages and salaries	47,603	48,998
Social security costs	3,750	3,818
Other pension costs	2,405	2,893
	53,758	55,709

The average monthly number of employees, including the directors, during the period was as follows

	period ended 26 August 2017 Number	53 weeks ended 27 August 2016 Number
Management and administration	284	306
Selling and distribution	1,715	1,790
Manufacturing	963	1,034
	2,962	3,130

Thorntons Limited (formerly known as Thorntons PLC)

**Notes to the Financial Statements (continued)
For the period ended 26 August 2017**

10 Directors' remuneration

The directors' remuneration was as follows:

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Aggregate remuneration	714	506
Company contributions to defined contribution pension schemes	-	18
	714	524

The highest paid director received remuneration including termination payments of £714,000 (53 week period ended 27 August 2016: £275,000) and retirement benefits of £nil (53 week period ended 27 August 2016: £10,000) in respect of defined contribution pension schemes for the period ended 26 August 2017.

11 Interest receivable and similar income

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Other finance income	20	377

12 Interest payable and similar expenses

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Interest on bank loans	-	537
Interest on loan owed to group undertaking	1,421	623
Arrangement fee amortisation on bank loans	-	60
Interest on finance leases	10	62
Provisions: unwinding of discount	124	55
Other finance costs	65	5
	1,620	1,342

13 Other finance expenses

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Net interest on net defined benefit liability (note 30)	943	1,343

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

14 Tax on loss

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Corporation tax		
Current tax on losses for the period	(4,466)	(2,070)
Adjustments in respect of prior periods	(139)	-
Total current tax	(4,605)	(2,070)
Deferred tax		
Origination and reversal of timing differences	40	1,631
Effects of change in tax rate	135	198
Adjustment in respect of prior periods	(2,033)	44
Total deferred tax	(1,858)	1,873
Tax on loss	(6,463)	(197)

Factors affecting tax charge for the period

The tax credit assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.58% (2016: 20%). The differences are explained below:

	period ended 26 August 2017 £'000	53 weeks ended 27 August 2016 £'000
Loss before taxation	(37,523)	(19,146)
Loss on before taxation multiplied by standard rate of corporation tax in the UK of 19.58% (2016: 20%)	(7,347)	(3,829)
Effects of:		
Expenses that are not deductible for tax purposes	317	285
Adjustments in respect of prior periods	(2,172)	44
Tax losses on which deferred tax not recognised	4,354	4,183
Impairment of subsidiary undertakings	-	761
Effect of rate change on deferred tax balances	135	198
Group relief receivable at 100%	(1,744)	(1,658)
Difference between current and deferred tax rates	(6)	(181)
Total tax credit for the period	(6,463)	(197)

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

14 Tax on loss (continued)

Factors that may affect future tax charges

A change in the UK Corporation tax rate was announced in the Chancellor's Budget 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. A change to reduce the UK Corporation tax rate to 19% from 1 April 2017 had already been substantively enacted in the Chancellor's Budget 2015.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these Financial Statements. The overall effect of these changes, if they had been applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £533,000 and decrease the tax credit for the period by £30,000.

15 Intangible assets

	Computer software £000
Cost	
At 28 August 2016	21,766
Additions	1,690
Disposals	(672)
At 26 August 2017	<u>22,784</u>
Accumulated amortisation	
At 28 August 2016	19,631
Charge for the period	1,010
On disposals	(672)
At 26 August 2017	<u>19,969</u>
Net book value	
At 26 August 2017	<u>2,815</u>
At 27 August 2016	<u>2,135</u>

Included above are £572,000 (2016: £881,000) of assets in the course of construction that are not being amortised at the balance sheet date.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

16 Tangible assets

	Long leasehold and freehold land and buildings	Short leasehold land and buildings	Other plant, vehicle and equipment	Retails fittings and equipment	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 28 August 2016	1,699	6,428	92,553	37,918	138,598
Additions	3,140	108	5,500	1,756	10,504
Disposals	-	(635)	(291)	(3,220)	(4,146)
At 26 August 2017	4,839	5,901	97,762	36,454	144,956
Accumulated depreciation & impairment					
At 28 August 2016	664	5,961	72,783	36,034	115,442
Charge for the period	199	983	3,311	3,027	7,520
Disposals	-	(635)	(250)	(3,212)	(4,097)
At 26 August 2017	863	6,309	75,844	35,849	118,865
Net book value					
At 26 August 2017	3,976	(408)	21,918	605	26,091
At 27 August 2016	1,035	467	19,770	1,884	23,156

Assets are reviewed for impairment on a regular basis and a provision made where necessary. A discounted cash flow is calculated for each retail store, including attributable overheads, using the Company's weighted average cost of capital of 6.60% (2016: 5.00%). The net book value of assets attributable to the retail store is impaired to the extent that the net present value of the cash flows is lower than the net book value.

The net impairment charge for the financial period of £3,111,000 (2016: £1,677,000) has been recognised within the depreciation charge for the financial period and has been classified as an exceptional item (see note 6).

Included above are £2,041,000 (2016: £1,232,000) of assets in the course of construction that are not being depreciated at the balance sheet date.

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	26 August 2017 £'000	27 August 2016 £'000
Other plant, vehicles and equipment	2,649	3,105
Retail fittings and equipment	-	255
	2,649	3,360

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

17 Fixed asset investments

	Investments in subsidiary undertakings £000
Cost	
At 26 August 2017 and 28 August 2016	27,361
Impairment	
At 28 August 2016	3,806
Charge for the period	-
At 26 August 2017	3,806
Net book value	
At 26 August 2017	23,555
At 27 August 2016	23,555

Subsidiary undertakings

As at 26 August 2017 the Company held the following subsidiary undertakings:

Name	Country of incorporation and operation	class of shares	Holding	Principal activity
Strand Court Properties Limited	England	Ordinary	100%	Property investment
Thorntons (Jersey) Limited	Jersey	Ordinary	100%	Retail trading company
Cablelane Limited	England	Ordinary	100%	Dormant
Debvale Limited	England	Ordinary	100%	Dormant
Gartner Pralines Limited	England	Ordinary	100%	Dormant
Imco (3496) Limited	England	Ordinary	100%	Dormant
JW Thornton Limited	England	Ordinary	100%	Dormant
JWT Enterprises Limited	England	Ordinary	100%	Dormant
Sunbright Limited	Jersey	Ordinary	100%	Dormant
The Elephant Remembers Limited	England	Ordinary	100%	Dormant
The Taste Creations Company Limited	England	Ordinary	100%	Dormant
Thorntons Card Services Limited	England	Ordinary	100%	Dormant
Thornton Concepts Development Limited	England	Ordinary	100%	Dormant
Thorntons Property (No 1) Limited	England	Ordinary	100%	Dormant
Thorntons Property (No 2) Limited	England	Ordinary	100%	Dormant
Thorntons Property (No 3) Limited	England	Ordinary	100%	Dormant
Thorntons Property (No 4) Limited	England	Ordinary	100%	Dormant
Thorntons Property (No 5) Limited	England	Ordinary	100%	Dormant

The registered address for all the above companies is 889, Greenford Road, Greenford, UB6 0HE.

The directors believe that the carrying value of the Company's investments in its subsidiaries is supported by their underlying net assets or future cash flows.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

18 Inventories

	26 August 2017 £'000	27 August 2016 £'000
Raw materials	7,003	3,638
Work in progress	4,151	5,752
Finished goods and goods for resale	30,761	31,227
	<u>41,915</u>	<u>40,617</u>

During the financial period, £687,000 (2016: £1,695,000) relating to the write-down of stock to net realisable value was recognised as an expense and included within cost of sales for the Company. The provision included stock write-off and obsolete stock provision.

19 Debtors

	26 August 2017 £'000	27 August 2016 £'000
Amount falling		
Due after more than one year		
Deferred tax asset (note 24)	<u>9,062</u>	<u>9,602</u>
	26 August 2017 £'000	27 August 2016 £'000
Amount falling		
Due within one year		
Trade debtors	1,322	4,157
Amounts owed by group undertakings	8,327	7,219
Other debtors	511	226
Prepayments and accrued income	4,483	4,019
Corporation tax	4,604	3,378
	<u>19,247</u>	<u>18,999</u>

Trade debtors are stated after provisions for impairment of £238,000 (2016: £499,000).

Prepayments and accrued income includes £1,510,000 (2016: £1,795,000) of property-related rent, rates, insurances and surcharge prepayments.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

20 Creditors: Amounts falling due within one year

	26 August 2017 £'000	27 August 2016 £'000
Trade creditors	9,226	6,460
Amounts owed to group undertakings	15,020	4,515
Other taxation and social security	1,712	2,690
Finance leases (note 22)	279	281
Other creditors	137	153
Accruals and deferred income	19,417	12,068
	<u>45,791</u>	<u>26,167</u>

Amounts owed to group undertakings are unsecured, interest free and have no fixed repayment terms.

Within accruals and deferred income is a balance in respect of Government grants of £20,000 (2016: £20,000), primarily relating to a grant received in the financial year ended June 2004 for the relocation of toffee manufacturing operations from the original Belper site to Thornton Park.

21 Creditors: Amounts falling due after more than one year

	26 August 2017 £'000	27 August 2016 £'000
Loan owed to group undertaking	75,000	60,700
Finance leases (note 22)	143	439
Accruals and deferred income	1,099	1,391
	<u>76,242</u>	<u>62,530</u>

Included in accruals and deferred income are amounts totalling £107,000 (2016: £127,000) held in respect of Government grants, see note 20.

At 26 August 2017, the balance of the loan from Ferrero International S.A., the ultimate parent undertaking, was £75,000,000 (2016: £60,700,000).

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

22 Loans and other borrowings

	26 August 2017 £'000	27 August 2016 £'000
Amounts falling due within one year		
Finance leases	279	281
	279	281
Amounts falling due after more than one year		
Loan owed to group undertaking	75,000	60,700
Finance leases	143	439

The loan owed to group undertaking is drawn down on an unsecured credit facility, whereby the Company can borrow up to an aggregate amount of £75,000,000 at an interest rate of LIBOR 3 months plus 1.7%

As at 26 August 2017, the Company had undrawn committed borrowings due within one year of £19,300,000 (2016: £19,300,000) and £Nil due between 2-5 years (2016: £nil).

23 Finance leases

The present value of minimum lease payments is analysed as follows:

	Minimum lease payments 2017 £'000	Future finance charges 2017 £'000	Present value of finance lease liability 2017 £'000	Minimum lease payments 2016 £'000	Future finance charges 2016 £'000	Present value of finance lease liability 2016 £'000
Within one year	287	(8)	279	299	(18)	281
Between 1-2 years	144	(1)	143	299	(9)	290
Between 2-5 years	-	-	-	149	-	149
	431	(9)	422	747	(27)	720

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

24 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2016: 18%). The movement on the deferred tax account is shown below:

	26 August 2017 £'000	27 August 2016 £'000
At beginning of period	9,602	9,818
Credited/(charged) to the Income Statement	1,858	(1,873)
Credited to Other comprehensive income	(2,434)	1,657
Deferred tax on share-based payments charged to equity (see below)	36	-
At end of period	9,062	9,602

The deferred tax asset is made up as follows:

	26 August 2017 £'000	27 August 2016 £'000
Accelerated capital allowances	3,030	370
Retirement benefit liability	5,967	9,204
Other	65	28
	9,062	9,602

Deferred tax on share-based payments charged to equity relates to the period prior to acquisition by the Ferrero group. The Company no longer operates any share incentive schemes.

25 Provisions

	Onerous lease provision £'000	Dilapidations provision £'000	Provision for fines £'000	Total £'000
At 27 August 2016	2,947	463	400	3,810
(Credited)/charged to the Income Statement	13,750	(36)	(400)	13,314
Unwinding of discount	124	-	-	124
Utilised during the period	(1,203)	-	-	(1,203)
At 26 August 2017	15,618	427	-	16,045

The provision for onerous leases is held in respect of leasehold properties for which the Company is liable for rent and other property commitments for stores from which either the Company no longer trades or for which future trading cash flows are projected to be insufficient to cover these costs. Amounts have been provided for the shortfall between projected cash flows and the property costs up to the lease expiry date on a discounted basis.

Obligations are payable within a range of less than one to eight years (2016: less than one to seven years), the weighted average being four years (2016: three years).

The Company provides for property dilapidations, where appropriate, based on estimated undiscounted costs of the dilapidation repairs spread over the period of the tenancy.

The provision for fines brought forward from last year concerned an incident that was subject to court review. This has fallen in favour of Thorntons Limited, the fine has consequently been waived and the provision released.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

26 Called up share capital

	26 August 2017 £'000	27 August 2016 £'000
Allotted, called up and fully paid		
70,052,397 (2016: 70,052,397) Ordinary shares of £0.10 each	7,005	7,005

27 Share premium account

	26 August 2017 £'000	27 August 2016 £'000
At beginning of period	14,625	14,098
Shares issued during the period	-	527
Operating profit	14,625	14,625

The share premium account represents the difference between the par value of the shares issued and subscription or issue price.

28 Contingent liabilities

The Company has a contingent liability in respect of the Thorntons Pension Scheme, further details of which are shown in note 30.

29 Capital and other financial commitments

	26 August 2017 £'000	27 August 2016 £'000
Contracts placed for future capital expenditure not provided in the Financial Statements	-	244
Bulk supplies of raw ingredients	15,227	-
	15,227	244

The majority of bulk raw material supply contracts are denominated in Pound Sterling and therefore carry no foreign currency exposure.

The volatility of pricing within key raw material ingredients continues to prompt the use of forward contracts where practical.

Thorntons Limited (formerly known as Thorntons PLC)

**Notes to the Financial Statements (continued)
For the period ended 26 August 2017**

30 Pension commitments

Pension arrangements are operated through a defined contribution scheme and a defined benefit scheme.

The pension costs charged for the period in respect of the defined contribution scheme represents contributions payable by the Company and amounted to £882,000 (2016: £1,044,000). At 26 August 2017, pension contributions of £133,000 were accrued (2016: £141,000). There were no prepaid contributions at 26 August 2017 (2016: £Nil).

The Company operates a Career Average Revalued Earnings ("CARE") defined benefit pension scheme ("the Scheme").

The Scheme was closed to future accrual in April 2013. On the date of closure, all active members became deferred members and their past service benefits switched to being linked to deferred revaluation rather than CARE revaluation. The closure of the Scheme did not result in a curtailment gain or loss as past service benefits for active members were already linked to CARE revaluation and both CARE revaluation and deferred revaluation were linked to RPI Inflation. The same assumption had been adopted historically and the closure did therefore not change the value of the IAS 19 past service liabilities for the relevant members. The scheme has been closed to new entrants since 31 July 2002.

The Company has opted to recognise all actuarial gains and losses immediately in the Statement of Comprehensive Income.

A formal actuarial valuation was carried out with an effective date of 31 May 2014 and the results of this valuation have been updated to 26 August 2017 by a qualified independent actuary.

The Scheme exposes the Company to inflation risk, interest rate risk, investment risk and longevity risk. The Board of Trustees ("the Trustees") are required by law to act in the best interests of the Scheme members and is responsible for setting the investment, funding and governance policies of the Scheme.

The Thorntons Pension Scheme was actuarially valued by an Independent professionally qualified actuary as at 26 August 2017 under IAS 19.

Reconciliation of scheme liabilities and assets:

	26 August 2017 £'000	27 August 2016 £'000
Net liabilities		
At the beginning of the period	(51,135)	(38,995)
Interest cost	(943)	(1,343)
Actuarial gain/(losses)	11,311	(13,541)
Employee contributions	6,250	3,250
Administration costs	(580)	(506)
	(35,097)	(51,135)
	26 August 2017 £'000	27 August 2016 £'000
Liabilities		
At the beginning of the period	146,258	116,674
Interest cost	2,825	4,044
Actuarial (gain)/ losses	(8,558)	32,290
Benefits paid	(2,836)	(6,750)
At the end of the period	137,689	146,258

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

30 Pension commitments (continued)

	26 August 2017 £'000	27 August 2016 £'000
Assets		
At the beginning of the period	95,123	77,679
Interest income	1,882	2,701
Actuarial gains	2,753	18,749
Employee contributions	6,250	3,250
Benefits paid	(2,836)	(6,750)
Administration costs	(580)	(506)
At the end of the period	102,592	95,123

The fair value of plan assets were as follows:

	26 August 2017 £'000	27 August 2016 £'000
Equities	47,063	41,148
Bonds	25,421	22,208
Gilts	-	-
Other	30,108	31,767
Total plan assets	102,592	95,123

Composition of plan liabilities:

	26 August 2017 £'000	27 August 2016 £'000
Total		
Fair value of plan assets	102,592	95,123
Present value of plan liabilities	(137,689)	(146,258)
Net pension scheme liability	(35,097)	(51,135)

The amounts recognised in the Income Statement are as follows:

	26 August 2017 £'000	27 August 2016 £'000
Interest on obligation	(943)	(1,343)
Administration costs	(580)	(506)
Total recognised in the loss for the period	(1,523)	(1,849)

Thorntons Limited (formerly known as Thorntons PLC)

**Notes to the Financial Statements (continued)
For the period ended 26 August 2017**

30 Pension commitments (continued)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2017 %	2016 %
Discount rate	2.40	1.95
Retail Price Index ("RPI") inflation Rate of increase to pensions payment:	3.10	2.80
- service after 6 April 1997	3.00	2.70
Rate of increase to deferred pensions	3.10	2.80
The mortality assumptions used were as follows (years):		
- for a male aged 65 now	21.90	22.20
- at 65 for a male aged 45 now	23.00	23.60
- for a female aged 65 now	23.70	24.10
- at 65 for a female member aged 45 now	25.00	25.60

The sensitivity of the defined benefit liability to changes in the weighted principal assumption is:

	Deficit £'000	Impact on IAS 19 liability £'000
Discount rate plus 0.1% pa	(32,400)	(48,100)
RPI inflation plus 0.1% pa	(36,300)	(53,700)
Post 1997 pension increases plus 0.1% pa	(36,300)	(52,300)

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

In August 2012 and as part of the schedule of contributions agreed with the Trustees to the Thorntons Pension Scheme, it was agreed that the Company's annual liability contribution would increase from 1 June 2015 from £2,750,000 to £3,250,000. It was also agreed that the Company would make an additional contribution over each of the next three financial years, equivalent to the higher of either:

- a third of any reduction in the net debt excluding VAT creditors for the financial years ending June 2013, 2014 and 2015; or
- the amount of dividends paid to shareholders above the level of £1,500,000.

As part of the Company's arrangements with the Trustees of the pension scheme, a £3,000,000 bank guarantee (2016: £3,000,000) is in place that will be paid into the Scheme in the event of either the Company's insolvency, the failure to replace the guarantee on annual renewal, or a winding-up of the Scheme by the Company.

Thorntons Limited (formerly known as Thorntons PLC)

Notes to the Financial Statements (continued)
For the period ended 26 August 2017

31 Operating lease commitments

At 26 August, the Company had future minimum lease payments under non-cancellable operating leases for each of the following periods:

	26 August 2017 £'000	27 August 2016 £'000
Not later than 1 year	8,396	11,287
Later than 1 year and not later than 5 years	15,635	18,937
Later than 5 years	2,900	4,927
	26,931	35,151

The Company has entered into operating leases in respect of retail stores, fork lift trucks and equipment retail store leases have remaining terms of between 1 day and 11 years, with renewal by mutual agreement at the expiry of the lease term and commonly with five-year upwards-only rent review periods. Contingent rentals, not included in the commitments above, are payable on approximately 19% of retail stores where leases contain a store revenue-based component. Standard institutional restrictions common to those in place with other high street retailers are applicable to the Company's retail leases. Non-store leases have remaining lease terms of between 14 days and just over five years.

32 Related party transactions

The Company, as a qualifying entity, is exempt from disclosing related party transactions with companies that are wholly owned within the Ferrero group. There are no other related party transactions.

33 Ultimate parent undertakings

The directors regard Ferholding UK Limited as the immediate parent undertaking and Ferrero International S.A., a company incorporated in Luxembourg, as the ultimate parent undertaking and controlling entity. Ferrero International S.A. is the smallest and largest group of which the Company is a member and for which group Financial Statements are prepared. Its principal place of business is Findel Business Centre, Complex B, Rue de Treves, L-2632 Findel, Luxembourg and consolidated Financial Statements may be obtained from Tribunal d'Arrondissement Luxembourg, Registre de Commerce et des Societes de Luxembourg, BP 15, L-2010 Luxembourg.