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Rome Pikco Limited

Report and Financial Statements

31 May 2013

Directors
G W Ford
B J Price

Secretary
B J Price

Auditors
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Lloyds TSB Bank Plc
25 Gresham Street
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Directors' report

The directors present their report and financial statements for Rome Pikco Limited ('the company') and its subsidiaries (collectively referred to as 'the group') for the year ended 31 May 2013

Results and dividends

The company's key financial performance indicators during the year were as follows

	2013	*2012*
	£000	*£000*
Revenue	205,302	185,218
EBITDA	35,163	31,960
Operating profit	18,434	16,578
(Loss) / profit before tax	(23,295)	39,900
Gross Margin	24 4%	24 3%
New store openings (UK and international)	48	64

The company generated a loss before taxation of £23 3m (2012 – profit before taxation of £39 9m) Further information explaining the material change in results is set out in note 18 to the financial statements No dividend is proposed (2012- nil)

Principal activities

Rome Pikco Limited is the holding company of Rome Bidco Limited, which in 2007, purchased Caffe Nero Group Limited Caffe Nero is the trading name of a group of high quality Italian style coffee bars In addition to its core range of high quality espresso-based coffees, Caffe Nero offers an array of pastries, baked goods, freshly made panini, sandwiches, salads and pastas, as well as cakes and biscotti

Expansion and subsequent events

At the year end, Caffe Nero had 519 stores operating in 247 UK towns and cities The group opened 45 stores in the year and handed 6 stores back to landlords resulting in a net increase of 39 stores or 7 5% of the UK estate The directors believe that there is the potential in the UK market for at least 750 Caffe Nero stores

The group's joint venture in Turkey, Caffe Nero Gida Urunleri AS ('Caffe Nero Turkey'), opened 5 stores in Turkey including three in port locations Caffe Nero Turkey now has four sites in Ankara and Izmir as well as 38 in Istanbul and has a total of 42 stores at the year end Caffe Nero Turkey generated a loss before depreciation, interest, tax and amortisation of £0 4m in the year (2012 – £1 1m) The directors are satisfied with the progress of the joint venture With the addition of further new profitable stores, a full year of trading in newly opened sites and increasing brand awareness, continued progress is expected

The group has a number of franchises operating in the Arabian Gulf The revenues from this franchise agreement are included in these financial statements At the year-end, 13 Caffe Nero stores were open in the United Arab Emirates

During the year the group also signed a new franchise agreement in Cyprus The revenues from this franchise agreement are included in these financial statements At the year-end, one Caffe Nero store was open in Cyprus

On 14 June 2012, the group signed an agreement to acquire a majority stake in Green Coffee Sp z o o ('Green Caffe Nero') a Polish company operating nine stores in Warsaw Based on voting rights and contractual terms, the group is accounting for its investment in Green Caffe Nero as a joint venture and has included its share of results in these accounts At the date of signing these accounts, Green Caffe Nero is operating 15 stores

Directors' report (continued)

Going concern

The directors have produced cash flow forecasts, which indicate that the group can continue as a going concern and that the banking covenants are all met comfortably for the foreseeable future

The group is in a net liability position of £194 7m due to external and intercompany debt The company's immediate parent undertaking, Rome PIK Holdco Limited, has confirmed that it will not seek repayment of £191 9m owed by the group until such time as the group is able to meet these liabilities Rome PIK Holdco effectively owes these funds to various holding companies up to Rome Intermediate Holdings Sarl and the various holding companies have also received confirmation that repayment will not be requested until such time that they are able to meet these liabilities The majority of the remainder of the group's third party liability (£205 5m) is not due within twelve months of the date of authorising these financial statements for issue

The directors have also taken into account the ongoing difficult macro-economic and trading environment prevailing in the UK and have reflected this in their assumptions on the group's growth prospects The directors remain confident their forecasts are achievable

Having made due and careful enquiry, the directors consider that there are no material uncertainties that may cast doubt over the group's ability to continue as a going concern

Treasury and risk management

The group had gross debt at the year end of £404 7m (2012 – £375 7m), and net debt of £393 6m (2012 – £366 5m) Of these amounts, £191 9m (2012 – £179 1m) is a fixed rate loan from the group's parent undertaking It is the group's policy to hedge at least 75% of its exposure to interest rate risk on the floating rate third party debt Further details of the group's financial objectives and exposure to risk are set out in note 19

The group had net liabilities at the year end of £194 7m (2012 – £172 7m) The group's ultimate controlling party has issued Preferred Equity Certificates to an intermediate parent undertaking, Rome Topco Limited, with a nominal value of £98 5 million These liabilities and related interest charges have been passed down the group in the form of intercompany loans, and are presented in the balance sheet as a current liability The loans and related accrued interest are payable at the rates set out in note 18

Capital management

Capital comprises shareholders equity and financing from the company's parent undertakings The company's capital management is impacted by the capital management decisions made by its various parent undertakings The company has no externally imposed capital restrictions

Key performance indicators

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

Number of stores opening

A key part of the group's strategy is to increase in scale The key measure of this is the number of stores opened Net stores opened in the UK in the year were 39 as well as 20 international stores, including the stores acquired with Green Caffe Nero

Like for like sales

The group seeks to increase profitability by increasing the sales of units open for more than one year The group targets a range of 2–4% growth in like for like sales The overall current year performance of units open for more than one year was within the target range at 2 8%

Store profit (gross profit)

The success of the group in its store opening programme and like for like sales is shown through increasing store profit in absolute terms Gross margin slightly increased to 24 4% (2012 – 24 3%)

Directors' report (continued)

Key performance indicators (contınued)

EBITDA

The abılıty of the group to fund ıts future rollout wıthout recourse to external finance ıs determıned by EBITDA The group was able to grow EBITDA by £3 2 mıllıon (10 0%) despıte the challengıng tradıng envıronment due to the contınued expansıon of stores, growıng maturıty of younger exıstıng stores and careful cost management ın the busıness

Risk factors

The dırectors contınually ıdentıfy, evaluate and manage materıal rısks and uncertaıntıes faced by the group, whıch could adversely affect the group's busıness, operatıng results and financıal condıtıon The dırectors consıder the prıncıpal rısks and uncertaıntıes facıng the busıness to comprıse the followıng

Group specific risks.

- Damage to the brand ımage due to faılures ın envıronmental health ın the stores or contamınatıon of products,
- Increases ın prıces of key raw ıngredıents,
- Increases ın other key costs such as wages and rents,
- Decreased customer demand for Caffe Nero's products, and
- Breakdowns ın ınternal controls through fraud or error

The Group contınually monıtors exposure to these rısks and has developed polıcıes and appoınted qualıfied personnel to mıtıgate exposure to these rısks

Broader sector or macroeconomic risks

- The loss of key personnel or the faılure to manage successıon plannıng,
- Adverse economıc condıtıons ın the UK markets,
- Increased competıtıon ın the markets ın whıch Caffe Nero operates, and
- A rıse ın ınterest rates whıch wıll affect the amount of ınterest payable on the group's loans

Directors of the company

The dırectors at the date of approvıng thıs report and those that served durıng the year are set out on page 1 Durıng the year, the dırectors' ınterests ın the share capıtal of Rome Holdco Sarl, the largest parent company of the group of whıch Rome Pıkco Lımıted ıs a member, were as follows

	At 31 May 2013 *£20 each*	*At 31 May 2012* *£20 each*
G W Ford (1)	13,883	13,883
B J Prıce (2)	266	266

(1) G W Ford's ınterest ın ordınary shares ıs regıstered as follows

Saratoga Lımıted	13,570
Paladın Partners I	313

(2) B J Prıce's ınterest ın ordınary shares ıs regıstered as follows

Paladın Partners I	266

Addıtıonally, B J Prıce has 495 shares ın Rome Intermedıate Holdıngs Sarl (the ımmedıate parent of whıch ıs Rome Holdco Sarl) held on hıs behalf through an Employee Benefit Trust

There have been no changes to dırectors' ınterests sınce the year end

Directors' report (continued)

Creditor payment policy and practice

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with Average creditor days at the year end were 46 days (2012 – 51 days)

Employees

The group provides employees with information concerning trading, development and other appropriate matters through formal and informal briefings Employees are consulted on a regular basis to ensure their views are taken into account in making decisions likely to affect their interests

The group gives full and fair consideration to the employment of disabled people, including the continuation in employment of employees who have become disabled All employees are given equal opportunities for training and promotion, having regard to their particular aptitudes and abilities

Donations

A contribution of £3,800 was made for charitable purposes (2012 £40,000)

Statement of disclosure of information to auditors

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 company's auditors, 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 company's 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 company's auditors are aware of that information

Auditors

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

By order of the Board

B J Price
Secretary
30 September 2013

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom 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 financial statements under International Financial Reporting Standards as adopted by the European Union

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 the financial statements the directors are required to

- present fairly the financial position, financial performance and cash flows of the company,
- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance,
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements, and
- make judgements that are reasonable

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 company financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of Rome Pikco Limited

We have audited the financial statements of Rome Pikco Limited for the year ended 31 May 2013 which comprise the group statement of comprehensive income, group and company balance sheets, group and company statements of cash flow, group and company statements of changes in shareholders' equity and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report and the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 May 2013 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Independent auditors' report

to the members of Rome Pikco Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

David Wilkinson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 October 2013

Group statement of comprehensive income

for the year ended 31 May 2013

	Notes	*2013* *£000*	*2012* *£000*
Revenue	2	205,302	185,218
Cost of sales		(155,099)	(140,124)
Gross profit		50,203	45,094
Administrative expenses excluding depreciation, amortisation, impairment, foreign exchange and movement on provisions		(15,040)	(13,134)
EBITDA	1	35,163	31,960
Administrative expenses – depreciation, amortisation, impairment, foreign exchange and movement on provisions		(16,729)	(15,382)
Total administrative expenses		(31,769)	(28,516)
Operating profit	3	18,434	16,578
Finance income	6	55	52
Finance costs and similar expenses	7	(41,561)	(37,992)
Finance cost re-imbursement		-	62,588
Share of post tax loss of joint ventures	12	(223)	(1,326)
(Loss) / profit before taxation		(23,295)	39,900
Income tax credit	8	1,289	1,463
(Loss) / profit for the year		(22,006)	41,363
Other comprehensive income		-	-
Total comprehensive income for the year		(22, 006)	41,363

Group balance sheet

at 31 May 2013

	Notes	*2013* *£000*	*2012* *£000*
Non-current assets			
Property, plant and equipment	10	57,401	54,637
Intangible assets	11	181,840	184,799
Investment in joint ventures	12	1,611	–
Lease premiums	13	1,060	1,271
Other receivables	14	1,580	1,555
Deferred tax asset	8	2,519	2,360
		246,011	244,622
Current assets			
Other receivables	14	9,257	7,483
Inventories	15	2,169	2,605
Lease premiums	13	329	328
Cash and cash equivalents		11,096	9,191
		22,851	19,607
Total assets		268,862	264,229
Current liabilities			
Trade and other payables	16	(44,877)	(43,013)
Financial liabilities	18	(199,165)	(185,175)
Derivative financial instruments		(4,235)	(7,192)
		(248,277)	(235,380)
Non-current liabilities			
Financial liabilities	18	(205,541)	(190,544)
Provision	17	(330)	(455)
Deferred tax liability	8	(9,430)	(10,560)
		(215,301)	(201,559)
Total liabilities		(463,578)	(436,939)
Net liabilities		(194,716)	(172,710)
Capital and reserves			
Called up share capital	20	–	–
Share premium account		2,024	2,024
Retained earnings		(196,740)	(174,734)
Total equity		(194,716)	(172,710)

The financial statements were approved by the board of directors on 30 September 2013 and signed on its behalf by

G W Ford
Director

B J Price
Director

Company balance sheet

at 31 May 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Investments	12	2,024	2,024
Current assets			
Other receivables	14	196,292	183,548
Cash and cash equivalents		2	2
		196,294	183,550
Total assets		198,318	185,574
Current liabilities			
Trade and other payables	16	(1,160)	(1,160)
Financial liabilities	18	(191,869)	(179,125)
		(193,029)	(180,285)
Non-current liabilities			
Financial liabilities	18	(72,224)	(59,971)
Total liabilities		(265,253)	(240,256)
Net liabilities		(66,935)	(54,682)
Capital and reserves			
Called up share capital	20	–	–
Share premium account		2,024	2,024
Retained earnings		(68,959)	(56,706)
Total equity		(66,935)	(54,682)

The financial statements were approved by the board of directors on 30 September 2013 and signed on its behalf by

G W Ford
Director

B J Price
Director

Group statement of cash flows

for the year ended 31 May 2013

	2013 £000	2012 £000
Operating activities		
(Loss) / profit before taxation	(23,295)	39,900
Adjustments to reconcile (Loss) / Profit for the year to net cash flow from operating activities		
Finance expense	41,561	37,992
Finance cost reversal	-	(62,588)
Finance income	(55)	(52)
Unrealised gains on foreign exchange	(39)	(74)
Depreciation of property, plant and equipment, amortisation of intangible assets and amortisation of lease premiums	16,442	15,170
Impairment of property, plant and equipment	382	375
Loss on disposal of property, plant and equipment	86	38
Share of loss of joint venture	223	1,326
	35,305	32,087
Increase/(decrease) in inventories	435	(851)
Increase in other receivables	(1,406)	(1,258)
Increase/(decrease) in trade and other payables	(310)	5,932
Decrease in provision	(123)	(122)
Net cash from operating activities	33,901	35,788
Investing activities		
Payments to acquire intangible assets	(146)	(136)
Payments towards acquiring lease premiums	(120)	(25)
Investment in joint ventures	(1,630)	(1,326)
Payments to acquire property, plant and equipment	(15,183)	(17,105)
Interest received	55	52
Net repayment of amounts due to parent	(227)	(80)
Net cash used in investing activities	(17,251)	(18,620)
Financing activities		
New third party long-term loans	2,000	2,500
Interest paid	(11,613)	(12,741)
Loan issue costs and other bank fees paid	(231)	(1,072)
Movement in loan note with ultimate shareholder	-	(182)
Repayment of financial liabilities	(4,901)	(4,573)
Net cash used in financing activities	(14,745)	(16,068)
Net increase in cash and cash equivalents	1,905	1,100
Foreign exchange movement on other receivables	-	(8)
Cash and cash equivalents at 1 June	9,191	8,099
Cash and cash equivalents at 31 May	11,096	9,191

Company statement of cash flows

for the year ended 31 May 2013

	2013	2012
	£000	£000
Operating activities		
Loss before taxation	(12,253)	(10,392)
Financing costs	24,997	(42,164)
Interest receivable	(12,744)	52,556
Net cash flow from operating activities	-	-
Investing activities		
Net proceeds from subsidiaries	-	90
Net cash flow from investing activities	-	90
Financing activities		
Loan advanced by subsidiary	-	(90)
Net cash flow used in financing activities	-	(90)
Net movement in cash and cash equivalents	-	-
Cash and cash equivalents at 1 June	2	2
Cash and cash equivalents at 31 May	2	2

Group statement of changes in shareholders' equity

for the year ended 31 May 2013

	Called up share capital £000	*Share premium account £000*	*Retained earnings £000*	*Total £000*
At 31 May 2011	–	2,024	(216,097)	(214,073)
Total comprehensive income for the year	–	–	41,363	41,363
At 31 May 2012	–	2,024	(174,734)	(172,710)
Total comprehensive loss for the year	–	–	(22,006)	(22,006)
At 31 May 2013	–	2,024	(196,740)	(194,716)

Company statement of changes in shareholders' equity

for the year ended 31 May 2013

	Called up share capital £000	*Share premium account £000*	*Retained earnings £000*	*Total £000*
At 31 May 2011	–	2,024	(46,314)	(44,290)
Total comprehensive income for the year	–	–	(10,392)	(10,392)
At 31 May 2012	–	2,024	(56,706)	(54,682)
Total comprehensive loss for the year	–	–	(12,253)	(12,253)
At 31 May 2013	–	2,024	(68,959)	(66,935)

Notes to the financial statements

at 31 May 2013

1. Accounting policies

Authorisation of financial statements and statement of compliance with IFRSs

The group and company financial statements were authorised for issue by the board of directors on 30 September 2013 Rome Pikco Limited is a private limited company incorporated and domiciled in England and Wales

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as applicable for the year ended 31 May 2013, in accordance with the provisions of the Companies Act 2006

Going concern

The directors have produced cash flow forecasts, which indicate that the group can continue as a going concern and that the banking covenants are all met comfortably for the foreseeable future The group is in a net liability position of £194 7m due to external and intercompany debt The company's immediate parent undertaking, Rome PIK Holdco Limited, has confirmed that it will not seek repayment of £191 9m owed by the group until such time as the group is able to meet these liabilities, Rome PIK Holdco effectively owes these funds to various holding companies up to Rome Intermediate Holdings Sarl and the various holding companies have also received confirmation that repayment will not be requested until such time that they are able to meet these liabilities The majority of the remainder of the group's third party liability (£205 5m) is not due within twelve months of the date of authorising of these financial statements for issue

The directors have also taken into account the ongoing difficult macro-economic and trading environment prevailing the UK and have reflected this in their assumptions on the group's growth prospects The directors remain confident their forecasts are achievable

Having made due and careful enquiry, the directors consider that there are no material uncertainties that may cast doubt over the group's ability to continue as a going concern

Basis of preparation

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

An additional line item for earnings before interest, tax, depreciation, amortisation, impairment, foreign exchange and movement in provisions ('EBITDA') has been presented on the face of the statement of comprehensive income as the board believes its presentation is relevant to the understanding of the Group's financial performance

The company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual statement of comprehensive income and related notes

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 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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are the measurement and impairment of intangible assets and property, plant and equipment ('fixed assets') The Group identifies whether fixed assets are impaired on an annual basis, and this requires an assessment of indicators of impairment and an estimation of the value in use of the group of cash generating units to which the fixed assets are allocated This involves estimation of future cash flows and choosing a suitable discount rate

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Key sources of estimation uncertainty and accounting judgement (continued)

The company's key estimation uncertainty is the recoverability of intra-group receivables, which is evaluated through its assessment of the ability of the debtor to pay in the context of the wider group's trading and capital structure

Other key sources of estimation uncertainty are the recoverability of deferred tax assets, the estimation of useful lives of fixed assets, outstanding obligations under loyalty cards and the replacement cost of raw materials The accounting policies for these areas are set out below

The group estimates the fair value of the relevant points awarded under the customer loyalty programme by applying statistical techniques Inputs to the relevant models include making assumptions about expected redemption rates and the average length of time taken to obtain the nine points required for redemption As points issued under the programme do not expire, such estimates are subject to significant uncertainty At 31 May 2013, the estimated liability for unredeemed points was approximately £739,000 (2012 £668,000)

Basis of consolidation

The group financial statements consolidate the financial statements of Rome Pikco Limited and the entities it controls (its subsidiaries) drawn up to 31 May each year

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies All intragroup balances and transactions, including unrealised profits arising from them, are eliminated

Interests in joint ventures

The group has contractual arrangements with other parties, which represents joint ventures These take the form of an agreement to share control over another entity Where the joint venture is established through an interest in a company, partnership or other entity (a jointly controlled entity), the group recognises its interest in the entity's assets and liabilities using the equity method of accounting Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post–acquisition changes in the group's share of its net assets, less distributions received and any impairment in value of individual investments The group statement of comprehensive income reflects the share of the jointly controlled entity's results after tax The group statement of changes in shareholders' equity reflects the group's share of any income and expense recognised by the jointly controlled entity outside profit and loss

Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised To the extent that the net fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the group's share of the entity's profit or loss in the period in which the investment is acquired

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Business combinations

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income Following initial recognition, goodwill is measured at cost less any accumulated impairment losses Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired Further details are set out in note 11

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the group of stores at which goodwill is monitored internally

Intangible assets

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

Software	–	3 years
Brand	–	20 years
Trademark	–	20 years

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

Property, plant and equipment

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

Depreciation

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

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

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

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Depreciation (continued)

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

Impairment

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

Any impairment recognised in relation to goodwill cannot be reversed

Investments in subsidiaries

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

Cash and cash equivalents

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

Interest bearing loans and overdrafts

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, when the group becomes party to the related contracts After initial recognition, interest–bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense

Borrowing costs

Borrowing costs are recognised as an expense when incurred

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 (continued)

at 31 May 2013

1. Accounting policies (continued)

Inventories

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

Provisions

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

Financial assets

Financial assets are recognised when the group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or as available for sale financial assets, as appropriate The Group determines the classification of its financial assets at initial recognition and re–evaluates this designation at each financial year end When financial assets are recognised initially, they are measured at fair value, being the transaction price, plus in the case of financial assets not at fair value through the profit or loss, directly attributable transaction costs

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available–for–sale Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process

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 Assets are carried in the balance sheet at fair value with gains or losses recognised in the statement of comprehensive income This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired

Financial liabilities

When a financial asset or financial liability is initially recognised, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Financial liabilities (continued)

- financial liabilities at fair value through profit or loss, and
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach

Financial liabilities at fair value through profit or loss includes 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 acquired for the purpose of selling in the near term Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments

Leases

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases

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

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

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

Income taxes

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

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

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

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

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

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Capital instruments

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

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold or cancelled or expires

Where 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 a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of comprehensive income

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

Sale of goods

Revenue is recognised when the goods have passed to the buyer, usually on despatch / at the point of sale

The group operates a loyalty points programme which entitles customers to a point for each cup of coffee purchased from its stores Nine points can then be redeemed for a free coffee Consideration received is allocated between the cup of coffee sold and the point issued, with the consideration allocated to the points equal to their fair value The fair value of the points issued is deferred and recognised as revenue when the points are redeemed

Development fee income

Fees received by the group in relation to a third party or joint venture obtaining a licence to operate the Caffe Nero brand in a specific overseas territory are recognised as revenue in the period to which the licence relates

Royalty fee income

Fees received by the group in relation to royalties payable under the terms of operating agreements between the group and third parties or joint ventures operating the Caffe Nero brand overseas are recognised as revenue in line with overseas sales in the period the sales are made Franchise revenue is received in the form of royalties

Opening fee income

Fees received by the group in relation to stores opened by third parties or joint ventures operating the Caffe Nero brand overseas are recognised as revenue at the opening date, which reflects the point that the group is entitled to the fee

Interest income

Revenue is recognised as interest accrues applying the effective interest method

Rental income

Rental income is recognised as other income in accordance with the group's right to receive payment under the terms of the lease agreement

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

Marketing income

Marketing income is earned through third party promotions in store and is recognised as other income at the time the promotion takes place

Operating Segments

For management purposes, the group is organised into one business unit and has one reportable operating segment which covers the sale of coffee and food items at all its stores in the United Kingdom

Senior management monitors the operating results of its business unit for the purpose of making decisions about resource allocation and performance assessment Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements

Derivative financial instruments

The group uses derivative financial instruments such as interest rate swaps to hedge its exposure to risks associated with interest rate fluctuations As part of its investment in joint ventures, the group also entered into call and put options in respect of its right to future ownership of shares

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative The fair value of interest rate swap contracts is determined by reference to market values for similar instruments The fair values of the call and put options are calculated by reference to recognised option pricing models

Any gains or losses arising from changes in fair values on derivatives that do not qualify for hedge accounting are taken directly to the statement of comprehensive income

New standards and interpretations not applied

The International Accounting Standards Board ('IASB') has issued a number of standards with an effective date after the date of approval of these financial statements that have not yet been adopted by the company Those that are considered to be applicable to the company are listed below

International Accounting Standards (IAS / IFRSs)		**Effective date**
STANDARDS		
IFRS 9	Financial Instruments	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Interests In Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 28	Investments In Associates & Joint Ventures	1 January 2013
AMENDMENTS		
IFRS 7	Financial Statements Disclosures	1 July 2011
IAS 12	Income Taxes	1 January 2012
IAS 1	Presentation of Financial Statements	1 July 2012
IAS 19	Employee Benefits	1 January 2013

Notes to the financial statements (continued)

at 31 May 2013

1. Accounting policies (continued)

New standards and interpretations not applied (continued)

The effective dates stated here are those given in the original IASB standards As the company prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards will be subject to the standards having been endorsed for use in the EU via the EU Endorsement mechanism In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the company's discretion to early adopt standards

The directors do not anticipate that the adoption of the standards will have a material impact on the company's financial statements in the period of initial application

2. Revenue

Revenue recognised in the statement of comprehensive income is analysed as follows

	2013	*2012*
	£000	*£000*
Coffee shop sales and associated income	204,326	184,566
Royalty fee income, opening fees and other charges	976	652
	205,302	185,218
Finance income (note 6)	55	52
Total revenue	205,357	185,270

Revenue is derived from the following geographic areas

	2013	*2012*
	£000	*£000*
UK	204,326	184,566
Turkey	553	348
Gulf States	315	304
Cyprus	108	-
	205,302	185,218

Notes to the financial statements (continued)

at 31 May 2013

3. Operating Profit

Operating profit is stated after charging/ (crediting)

	2013 £000	2012 £000
Auditors' remuneration – audit of group financial statements	75	49
– audit of financial statements of subsidiaries	74	50
– other services relating to tax	93	10
Costs relating directly to opening new sites	769	717
Depreciation of property, plant and equipment	13,005	11,761
Impairment of property, plant and equipment	382	375
Amortisation of intangible assets	3,105	3,081
Amortisation of lease premiums	330	328
Loss on disposal of property, plant and equipment	85	38
Operating lease rentals–land and buildings	36,865	33,596
Other operating income–rental income	(393)	(393)
Other operating income–marketing income	(713)	(861)
Other operating income –compensation for closure	-	(150)
Gain on foreign exchange	(58)	(79)

Operating lease rentals are split between minimum lease payments of £34 3 million (2012 – £31 7 million) and contingent rents of £2 6 million (2012 – £1 9 million)

4. Directors Emoluments

No remuneration was paid or is payable to the directors in their capacity as directors of the company (2012 – nil) The directors are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £631,573 (2012 - £588,583) in respect of services to the enlarged UK group of which the company is a member It is not possible to identify the proportion of these emoluments that relate to services to this company

	Basic salary £	*Fees and bonuses £*	*Benefits £*	*Pension £*	*Total 2013 £*
G W Ford	338,542	-	14,402	18,000	370,944
B J Price	231,000	20,000	9,630	-	260,630
Total	569,542	60,000	24,032	18,000	631,574

Notes to the financial statements (continued)

at 31 May 2013

4. Directors Emoluments (continued)

	Basic salary	*Fees and bonuses*	*Benefits*	*Pension*	*Total 2012*
	£	*£*	*£*	*£*	*£*
G W Ford	318,333	2,000	14,415	18,000	352,748
B J Price	224,177	2,000	9,658	-	235,835
Total	542,510	4,000	24,073	18,000	588,583

5. Staff costs

	2013	*2012*
	£000	*£000*
Wages and salaries	52,183	46,561
Social security costs	3,653	3,351
Other pension costs	18	18
	55,854	49,930

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

	2013	*2012*
	No	*No*
Operational	2,945	2,685
Administration	686	632
	3,631	3,317

6. Finance income

	2013	*2012*
	£000	*£000*
Bank interest receivable	55	52

Notes to the financial statements (continued)

at 31 May 2013

7. Finance costs and similar expenses

	2013	*2012*
	£000	*£000*
Senior debt interest	7,625	8,511
Mezzanine debt interest	8,221	7,724
PIK notes interest	11,928	10,036
Amortisation of loan issue costs	1,514	1,636
Bank fees	231	225
(Gain) / loss on fair value of interest rate and currency swap	(2,957)	1,415
Euro loan revaluation	2,003	(1,784)
Interest on loan from parent	12,745	10,229
Loss on fair value of put and call options	251	-
	41,561	37,992

The interest rate applied to the loan from the parent undertaking set out in note 18 was amended in the prior year with retrospective effect and resulted in a reimbursement of interest charged of £62,588k

8. Income tax credit

(a) Analysis of tax in the year

	2013	*2012*
	£000	*£000*
Current tax	-	-
Deferred tax	(1,289)	(1,463)
Income tax credit reported in the statement of comprehensive income	(1,289)	(1,463)

Notes to the financial statements (continued)
at 31 May 2013

8. Income tax credit (continued)

(b) Reconciliation of total tax charge

The tax assessed for the year differs from the standard average rate of corporation tax in the UK of 23 8% (2012 – 25 67%) The differences are explained below

	2013 *£000*	*2012* *£000*
(Loss) / profit on ordinary activities before tax	(23,295)	39,900
(Loss) / profit on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 23 8% (2012 – 25 67%)	(5,544)	10,242
Effects of		
Expenses not deductible for tax purposes	1,777	1,649
Group relief	3,033	(13,441)
Higher taxes on overseas earnings	-	118
Movement in deferred tax asset not recognised	212	660
Impact of rate change on deferred tax liability	(767)	(691)
Income tax credit reported in the consolidated statement of comprehensive income	(1,289)	(1,463)

(c) Deferred tax

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

	Recognised 2013 £000	*Not recognised 2013 £000*	*Recognised 2012 £000*	*Not recognised 2012 £000*
Decelerated capital allowances	-	5,246	-	6,979
Other differences – fair value adjustments	(9,430)	1,562	(10,560)	1,854
Tax losses	2,519	2,114	2,360	1,708
Net deferred tax asset / (liability)	(6,911)	8,922	(8,200)	10,541

Notes to the financial statements (continued)

at 31 May 2013

8. Income tax credit (continued)

Movements in the net deferred tax liability are as follows

	£000
At 31 May 2012	(8,200)
Movement in the year	1,289
At 31 May 2013	(6,911)

Deferred tax assets are recognised once it is considered more likely than not that they will be recoverable against future taxable trading profits arising in the group

As a result of the UK Budget announcement on 20 March 2012, a 1% reduction in the main rate of corporation tax to 24% was announced This was substantively enacted on 26 March 2012 and was effective from 1 April 2012 A further reduction to 23% (effective 1 April 2013) was also announced and this was substantively enacted on 3 July 2012 as part of the Finance Act 2012 As the additional reduction to 23% was substantially enacted as at the balance sheet date, deferred tax has been recognised at this rate In his Autumn statement during 2012, the UK Chancellor announced that the corporation rate from 1 April 2014 will be 21%, rather than the 22% announced in the 2012 UK budget In addition, the 2013 UK Budget announcement on 20 March 2013 included a further reduction to 20% (effective 1 April 2015) Both rates were included in the Finance Act 2013 which was enacted on 17 July 2013 As these further reductions were not substantively enacted as at the balance sheet date, they have not been reflected in the 2013 accounts

A reduction in the UK corporation tax rate to 20% would reduce the unrecognised deferred tax asset by approximately £1,163,625

9. Loss attributable to members of parent undertaking

The post-tax loss attributable to the parent undertaking for the year was £12,253,000 (2012 – £10,392,000)

Notes to the financial statements (continued)

at 31 May 2013

10. Property, plant and equipment

Group

	Leasehold improvements £000	*Furniture, fittings and equipment £000*	*Total £000*
Cost.			
At 31 May 2012	80,319	35,402	115,721
Additions	8,655	7,524	16,179
Disposals	(46)	(74)	(120)
At 31 May 2013	88,928	42,852	131,780
Depreciation and impairment·			
At 31 May 2012	36,772	24,312	61,084
Provided during the year	8,121	4,884	13,005
Impairment	382	-	382
Disposals	(92)	-	(92)
At 31 May 2013	45,183	29,196	74,379
Net book value:			
At 31 May 2013	43,745	13,656	57,401
At 31 May 2012	43,547	11,090	54,637

Assets written down to nil net book value but with a gross cost of £3,997,000 (2012 £3,615,000) are still in use by the group at 31 May 2013

The impairment charge relates to unrecoverable elements of assets relating to cash generating units Eight stores were impaired during the year as a result of poor trading performance Five stores were written down to a net book value of nil, as the directors do not consider that these stores will be profitable in the next year Three further stores have been written down to their estimated recoverable amount

The recoverable amounts of the stores are calculated from value in use calculations based on cash flow projections approved by senior management The post tax discount rate applied to cash flow projections is 9 8% (2012 – 10%) The growth rate applied is store specific and dependent on the age of the store

Notes to the financial statements (continued)

at 31 May 2013

11. Intangible assets

Group

	Software *£000*	*Brand* *£000*	*Trademark* *£000*	*Goodwill on acquisition* *£000*	*Total* *£000*
Cost:					
At 31 May 2012	495	60,000	117	160,821	221,433
Additions	144	–	2	–	146
At 31 May 2013	639	60,000	119	160,821	221,579
Amortisation and impairment					
At 31 May 2012	334	16,000	–	20,300	36,634
Charge for the year	105	3,000	–	–	3,105
At 31 May 2013	439	19,000	–	20,300	39,739
Net book value:					
At 31 May 2013	200	41,000	119	140,521	181,840
At 31 May 2012	161	44,000	117	140,521	184,799

Goodwill arose on the acquisition of Caffe Nero Group Limited on 1 February 2007

Impairment testing of goodwill

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

Goodwill of £141,339,000 arose on the acquisition of the UK Caffe Nero stores in 2007 The group considers each store to be a CGU, however, goodwill is monitored and assessed for impairment at a UK group level

The recoverable amount has been determined based on a value in use calculation The value in use has been determined using a discounted cash flow model The model incorporates projected cash flow forecasts over a period of 5 years and incorporates a terminal value based on expected long–term growth The cash flows have been discounted to a present value using an appropriate discount rate As a result of this analysis no impairment has been recorded in the current year The model uses the following key assumptions

Discount rate

A post-tax discount rate of 9 8% has been used (2012 – 10%) The discount rate has been derived from the group's weighted average cost of capital, adjusted to reflect a market assessment of the risks specific to the cash generating assets

Notes to the financial statements (continued)

at 31 May 2013

11 Intangible assets (continued)

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% (2012 – 2 5%) The growth rate is consistent with historic performance and expected future market conditions The forecast EBITDA is based on existing stores and excludes projected earnings from future store openings Forecast capital expenditure on new stores has been excluded from the cash flow projections

A terminal growth rate of 3% (2012 – 3%) 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

There has been no write down in goodwill in the current financial year 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. Non current asset investments

	Shares in joint ventures 2013 £000	*Shares in joint ventures 2012 £000*
Group		
Cost		
At 1 June	–	–
Investments during the year	1,834	1,326
Share of loss of joint ventures	(223)	(1,326)
At 31 May	1,611	–

	Investment in subsidiary undertakings £000
Company	
Cost at 31 May 2012 and 31 May 2013	2,024

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet

The company holds all the equity share capital of Rome Bidco Limited, which is the parent company of Caffe Nero Group Limited, which operates Italian style coffee bars Caffe Nero Group Limited holds all the equity share capital of Nero Holdings Limited and Aroma Limited, which also operate coffee bars The results of these companies have been consolidated in these financial statements All these companies are incorporated in England and Wales

Notes to the financial statements (continued)

at 31 May 2013

12. Non current asset investments (continued)

On 1 March 2007, Rome Bidco Limited acquired the entire share capital of Caffe Nero Investments Limited for £100 Caffe Nero Investments Limited is the holding company of Caffe Nero Ventures Limited, which is the management company of the group's overseas joint ventures Caffe Nero Gida Urunleri AS and Green Coffee Sp z o o, (acquired during the year) and franchises The group holds 50% of the ordinary shares of Caffe Nero Gida Urunleri AS and 58 5% of Green Coffee sp z o o

On 27 September 2012, the group acquired 58 46% of Green Coffee Sp z o o a company based in Warsaw, Poland and also acting as a coffee retailer Consideration for the shares was split into €1,500,000, PLN 1,100,000 and incidental acquisition costs of £167,705 The group is accounting for this investment as a joint venture as unanimous shareholder votes are required for all key operating, strategic and financial decisions and the definition of control has not been satisfied

As part of the terms of investment in Green Coffee Sp z o o, after a period of 18 months following completion of the acquisition and prior to 48 months following completion of the acquisition, the company has an irrevocable option to purchase the remaining shares subject to a minimum price of PLN 11,000,000

Following 48 months of the completion date, but prior to 180 months following the completion date, the company's call option still exists, however this is no longer subject to a minimum price The holders of the remaining shares also have a put option to sell their remaining shares to the company

The execution price of the above is dependent on company performance The call and put options are accounted for at fair value through profit and loss, the call option is recognised as a financial asset (note 14) and the put option is recognised as a financial liability (note 16) On initial recognition, the options had a fair value of £290,280 and £494,200 respectively The fair value of the options had declined by £250,941 at the year-end, which has been recognised in the statement of comprehensive income

The group's share of the losses in Caffe Nero Gida Urunleri AS has not been recognised in full as the investment has been written down to nil The share of the assets, liabilities, income and expenses of Caffe Nero Gida Urunleri AS at 31 May 2013 are as follows

	2013	*2012*
	£000	*£000*
Share of the joint venture's balance sheet		
Non-current assets	4,559	3,804
Current assets	591	1,269
Share of gross assets	5,150	5,073
Current liabilities	(4,461)	(3,928)
Non-current liabilities	(1,817)	(1,684)
Share of gross liabilities	(6,278)	(5,612)
Share of net liabilities	(1,128)	(539)

Share of net liabilities is not presented on the face of the balance sheet where the investment has been written down to nil

Notes to the financial statements (continued)

at 31 May 2013

12. Non current asset investments (continued)

Share of the joint venture's results

	2013	*2012*
	£000	*£000*
Revenue	7,874	4,544
Cost of sales	(6,526)	(4,105)
Administrative expenses	(2,294)	(1,483)
Finance costs	(610)	(1,045)
Loss before tax	(1,556)	(2,089)
Tax credit	15	–
Loss for the year	(1,541)	(2,089)

The share of the assets, liabilities, income and expenses of Green Coffee Sp z o o at 31 May 2013 are as follows

	2013	*2012*
	£000	*£000*
Share of the joint venture's balance sheet		
Non-current assets	840	-
Current assets	352	-
Share of gross assets	1,192	-
Current liabilities	(696)	-
Non-current liabilities	-	-
Share of gross liabilities	(696)	-
Share of net assets	496	-

Share of the joint venture's results

	2013	*2012*
	£000	*£000*
Revenue	1,497	-
Cost of sales	(1,250)	-
Administrative expenses	(346)	-
Finance costs	(8)	-
Loss before tax	(107)	-
Tax credit	4	-
Loss for the year	(103)	-

Notes to the financial statements (continued)

at 31 May 2013

12. Non current asset investments (continued)

Details of group undertakings

All investments are held by subsidiary undertakings apart from a directly held investment in Rome Bidco Limited Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows

Name of company	*Proportion of voting rights and shares held*	*Nature of Business*
Rome Bidco Limited	100%	Financing
Caffe Nero Group Limited	100%	Holding
Nero Holdings Limited	100%	Coffee retail
Aroma Limited	100%	Coffee retail
Caffe Nero Ventures Limited	100%	Holding
Caffe Nero Investments Limited	100%	Holding
Nero Coffee Roasting Limited	100%	Coffee Roasting
Joint ventures		
Caffe Nero Gida Urunleri AS	50%	Coffee retail
Green Coffee Sp z o o	58 5%	Coffee retail
Muffia Sp z o o Sp k	30%	Food production

All shareholdings are of ordinary shares

13. Lease premiums

	Lease premiums £000
Cost:	
At 31 May 2012	3,451
Additions	120
At 31 May 2013	3,571
Amortisation:	
At 31 May 2012	1,852
Charge for the year	330
At 31 May 2013	2,182
Net book value:	
At 31 May 2013	1,389
At 31 May 2012	1,599

Notes to the financial statements (continued)
at 31 May 2013

13. Lease premiums (continued)

The net book value at 31 May 2013 is split as follows	
Non-current assets	1,060
Current assets	329
The net book value at 31 May 2012 is split as follows	
Non-current assets	1,271
Current assets	328

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

14. Other receivables

Non-current:

	Group 2013 £000	*Company 2013 £000*	*Group 2012 £000*	*Company 2012 £000*
Other debtors (rent deposits)	96	-	110	-
Cash held on deposit in Turkey	1,484	-	1,445	-
	1,580	-	1,555	-

Current:

	Group 2013 £000	*Company 2013 £000*	*Group 2012 £000*	*Company 2012 £000*
Amounts due from subsidiary undertaking	-	196,292	-	183,548
Amounts due from parent company	495	-	267	-
Trade debtors	3,912	-	2,209	-
Prepayments	4,652	-	5,007	-
Fair value of call option	198	-	-	-
	9,257	196,292	7,483	183,548

Notes to the financial statements (continued)

at 31 May 2013

14 Other receivables (continued)

As at 31 May 2013 the ageing analysis of trade debtors due to third parties was as follows

			Past due not impaired		
	Total	*Neither past due nor impaired*	*< 30*	*30 – 60 days*	*> 60 days*
	£000's	£000's	£000's	£000's	£000's
2013	3,912	2,326	142	440	1,004
2012	2,209	1,465	368	52	324

15. Inventories

	Group 2013 £000	*Company 2013 £000*	*Group 2012 £000*	*Company 2012 £000*
Goods for resale	2,169	-	2,605	-

16. Trade and other payables

	Group 2013 £000	*Company 2013 £000*	*Group 2012 £000*	*Company 2012 £000*
Trade payables	17,471	-	17,169	-
Amounts due to subsidiary undertaking	-	515	-	515
Other creditors, including taxation and social security	6,680	-	6,784	-
Accruals and deferred income	17,225	-	16,745	-
Interest and fees accruals	2,848	645	2,315	645
Fair value of put option	653	-	-	-
	44,877	1,160	43,013	1,160

Notes to the financial statements (continued)

at 31 May 2013

17. Provision

	2013 £000	2012 £000
At 1 June 2012	455	577
Utılised ın the year	(125)	(122)
At 31 May 2013	330	455

Provısıons relate to onerous lease oblıgatıons where the company's lease commıtments exceed antıcıpated future ıncome The provısıon ıs based on assumptıons concernıng ıncome ın future perıods and the tımıng of cash flows ıs dependent on the remaınıng term of the leases, whıch ıs up to 5 years

18. Financial liabilities

Group

At 31 May 2013

	Current £000	Non-current £000	Total £000
Interest bearıng loans and borrowıngs			
Term loan – Senıor A – £23,949,722	5,296	17,344	22,640
Term loan – Senıor B1 – €34,705,882	-	28,507	28,507
Term loan – Senıor B2 – £25,500,000	-	24,454	24,454
Term loan – Capex facılıty – £7,000,000	-	7,000	7,000
Term loan – Revolver facılıty – £3,000,000	2,000	-	2,000
Mezzanıne term loan – £ 50,000,000	-	47,486	47,486
Rolled up ınterest – Mezzanıne term loan	-	8,526	8,526
PIK notes			
PIK notes - £49,000,000	-	46,536	46,536
Rolled up ınterest on PIK notes	-	25,688	25,688
Related party loans			
Loan from parent undertakıng	98,450	-	98,450
Rolled up ınterest due to parent undertakıng	93,419	-	93,419
Total	199,165	205,541	404,706

Group

Notes to the financial statements (continued)

at 31 May 2013

18. Financial liabilities (continued)

At 31 May 2012

	Current £000	Non-current £000	Total £000
Interest bearing loans and borrowings			
Term loan – Senior A – £28,850,738	4,050	23,125	27,175
Term loan – Senior B1 – €34,705,882	–	26,241	26,241
Term loan – Senior B2 – £25,500,000	–	24,225	24,225
Term loan – Capex facility – £7,000,000	–	5,000	5,000
Term loan – Revolver facility – £3,000,000	2,000	–	2,000
Mezzanine term loan – £50,000,000	–	47,155	47,155
Rolled up interest – Mezzanine term loan	–	4,826	4,826
PIK notes			
PIK notes - £49,000,000	–	46,212	46,212
Rolled up interest on PIK notes	–	13,760	13,760
Related party loans			
Loan from parent undertaking	98,450	–	98,450
Rolled up interest due to parent undertaking	80,675	–	80,675
Total	185,175	190,544	375,719

Company

At 31 May 2013

	Current £000	Non-current £000	Total 2013 £000
Interest bearing loans and borrowings			
PIK notes - £49,000,000	–	46,536	46,536
Rolled up interest on PIK notes	–	25,688	25,688
Loan from parent undertaking	98,450	–	98,450
Rolled up interest due to parent undertaking	93,419	–	93,419
Total	191,869	72,224	264,093

Notes to the financial statements (continued)

at 31 May 2013

18. Financial lıabılities (continued)

Company

At 31 May 2012

	Current £000	Non-current £000	Total 2012 £000
Interest bearıng loans and borrowıngs			
PIK notes - £49,000,000	–	46,211	46,211
Rolled up ınterest on PIK notes	–	13,760	13,760
Loan from parent undertakıng	98,450	–	98,450
Rolled up ınterest due to parent undertakıng	80,675	–	80,675
Total	179,125	59,971	239,096

The loans from the company's parent undertakıng are repayable on demand Interest ıs to be paıd as agreed between the company and the parent company Interest ıs currently agreed as payable at 25 125% per annum ın the first year, 23 125% per annum ın the second year, and 7 125% semı-annually thereafter

In the prıor year ended 31 May 2012 the ınterest rate on shareholder loans was reduced retrospectıvely at the request of the group's ultımate controllıng party The change resulted ın a credıt to the group's profit and loss account for that year of £62 6m

The group's ımmedıate parent undertakıng, Rome PIK Holdco Lımıted, has confirmed to the dırectors that ıt wıll not seek repayment of amounts owed untıl such tıme as the group ıs able to meet ıts lıabılıty However, the loan ıs stıll classıfied as repayable on demand per the terms of the agreement

Loan repayment dates

	£000
Senior A (Interest charged at LIBOR* + 4.75% margın)	
30 November 2013 and 31 May 2014	2,648
30 November 2014 and 31 May 2015	3,421
30 November 2015 and 31 May 2016	3,869
30 November 2016	4,073
Senior B1 (Interest charged at LIBOR* +5.00% margın)	
30 November 2017	29,718
Senıor B2 (Interest charged at LIBOR* +5.25% margin)	
30 November 2017	25,500
Mezzanine (Interest charged at 8.25% cash margın + 6.75% PIK margın)**	
5 December 2020	50,000
PIK Notes (Interest charged at 19.00%)	
5 December 2020	49,000
Capex facılıty (Interest charged at LIBOR* +7 00% margın)	
30 November 2017	7,000

Notes to the financial statements (continued)

at 31 May 2013

18. Financial liabilities (continued)

Revolving credit facility (Interest charged at LIBOR* +4.75% margin)

The facility expires on 30 November 2016	2,000

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

***8 25% of the interest payable is settled by cash 6 75% is rolled up into the carrying value of the loan Interest will be charged at LIBOR* + 5 05% after 5 January 2014*

The term loans were principally taken out to finance the acquisition of Caffe Nero Group Limited in 2007 The term loans are charged interest at the rates as set out in the table above In order to hedge exposure to interest rate risk, the Group has entered into an interest rate swap to fix the interest rate on £79 8 million of the term loans over a period of three years to February 2016

The loans are secured by a floating charge on the assets of the group All loan repayments are to be made in the same currency in which the loan principal is denominated

Finance costs on the new facilities were £8 9m for Senior and Mezzanine debt and £3 2m for the PIK notes These finance costs are presented net of the underlying loan and are amortised over the duration of the facilities Amortisation of £1 5m (2012 – £1 6m) was charged in the year

19. Financial instruments

The group and company's principal financial instruments comprise cash, interest bearing loans and amounts due to / from other group companies Cash and cash equivalents are considered to be cash at bank, cash on short term money market deposits and cash at hand The main purpose of the interest bearing loans is to raise finance for the group's operations and acquisitions The group has various other financial instruments, such as trade payables, that arise directly from its operations It is, and has been throughout the period under review, the group and company's policy that no trading in financial instruments shall be undertaken

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

Interest rate risk

The group borrows in Sterling at floating rates of interest Excess cash is placed on short term deposit for up to a week with Bank of Scotland at variable money market rates The group's policy is to keep at least 75% of its borrowings at fixed interest rates This is achieved by entering into interest rate swaps which are designated to hedge underlying debt obligations The group classifies interest rate swaps as derivative financial instruments and measures them at fair value These instruments do not qualify for hedge accounting

Currency risk

The group's B1 senior term loan is denominated in Euros The group's policy is to fully hedge the exchange rate risk arising on repayment and it has therefore entered into a Euro Sterling swap arrangement whereby its repayment obligation is fixed in Sterling The Group classifies exchange rate swaps as derivative financial instruments and measures them at fair value These instruments do not qualify for hedge accounting

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities

Notes to the financial statements (continued)

at 31 May 2013

19. Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2013 and 31 May 2012 based on contractual undiscounted payments In the table below interest rates on variable rate loans have been based on LIBOR at the relevant balance sheet date The PIK notes and Mezzanine loans accrue rolled–up interest, which is not payable until the maturity of the loan under the terms of the finance agreements The Mezzanine loan also has a cash interest payable element Future interest on the PIK and Mezzanine loans is charged on the unpaid interest element as well as the original capital amount Interest will accrue on previously unpaid interest charges throughout the term of each agreement Interest due on the senior loans is not rolled–up and is payable on a quarterly basis on contractual due dates The contract maturity table assumes that interest will continue to be accrued until the termination date of each agreement

Year ended 31 May 2013

Group	*On Demand*	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Trade and other payables	–	17,471	–	–	17,471
PIK notes *	–	–	–	49,000	49,000
Rolled up interest on PIK notes	–	–	–	226,256	226,256
Revolving credit facility	2,000	–	–	–	2,000
Mezzanine loan	–	–	–	50,000	50,000
Capex facility *	–	–	–	7,000	7,000
Rolled up interest on Mezzanine loan	–	–	–	45,568	45,568
Fixed cash interest on Mezzanine loan	–	3,526	1,254	–	4,780
Variable interest on Mezzanine loan	–	–	22,572	18,650	41,222
Senior Loans	–	5,296	73,871	–	79,167
Variable interest on senior loans	–	5,124	18,342	2,582	26,048
Loan from parent	98,450	–	–	–	98,450
Rolled up interest on loan from parent	93,419	–	–	–	93,419
Interest rate swap	–	–	4,235	–	4,235
Put options	–	–	653	–	653
	193,869	31,417	120,927	399,056	745,269

Company	*On Demand*	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Amounts due to subsidiary undertaking	–	515	–	–	515
PIK notes*	–	–	–	49,000	49,000
Rolled up Interest on PIK notes	–	–	–	226,256	226,256
Loan from Parent*	98,450	–	–	–	98,450
Rolled up Interest on Loan from Parent	93,419	–	–	–	93,419
	191,869	515	–	275,256	467,640

* Carry fixed interest (in addition to interest rate swaps) All other loans carry interest at a floating rate

Notes to the financial statements (continued)

at 31 May 2013

19. Financial instruments (continued)

Year ended 31 May 2012

Group

	On Demand £000	*Within 1 year £000*	*1-5 years £000*	*More than 5 years £000*	*Total £000*
Trade and other payables	–	17,169	–	–	17,169
PIK notes	–	–	–	49,000	49,000
Rolled up Interest on PIK notes	–	–	–	226,256	226,256
Mezzanine loan	–	–	–	50,000	50,000
Rolled up interest on mezzanine loan	–	–	–	45,568	45,568
Variable interest on mezzanine loan	–	4,478	3,526	–	8,004
Fixed cash interest on mezzanine loan	–	–	17,619	24,857	42,476
Senior loans	–	4,050	24,802	53,216	82,068
Revolving credit facility	2,000	–	–	–	2,000
Capex Facility	–	495	2,005	5,255	7,755
Variable interest on senior loans	–	5,945	24,519	2,577	33,041
Loan from parent	98,450	–	–	–	98,450
Rolled up interest on loan from parent	80,675	–	–	–	80,675
Interest rate swap	–	7,192	–	–	7,192
	181,125	39,329	72,471	456,729	749,654

Company

	On Demand £000	*Within 1 year £000*	*1-5 years £000*	*More than 5 years £000*	*Total £000*
Amounts due to subsidiary undertaking	–	515	–	–	515
PIK notes	–	–	–	49,000	49,000
Rolled up Interest on PIK notes	–	–	–	226,256	226,256
Loan from Parent	98,450	–	–	–	98,450
Rolled up Interest on Loan from Parent	80,675	–	–	–	80,675
	179,125	515	–	275,256	454,896

Interest rate risk

Group

The floating rate financial liabilities bear interest at rates based on the percentages above LIBOR as set out in note 18

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

Notes to the financial statements (continued)

at 31 May 2013

19. Financial instruments (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's result before tax (through the impact on floating rate borrowings and financial assets)

Interest Rate Risk

	Increase / decrease in basis points	*Effect on result before tax £*
Floating rate loans		
2013	+100	+90
	-100	-90
2012		
	+100	+51
	-100	-51
Financial assets		
2013	+100	+114
	-100	-114
2012		
	+100	+92
	-100	-92

Company

The company has no exposure to interest rate risks as all financial liabilities have fixed interest rates

Fair values of financial assets and liabilities

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

	2013 *£000*	*2012* *£000*
Other receivables	5,987	4,030
Cash at bank and in hand	11,095	9,191
Trade and other payables	(20,319)	(19,484)
Loans from parent undertaking	(191,869)	(179,125)
Current portion of third party long term borrowings	(7,296)	(6,050)
Long term third party borrowings	(205,542)	(190,544)
Interest rate swap and currency swap	(4 235)	(7,192)
Call option	198	-
Put option	(653)	-

Interest rate swap

The interest rate swap has a duration of three years and payments of interest under the hedge arrangement are due on the same dates as those on which the interest payments on the underlying borrowings fall due for payment Payments and receipts under these interest rate swaps are recognised in the statement of

Notes to the financial statements (continued)

at 31 May 2013

19. Financial instruments (continued)

Interest rate swap (continued)

comprehensive income when they become due and the interest rate swap is accounted for at fair value through the profit and loss. During the year the fair value of the interest rate swap increased by £884,318 to a liability of £3,013,529 (2012 – £3,897,847)

The table below summarises the details of the interest rate swap

Principal amount £000	*Termination date*	*Interest rate %*
79,802	29 February 2016	2 190%

Exchange rate swap

In the year ended 31 May 2011, the company entered into an exchange rate swap to fix the exchange rate for 100% of its B1 senior term loan The exchange rate swap has a duration of seven years and is a cash flow hedge for the underlying long term debt to ensure that the Sterling liability of the group remains fixed at its repayment date The exchange rate swap is accounted for at fair value through the P&L

During the year the fair value of the exchange rate swap increased by £2,072,716 to a liability of £1,221,288 (2012 - £3,294,004)

Put and call options

The group has granted a put option to the minority shareholder of Green Coffee Sp z o o by which it can sell its shares to the group at certain multiples of EBITDA after September 2016 The liability has been fair valued using the Black Scholes model The group also has a call option whereby it can acquire the minority shareholder's remaining shares from March 2014 onwards This is also based on multiples of EBITDA with a minimum payment until September 2016 The asset has been fair valued using the Black Scholes method

Fair value hierarchy

In accordance with IFRS 7 Financial Instruments Disclosures, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3 The company classified interest rate and exchange rate swaps as level 2 financial instruments (2012 level 2) as their fair value is determined based on techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly The call and put options are classified as level 3 financial instruments as their valuations are based on non-observable inputs

Credit risk

Group

The Group has cash deposited in Turkey as security for bank loans to the group's joint venture The recoverability of these is dependent on the joint venture's ability to repay its loans Aside from other cash at bank there are no other significant exposures to credit risk within the group The maximum credit risk exposure relating to financial assets is represented by the carrying value at the balance sheet date

Notes to the financial statements (continued)

at 31 May 2013

19. Financial instruments (continued)

Company

The company is only exposed to credit risk associated with intercompany balances

Borrowing facilities

The group has various borrowing facilities available The undrawn committed facilities available at each relevant period or year-end were as follows

	2013 *£000*	*2012* *£000*
Expiring in more than five years	1,000	3,000

Capital Management

Capital comprises shareholders' equity, PIK notes, and financing from the group's parent undertakings The primary objective of the group's capital management policy is to ensure that the group has adequate capital to support the business The group monitors the cost of the various sources of capital on an ongoing basis and manages cost through planning future alternative sources of capital No changes were made to the capital management policy during the year The group has no externally imposed capital restrictions

20. Authorised and issued share capital

		£1 Ordinary shares
Authorised	*No*	*£*
£1 ordinary shares (At 31 May 2013 and 31 May 2012)	100	100

		£1 Ordinary shares
Allotted, called up and fully paid	*No*	*£*
£1 ordinary shares (At 31 May 2013 and 31 May 2012)	51	51

The company has one class of share with equal voting rights

21. Contingent liability

Group

The group has deposited cash as security for part of the bank loan of its joint venture, which amounted to £1,483,515 (2012 – £1,444,521)

Company

The company and certain subsidiaries have provided an unlimited cross guarantee in favour of the group's bankers covering the term loans of Rome Bidco Limited At 31 May 2013, these guarantees totalled £221 4 million (2012 – £208 4 million)

Notes to the financial statements (continued)

at 31 May 2013

22. Capital commitments

At 31 May 2013, capital commitments contracted but not provided for in the group and company financial statements were £0 4m (2012 – £0 8m)

23. Other financial commitments

The group has a number of lease agreements that, pursuant to their economic substance, qualify as non–cancellable operating lease agreements These primarily relate to rents payable on land and buildings The terms of the leases vary significantly but can broadly be summarised as follows

Lease terms

Shop leases are typically between 10 and 15 years with rent reviews every 5 years

Determination of rent payments

Rent payments are based on the amount specified in the agreement The agreements are not terminated automatically after expiry of the lease term and in the majority of cases, there will be an opportunity to negotiate lease extensions with the lessor

Restrictions

There are no restrictions imposed upon the group concerning dividends, additional debt or further leasing under any of the existing lease arrangements

Future minimum rentals payable under non–cancellable operating leases are as follows

Group	*Land and buildings*	
	2013	*2012*
	£000	*£000*
Due		
In less than one year	35,938	33,102
After one year but not more than five years	103,972	95,769
After five years	64,525	59,434
	204,435	188,305

Subleases

The group subleases areas of leased properties and receives sublease payments from third parties Group companies other than the parent have sublet space in certain properties These typically are flats on short term tenancies, other commercial lettings on periods of less than 5 years and shops on leases of up to 10 years The future minimum sublease payments expected to be received under non–cancellable sublease agreements at 31 May 2013 is £2 0 million (2012 – £2 3 million)

24. Related party transactions

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

In 2007 Saratoga Limited and Paladin Partners 1, the ultimate shareholders of the group and company, rolled their cash receivable on the sale of their shares in Caffe Nero Group Limited into Rome Holdco Sarl (the ultimate controlling party) in the form of equity and preferred equity certificates Consequently,

Notes to the financial statements (continued)

at 31 May 2013

24. Related party transactions (continued)

Saratoga Limited and Paladin Partners 1 hold 67 0% and 33 0% of Rome Holdco Sarl respectively In addition to this equity share ownership, at 31 May 2013, Saratoga Limited and Paladin Partners 1 held £32 7 million (2012 – £32 7 million) and £65 7 million (2012 – £65 7million) of preferred equity certificates respectively Gerry Ford and Ben Price hold interest in the preferred equity certificates, as follows

G W Ford (1)	£48 8 million (2012 – £48 8 million)
B J Price (2)	£2 1 million (2012 – £2 1 million)

(1) G W Ford's interest in preferred equity certificates (stated at par value) is registered as follows

Saratoga Limited	£32 7 million (2012 – £32 7 million)
Paladin Partners 1	£16 1 million (2012 – £16 1 million)

(2) B J Price's interest in preferred equity certificates (stated at par value) is registered as follows

Paladin Partners 1	£2 1 million (2012 – £2 1 million)

Group

The amounts outstanding between the Group and other related parties at the year end were as follows

	2013	*2012*
	£000	*£000*
Amounts owed to Rome PIK Holdco Limited	(191,869)	(179,125)
Amounts owed by Rome Holdco Sarl	495	267
Amounts owed to Saratoga Limited	(42)	(63)
Amounts owed to Cheyson Partners Limited - services	(88)	(113)

Company

The amounts outstanding between the Company and other related parties at the year end were as follows

	2013	*2012*
	£000	*£000*
Amounts owed to Rome PIK Holdco Limited	(191,869)	(179,125)
Amounts owed by Rome Bidco Limited	196,292	183,548
Amounts owed to Caffe Nero Group Limited	(515)	(515)

Cheyson Partners Limited manages Paladin Partners 1, a 33% shareholder of the group

The following transactions took place between the group and related parties during the year (the first two transactions are applicable to the company)

- Rome Bidco Limited has paid monitoring fees to Saratoga Limited and Cheyson Partners Limited At 31 May 2013, the amounts paid during the year were £21,000 and £54,000 respectively (2012 – £53,000 and £75,500 respectively)

Notes to the financial statements (continued)

at 31 May 2013

24. Related party transactions (continued)

- The group made a further investment of £120,000 (2012 – £1,326,000) in Caffe Nero Gida Urunleri, a 50% joint venture The outstanding investment in Caffe Nero Gida Urunleri was offset by losses leaving a nil balance at the year end
- The group invested £1,714,000 in Green Coffee Sp z o o in which it holds 58 5% of the share capital This investment was written down by £103,000 representing the group's share of the losses for the year leaving a balance of £1,611,000 at the year end

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

	Group 2013 £000	*Group 2012 £000*	*Company 2013 £000*	*Company 2012 £000*
Short-term employee benefits	654	571	-	-
Post-employment benefits	18	18	-	-
	672	589	-	-

25. Ultimate parent undertaking

At the year end, the company's ultimate parent undertaking and controlling party was Saratoga Limited, a company incorporated in the Isle of Man The company's immediate parent undertaking was Rome PIK Holdco Ltd

Rome Holdco Sarl (incorporated in Luxembourg) is the parent undertaking of the smallest and largest groups of which the company is a member and for which group financial statements are prepared Copies of the group financial statements for Rome Holdco Sarl will be available from 46A, Avenue J F Kennedy, L-1855 Luxembourg