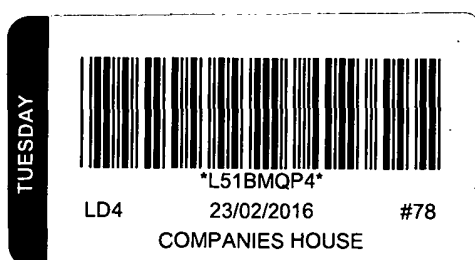


Rome Pikco Limited

Report and Financial Statements

31 May 2015



Directors

G W Ford
B J Price

Secretary

B J Price

Auditor

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

Banker

Santander UK Plc
17 Ulster Terrace
London NW1 4PJ

Solicitor

Linklaters
1 Silk Street
London EC2Y 8HQ

Registered Office

3 Neal Street
London WC2H 9PU

Registered No. 05936386

Strategic report

The directors present their strategic report and directors' 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 2015.

Principal activities

Rome Pikco Limited is the holding company of Rome Bidco Limited, which owns Caffè Nero Group Limited. Caffè 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, Caffè Nero offers an array of pastries, baked goods, freshly made panini, sandwiches, salads and pastas, as well as cakes and biscotti.

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. 36 stores were opened in the UK and Ireland as well as 14 international stores.

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 2.3% for the UK and 3.7% for the group as a whole.

Store profit (gross profit)

The success of the group in its store opening programmes and like for like sales is shown through increased store profit in absolute terms. Gross margin slightly decreased to 24.4% (2014 – 24.8%).

Business review

The company's performance is summarised below:

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Revenue | 243,251 | 223,441 |
| Like for like sales | 219,903 | 214,970 |
| New store openings (UK and Ireland and international) | 50 | 53 |
| Store profit | 59,253 | 55,376 |
| Gross margin | 24.4% | 24.8% |
| Operating profit | 17,809 | 20,126 |
| Loss before tax | (28,434) | (29,643) |

As at May 2015 Caffè Nero had a total of 679 stores in seven countries. 50 stores were opened during the year with six closures.

In the UK and Ireland Caffè Nero had 582 stores operating in 247 towns and cities. The group opened 36 stores in the year and handed five stores back to landlords resulting in a net increase of 31 stores or 5.6% of the estate. The directors believe that there is the potential in the UK and Irish markets for at least 750 Caffè Nero stores.

Strategic report (continued)

Business review (continued)

The group's joint venture in Turkey, Caffè Nero Gıda Ürünleri AS ('Caffè Nero Turkey'), opened one store in Turkey. Caffè Nero Turkey now has a total of 45 stores at the year end. 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.

On 11 August 2015 the company completed the acquisition of 50% of the shares of Caffè Nero Gıda Ürünleri AS in Turkey, (with Caffè Nero Investments Ltd simultaneously transferring its 1% holding to the company) bringing the company's ownership of Caffè Nero Gıda Ürünleri AS to 100%. As part of the acquisition it was agreed that a royalty should not have been charged by the company to Caffè Nero Gıda Ürünleri AS in any previous years.

The group's joint venture in Poland, Green Caffè Nero, opened 7 sites in Warsaw during the year bringing the total to 29. Green Caffè Nero achieved positive performance at EBITDA level for the first time and the directors are satisfied with its performance. With the addition of profitable new stores and ongoing growth in existing stores, continued progress is expected in Poland.

The group opened three sites in Dublin, in the Republic of Ireland, bringing the total to four, and two sites in Boston in the USA, bringing the total to three. The directors are satisfied with the performance of these new sites and further openings are expected in FY16.

The group has a number of franchises operating in the Arabian Gulf and also in Cyprus. The revenues from these franchise agreements are included in these financial statements. At the year-end, 15 Caffè Nero stores were open in the United Arab Emirates and five in Cyprus.

Capital management

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

Principle risks and uncertainties

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

Group specific risks

- Damage to the brand image due to failures in environmental health in the stores or contamination of products;
- Increases in prices of key raw ingredients;
- Increases in other key costs such as wages and rents;
- Decreased customer demand for Caffè Nero's products; and
- Breakdowns in internal controls through fraud or error.

The Group continually monitors exposure to these risks and has developed policies and appointed qualified personnel to mitigate exposure to these risks.

Strategic report (continued)

Broader sector or macroeconomic risks

- The loss of key personnel or the failure to manage succession planning;
- Adverse economic conditions in the UK markets;
- Increased competition in the markets in which Caffè Nero operates; and
- A rise in interest rates which will affect the amount of interest payable on the group's loans.

Financial risk management objectives and policies

The company uses various financial instruments including cash, trade debtors, bank overdraft and trade creditors that arise directly from its operations. The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

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

Interest rate risk

The 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.

Credit risk

The group monitors its exposure to credit risk through detailed checks on customers and regular review of outstanding receivables. The company mitigates its exposure by only lending to group undertakings.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. The group regularly reviews its exposure and ensures funds are available as required.



Ben Price

Director

5 October 2015

Directors' report

Results and dividends

The company generated a loss before taxation of £28.4m (2014 – loss before taxation of £29.6m). No dividend is proposed (2014 – £nil).

Future Developments

The directors aim to maintain the management policies which have resulted in the group's substantial growth in recent years. They consider that the next year will show a further significant growth in sales from continuing operations, from the addition of new stores in the UK and Ireland and our other international territories.

Treasury and financial risk management

At year end the Group had net liabilities of £245.7m (2014 – £217.6m). 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.

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 for the foreseeable future.

The group is in a net liability position of £245.7m 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 £204.4m 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 loans (£261.9m) are not due within twelve months of the date of authorising these financial statements for issue, and will begin being due in June 2017.

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.

Directors of the company

The directors at the date of approving this report and those that served during the year are set out on page 1. During the year, the directors' interests in the share capital of Rome Holdco Sarl, the largest parent company of the group of which Rome Pikco Limited is a member, were as follows:

| | <i>At 31 May 2015</i> | <i>At 31 May 2014</i> |
|---------------|---------------------------|---------------------------|
| | <i>£20 each</i> | <i>£20 each</i> |
| G W Ford (1) | 13,900 | 13,883 |
| B J Price (2) | 266 | 266 |

(1) G W Ford's interest in ordinary shares is registered as follows:

Saratoga Limited 13,570
Paladin Partners 1 330

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

Paladin Partners 1 266

Additionally, B J Price has 495 shares in Rome Intermediate Holdings Sarl (the immediate parent of which is Rome Holdco Sarl) held on his behalf through an Employee Benefit Trust.

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 34 days (2014 – 46 days).

Taxation

The Group generated a loss before taxation of £28.4m for the year. Therefore, no entity within the Group was due to pay tax for the year. The Group's loss before tax arose due to third party, arm's length interest payments to banks. The Group has not included any of the interest payable to ultimate shareholder companies, only third party banks, in its corporation tax computations.

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 £57,000 was made for charitable purposes (2014 – £2,000).

Statement of disclosure of information to the auditor

The directors who were members of the Board at the time of approving the directors' report are set out on page 1. Having made enquiries of fellow directors and the 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.

Reappointment of auditor

In accordance with section 487 of the Companies Act 2006, the company has elected to dispense with the obligation under section 485 of the Companies Act 2006 to appoint auditors annually. Ernst & Young LLP are deemed to continue in office until further notice.

By order of the Board



Ben Price

Director

5 October 2015

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 group and the company and of the profit or loss of the group for that period.

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

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

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

Independent 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 2015 which comprise the Group Statement of Comprehensive Income, Group and Company Statements of Financial Position, Group and Company Statements of Cash Flow, Group and Company Statements of Changes in Shareholders' Equity and the related notes 1 to 26. 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us during the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the 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 2015 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report (continued)

to the members of Rome Pikco Limited

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

Andy Glover (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
5 October 2015

Group statement of comprehensive income

for the year ended 31 May 2015

| | Notes | 2015 £000 | 2014 £000 |
|--|-------|--------------|--------------|
| Revenue | 2 | 243,251 | 223,441 |
| Cost of sales | | (183,998) | (168,065) |
| Gross profit | | 59,253 | 55,376 |
| Administrative expenses | | (41,444) | (35,250) |
| Operating profit | 3 | 17,809 | 20,126 |
| Finance income | 6 | 37 | 24 |
| Finance costs and similar charges | 7 | (42,211) | (47,763) |
| Share of post tax loss of joint ventures | 12 | (4,068) | (2,030) |
| Loss before taxation | | (28,434) | (29,643) |
| Income tax credit | 8 | 187 | 2,619 |
| Loss for the year | | (28,247) | (27,024) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (28,247) | (27,024) |

The results in the current and prior year arise solely from continuing operations.

Group statement of financial position

at 31 May 2015

| | | 2015 £000 | 2014 £000 |
|----------------------------------|--------------|------------------|------------------|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 64,369 | 62,601 |
| Intangible assets | 11 | 176,359 | 179,076 |
| Investment in joint ventures | 12 | 2,200 | 2,170 |
| Lease premiums | 13 | 726 | 788 |
| Other receivables | 14 | 1,567 | 1,467 |
| Deferred tax assets | 8 | 7,000 | 7,413 |
| | | <u>252,221</u> | <u>253,515</u> |
| Current assets | | | |
| Other receivables | 14 | 10,483 | 10,429 |
| Inventories | 15 | 3,055 | 2,611 |
| Lease premiums | 13 | 262 | 301 |
| Cash and cash equivalents | | <u>11,543</u> | <u>9,126</u> |
| | | <u>25,343</u> | <u>22,467</u> |
| Total assets | | <u>277,564</u> | <u>275,982</u> |
| Current liabilities | | | |
| Derivative financial instruments | | (4,153) | (3,836) |
| Trade and other payables | 16 | (45,830) | (44,755) |
| Other financial liabilities | 18 | (211,917) | (193,095) |
| | | <u>(261,900)</u> | <u>(241,686)</u> |
| Non-current liabilities | | | |
| Other financial liabilities | 18 | (254,403) | (244,176) |
| Provisions | 17 | — | (136) |
| Deferred tax liability | 8 | (7,000) | (7,600) |
| | | <u>(261,403)</u> | <u>(251,912)</u> |
| Total liabilities | | <u>(523,303)</u> | <u>(493,598)</u> |
| Net liabilities | | <u>(245,739)</u> | <u>(217,616)</u> |
| Capital and reserves | | | |
| Called up share capital | 20 | — | — |
| Share premium account | | 2,024 | 2,024 |
| Exchange reserve | | 143 | 19 |
| Retained earnings | | (247,906) | (219,659) |
| Total equity | | <u>(245,739)</u> | <u>(217,616)</u> |

The financial statements were approved by the board of directors on 5 October 2015 and signed on its behalf by:

Gerald Ford
Director

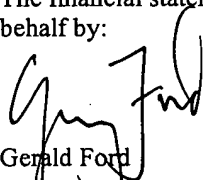
Ben Price
Director

Company statement of financial position

at 31 May 2015

| | Notes | 2015 £000 | 2014 £000 |
|--------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Investments | 12 | 2,024 | 2,024 |
| Current assets | | | |
| Other receivables | 14 | 126,159 | 112,337 |
| Cash and cash equivalents | | 2 | 2 |
| | | <u>126,161</u> | <u>112,339</u> |
| Total assets | | <u>128,185</u> | <u>114,363</u> |
| Current liabilities | | | |
| Trade and other payables | 16 | (515) | (515) |
| Other financial liabilities | 18 | (204,417) | (190,595) |
| | | <u>(204,932)</u> | <u>(191,110)</u> |
| Non-current liabilities | | | |
| Other financial liabilities | 18 | — | — |
| Total liabilities | | <u>(204,932)</u> | <u>(191,110)</u> |
| Net liabilities | | <u>(76,747)</u> | <u>(76,747)</u> |
| Capital and reserves | | | |
| Called up share capital | 20 | — | — |
| Share premium account | | 2,024 | 2,024 |
| Retained earnings | | (78,771) | (78,771) |
| Total equity | | <u>(76,747)</u> | <u>(76,747)</u> |

The financial statements were approved by the board of directors on 5 October 2015 and signed on its behalf by:


Gerald Ford
Director


Ben Price
Director

Group statement of cash flows

for the year ended 31 May 2015

| | 2015 £000 | 2014 £000 |
|---|-----------------|-----------------|
| Operating activities | | |
| Loss before taxation | (28,434) | (29,643) |
| <i>Adjustments to reconcile loss for the year to net cash flow from operating activities:</i> | | |
| Finance expense | 42,211 | 47,763 |
| Finance income | (37) | (24) |
| Unrealised loss on foreign exchange | 68 | 117 |
| Depreciation of property, plant and equipment, amortisation of intangible assets and amortisation of lease premiums | 19,769 | 17,564 |
| Impairment of property, plant and equipment | 81 | 150 |
| Loss on disposal of property, plant and equipment | 32 | 82 |
| Share of loss of joint venture | 4,068 | 2,030 |
| | <u>37,758</u> | <u>38,039</u> |
| Increase in inventories | (444) | (442) |
| Decrease/(increase) in other receivables | 132 | (1,150) |
| Increase in trade and other payables | 347 | 1,790 |
| Decrease in provisions | (136) | (194) |
| Net cash from operating activities | <u>37,657</u> | <u>38,043</u> |
| Investing activities | | |
| Payments to acquire intangible fixed assets | (583) | (440) |
| Payments for lease premiums | (162) | – |
| Investment in joint ventures | (4,098) | (2,589) |
| Payments to acquire property, plant and equipment | (18,087) | (19,124) |
| Proceeds from disposal of property, plant and equipment | – | 21 |
| Interest received | 37 | 23 |
| Net repayment of amounts due to parent | (503) | (86) |
| Net cash used in investing activities | <u>(23,396)</u> | <u>(22,195)</u> |
| Financing activities | | |
| New third party long-term loans | 5,000 | 255,500 |
| Interest paid | (16,829) | (14,666) |
| Loan issue costs and other bank fees paid | (668) | (12,144) |
| Repayment of loan note with ultimate shareholder | 653 | (15,000) |
| Repayment of financial liabilities | – | (231,508) |
| Net cash used in financing activities | <u>(11,844)</u> | <u>(17,818)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>2,417</u> | <u>(1,970)</u> |
| Cash and cash equivalents at 1 June | 9,126 | 11,096 |
| Cash and cash equivalents at 31 May | <u>11,543</u> | <u>9,126</u> |

Company statement of cash flows

for the year ended 31 May 2015

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Operating activities | | |
| Result/(Loss) before taxation | – | (9,812) |
| Financing costs | 13,822 | 23,538 |
| Interest receivable | (13,822) | (13,726) |
| Net cash flow from operating activities | – | – |
| Investing activities | | |
| Net proceeds from subsidiaries | – | – |
| Net cash flow from investing activities | – | – |
| Financing activities | | |
| Loan advanced by subsidiary | – | – |
| Net cash flow used in financing activities | – | – |
| 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 2015

| | <i>Called up share capital £000</i> | <i>Share premium account £000</i> | <i>Exchange reserve £000</i> | <i>Retained earnings £000</i> | <i>Total £000</i> |
|---|---|---|--------------------------------------|---------------------------------------|-----------------------|
| At 31 May 2013 (restated) | – | 2,024 | – | (192,635) | (190,611) |
| Total comprehensive income for the year | – | – | – | (27,024) | (27,024) |
| Retranslation movement | – | – | 19 | – | 19 |
| At 31 May 2014 | – | 2,024 | 19 | (219,659) | (217,616) |
| Total comprehensive income for the year | – | – | – | (28,247) | (28,247) |
| Retranslation movement | – | – | 124 | – | 124 |
| At 31 May 2015 | – | 2,024 | 143 | (247,906) | (245,739) |

Company statement of changes in shareholders' equity

for the year ended 31 May 2015

| | <i>Called up share capital</i> £000 | <i>Share premium account</i> £000 | <i>Retained earnings</i> £000 | <i>Total</i> £000 |
|---|--|--|--------------------------------------|----------------------|
| At 31 May 2013 | – | 2,024 | (68,959) | (66,935) |
| Total comprehensive income for the year | – | – | (9,812) | (9,812) |
| At 31 May 2014 | – | 2,024 | (78,771) | (76,747) |
| Total comprehensive income for the year | – | – | – | – |
| At 31 May 2015 | – | 2,024 | (78,771) | (76,747) |

Notes to the financial statements

at 31 May 2015

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 5th October 2015. 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 adopted by the European Union, 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 for the foreseeable future.

The group is in a net liability position of £245.7m 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 £204.4m 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 loans (£261.9m) are not due within twelve months of the date of authorising these financial statements for issue.

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 Pounds Sterling which is the functional and presentational currency of the Group and Company and all amounts are rounded to the nearest thousand pounds (£000) except as otherwise indicated.

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 balances reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

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 goodwill (note 11) and property, plant and equipment (note 10) ('fixed assets'). The group identifies whether fixed assets are impaired on an annual basis, and this requires 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.

Other key sources of estimation uncertainty include the impairment of group receivables (note 14), the estimation of useful lives of actual assets, outstanding coffee due under loyalty cards (note 16) and the replacement cost of raw materials (note 15). The accounting policies for these areas are set out in this note.

Notes to the financial statements

at 31 May 2015

1. Accounting policies (continued)

Key sources of estimation uncertainty and accounting judgement (continued)

The group estimates the fair value of points awarded under customer loyalty programme by applying statistical techniques. Inputs to the 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 2015, the estimated liability for unredeemed points was approximately £870,415 (2014 – £804,000).

Basis of consolidation

The consolidated financial statements comprise the financial statement of the Group and its subsidiaries at 31 May 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

Interests in joint ventures

The group has contractual arrangements with other parties, which 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 joint ventures controlled entity's results after tax. Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised. To the extent that the net fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the group's share of the entity's profit or loss in the period in which the investment is acquired.

Notes to the financial statements

at 31 May 2015

1. Accounting policies (continued)

Interests in joint ventures (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

at 31 May 2015

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.

Inventories

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

Notes to the financial statements

at 31 May 2015

1. Accounting policies (continued)

Provisions

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

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.

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:

- 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.

Notes to the financial statements

at 31 May 2015

1. Accounting policies (continued)

Financial liabilities (continued)

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

at 31 May 2015

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 Caffè 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 Caffè 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 Caffè 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.

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.

Notes to the financial statements

at 31 May 2015

1. Accounting policies (continued)

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 following standards and interpretations, which have been issued by the IASB, become effective after the current year end and have not been early adopted by the Group:

| International Accounting Standards (IAS/IFRS/IFRIC) | | Effective date |
|---|--|-----------------|
| IAS 1 | Amendments: Presentation of the Financial Statements | 01 January 2016 |
| IAS 16 | Amendments: Property, Plant & Equipment | 01 January 2016 |
| IAS 38 | Amendments: Intangible Assets | 01 January 2016 |
| IAS 39 | Amendments: Financial Instruments: Recognition and measurement | 01 July 2014 |
| IFRS 7 | Amendments: Financial Instruments: Disclosures | 01 July 2014 |
| IFRS 11 | Amendments: Accounting for acquisitions of interests in joint operations | 01 January 2016 |
| IFRS 9 | Financial Instruments: Classification and measurement | 01 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 01 January 2017 |

The effective dates stated here are those given in the original IASB standards. As the company prepares its financial statements in accordance with IFRS 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 group's financial statements in the period of initial application.

Notes to the financial statements

at 31 May 2015

2. Revenue

Revenue is analysed as follows:

| | 2015 £000 | 2014 £000 |
|--|----------------|----------------|
| Coffee shop sales and associated income | 242,635 | 222,452 |
| Royalty fee income, opening fees and other charges | 616 | 989 |
| | <u>243,251</u> | <u>223,441</u> |
| Finance income (note 6) | 37 | 24 |
| Total revenue | <u>243,288</u> | <u>223,465</u> |

Revenue is derived from the following geographic areas:

| | 2015 £000 | 2014 £000 |
|----------------|----------------|----------------|
| UK and Ireland | 241,332 | 222,399 |
| Turkey | - | 566 |
| Gulf States | 420 | 362 |
| Cyprus | 196 | 59 |
| US | 1,303 | 55 |
| | <u>243,251</u> | <u>223,441</u> |

Notes to the financial statements

at 31 May 2015

3. Operating profit

Operating profit is stated after charging/(crediting):

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Auditors' remuneration | | |
| – audit of group financial statements | 79 | 75 |
| – audit of financial statements of subsidiaries | 74 | 58 |
| – other services relating to tax | | 37 |
| – due diligence services | - | 130 |
| Costs relating directly to opening new sites | 601 | 683 |
| Depreciation of property, plant and equipment | 16,207 | 14,060 |
| Impairment of property, plant and equipment | 81 | 150 |
| Amortisation of intangible assets | 3,300 | 3,204 |
| Amortisation of lease premiums | 262 | 300 |
| Loss on disposal of property, plant and equipment | 32 | 82 |
| Operating lease rentals | | |
| – land and buildings | 41,610 | 37,355 |
| Other operating income | | |
| – rental income | (692) | (318) |
| Other operating income | | |
| – marketing income | (624) | (615) |
| Loss on foreign exchange | - | 2 |

Operating lease rentals are split between minimum lease payments of £39.3 million (2014 – £34.6 million) and contingent rents of £2.3 million (2014 – £2.8 million).

Notes to the financial statements

at 31 May 2015

4. Directors emoluments

No remuneration was paid or is payable to the directors in their capacity as directors of the company (2014 – £nil). The directors are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £933,954 (2014 – £935,068) 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.

Amounts paid on a group basis are summarised below:

| | <i>Basic salary</i> | <i>Fees and bonuses</i> | <i>Benefits</i> | <i>Pension</i> | <i>Total 2015</i> |
|-----------|---------------------|-------------------------|-----------------|----------------|-------------------|
| | £ | £ | £ | £ | £ |
| G W Ford | 401,550 | - | 34,122 | 19,413 | 455,035 |
| B J Price | 250,333 | - | 10,111 | 361 | 260,805 |
| N Riding | 207,833 | - | 10,281 | - | 218,114 |
| Total | 859,716 | - | 34,739 | 19,774 | 933,954 |

| | <i>Basic salary</i> | <i>Fees and bonuses</i> | <i>Benefits</i> | <i>Pension</i> | <i>Total 2014</i> |
|-----------|---------------------|-------------------------|-----------------|----------------|-------------------|
| | £ | £ | £ | £ | £ |
| G W Ford | 374,083 | 45,000 | 14,580 | 18,839 | 452,502 |
| B J Price | 241,333 | 15,000 | 9,697 | 239 | 266,269 |
| N Riding | 195,667 | 10,000 | 10,391 | 239 | 216,297 |
| Total | 811,083 | 70,000 | 34,668 | 19,317 | 935,068 |

5. Staff costs

| | <i>2015</i> | <i>2014</i> |
|-----------------------|-------------|-------------|
| | £000 | £000 |
| Wages and salaries | 60,474 | 54,467 |
| Social security costs | 4,523 | 4,103 |
| Other pension costs | 20 | 19 |
| | 65,017 | 58,589 |

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

| | <i>2015</i> | <i>2014</i> |
|----------------|-------------|-------------|
| | No. | No. |
| Operational | 3,420 | 3,134 |
| Administration | 774 | 753 |
| | 4,194 | 3,887 |

Notes to the financial statements

at 31 May 2015

6. Finance income

| | 2015 £000 | 2014 £000 |
|--------------------------|--------------|--------------|
| Bank interest receivable | 37 | 24 |

7. Finance expenses and similar charges

| | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| Senior debt interest | 7,443 | 6,780 |
| Mezzanine debt interest | 17,346 | 11,817 |
| PIK notes interest | — | 7,993 |
| Amortisation of loan issue costs | 2,343 | 7,932 |
| Bank fees | 275 | 207 |
| Change in fair value of interest rate and currency swap | 317 | (618) |
| Interest on loan from parent | 13,822 | 13,726 |
| Change in fair value of put and call options | 665 | (75) |
| | <u>42,211</u> | <u>47,763</u> |

8. Income tax

No income tax is payable for the year (2014 – £nil).

The tax assessed for the year differs from the average rate of corporation tax in the UK of 20.83% (2014 – 22.67%). The differences are explained below:

| | 2015 £'000 | 2014 £'000 |
|--|---------------|----------------|
| Profit/(Loss) before tax | (28,434) | (29,643) |
| Profit before tax at 20.83% (2014: 22.67%) (average rate for the period) | (5,922) | (6,719) |
| Expenses not deductible for tax purposes | 2,132 | 1,185 |
| Group relief surrendered/(claimed) for nil payment | 2,824 | 3,111 |
| Movement in deferred tax asset not recognised | 779 | (137) |
| Impact of rate change on DT liability | — | (60) |
| Tax charge/(credit) | <u>(187)</u> | <u>(2,620)</u> |

Notes to the financial statements

at 31 May 2015

8. Income tax (continued)

(a) Deferred tax

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

| | <i>Recognised</i> | <i>Not</i> | <i>Recognised</i> | <i>Not</i> |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <i>2015</i> | <i>recognised</i> | <i>2014</i> | <i>recognised</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Decelerated capital allowances | 7,000 | 462 | 7,413 | - |
| Deductable temporary differences | (7,000) | 933 | (7,600) | 881 |
| Tax losses | - | 2,398 | - | 2,149 |
| Deferred tax asset | - | 3,793 | (187) | 3,030 |

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.

Changes to the UK Corporation tax rules were announced in the Chancellor's Budget on 8 July 2015, including a reduction in the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date, their effects have not been included in these financial statements. Therefore, the company's deferred tax balances are stated based on the tax rate which the deferred tax balances are expected to unwind.

Entities within the group have claimed UK group relief in the year to mitigate their UK corporation tax liabilities. UK group relief claimed has been derived from tax deductible third-party debt interest deductions only.

9. Results attributable to members of parent undertaking

The post-tax profit attributable to the parent undertaking for the year was £nil (2014 – loss of £9,812,000).

Notes to the financial statements

at 31 May 2015

10. Property, plant and equipment

Group

| | <i>Leasehold improvements</i> | <i>Furniture, fittings and equipment</i> | <i>Total</i> |
|------------------------------|-----------------------------------|--|--------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Cost: | | | |
| At 31 May 2014 | 100,815 | 50,330 | 151,145 |
| Additions | 10,006 | 8,081 | 18,087 |
| Disposals | (100) | - | (100) |
| At 31 May 2015 | 110,721 | 58,411 | 169,132 |
| Depreciation and impairment: | | | |
| At 31 May 2014 | 54,021 | 34,522 | 88,543 |
| Provided during the year | 9,765 | 6,442 | 16,207 |
| Impairment | 81 | - | 81 |
| Disposals | (68) | - | (68) |
| At 31 May 2015 | 63,799 | 40,964 | 104,763 |
| Net book value: | | | |
| At 31 May 2015 | 46,922 | 17,447 | 64,369 |
| At 31 May 2014 | 46,794 | 15,808 | 62,601 |

Asset written down to nil net book value but with a gross cost of £8,801,000 (2014 – £6,605,000) are still in use by the Group at 31 May 2015.

The impairment charge relates to unrecoverable elements of assets relating to cash generating units. Four stores were impaired during the year as a result of poor trading performance, which have been written down to a net book value of nil since the directors do not consider that this store will be profitable in the next year.

The recoverable amounts of these 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% (2014 – 10.1%). The growth rate applied is store specific and dependent upon the age of the store.

Impairment assumptions are covered in note 11.

Notes to the financial statements

at 31 May 2015

11. Intangible assets

Group

| | <i>Software</i> <i>£000</i> | <i>Brand</i> <i>£000</i> | <i>Trademark</i> <i>£000</i> | <i>Goodwill on</i> <i>acquisition</i> <i>£000</i> | <i>Total</i> <i>£000</i> |
|------------------------------|--------------------------------|-----------------------------|---------------------------------|---|-----------------------------|
| Cost: | | | | | |
| At 31 May 2014 | 1,079 | 60,000 | 119 | 160,821 | 222,019 |
| Additions | 583 | – | – | – | 583 |
| At 31 May 2015 | 1,662 | 60,000 | 119 | 160,821 | 222,602 |
| Amortisation and impairment: | | | | | |
| At 31 May 2014 | 643 | 22,000 | – | 20,300 | 42,943 |
| Charge for the year | 300 | 3,000 | – | – | 3,300 |
| At 31 May 2015 | 943 | 25,000 | – | 20,300 | 46,243 |
| Net book value: | | | | | |
| At 31 May 2015 | 719 | 35,000 | 119 | 140,521 | 176,359 |
| At 31 May 2014 | 436 | 38,000 | 119 | 140,521 | 179,076 |

Goodwill arose on the acquisition of Caffè Nero Group Limited on 1 February 2007. The brand also arose on the same acquisition and is being amortised over 20 years.

Impairment testing of goodwill

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

Goodwill of £160.8m arose on the acquisition of the UK Caffè 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 (2014 – 10.1%). The discount rate has been derived from the group's weighted average cost of capital, adjusted to reflect a market assessment of the risks specific to the cash generating assets.

EBITDA growth

The discounted cash flow model was driven by EBITDA, representing the operating cash flows of the business. The EBITDA growth assumption used was 2.5% (2014 – 2.5%). The growth rate is consistent with historic performance and expected future market conditions. The forecast EBITDA is based on existing stores and excludes projected earnings from future store openings. Forecast capital expenditure on new stores has been excluded from the cash flow projections.

A terminal growth rate of 2.5% (2014 – 2.5%) has been used to calculate expected cash flows after 5 years. This assumption is consistent with the long-term growth projections for the industry.

Notes to the financial statements

at 31 May 2015

11. Intangible assets (continued)

Sensitivity to changes in assumptions

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

12. Non current asset investments

| | <i>Investment in joint ventures</i> | <i>Investment in joint ventures</i> |
|--------------------------------------|---|--|
| | <i>2015</i> | <i>2014</i> |
| | <i>£000</i> | <i>£000</i> |
| <i>Group</i> | | |
| Cost: | | |
| At 1 June | 2,170 | 1,611 |
| Investments during the year | 4,098 | 2,589 |
| Profit/(loss for the year) | (4,068) | (2,030) |
| At 31 May | <u>2,200</u> | <u>2,170</u> |
| | | <i>Investment in subsidiary undertakings</i> |
| | | <i>£000</i> |
| <i>Company</i> | | |
| Cost at 31 May 2014 and 31 May 2015. | | <u>2,024</u> |

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 Caffè Nero Group Limited, which operates Italian style coffee bars. Caffè 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.

On 1 March 2007, Rome Bidco Limited acquired the entire share capital of Caffè Nero Investments Limited for £100. Caffè Nero Investments Limited is the holding company of Caffè Nero Ventures Limited, which is the management company of the group's overseas joint ventures Caffè 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 Caffè Nero Gida Urunleri AS and 58.5% of Green Coffee sp z.o.o.

On 27 September 2012, the company acquired 58.46% of Green Coffee Sp. Z.o.o. a company based in Warsaw, Poland and also acting as a coffee retailer. During the previous year a further £688,000 was invested bringing the company's stake to 65.1%. The company is accounting for this investment as a joint venture as unanimous shareholder votes are required for all key operating, strategic and financial decisions and the definition of control has not been satisfied.

Notes to the financial statements

at 31 May 2015

12. Non current asset investments (continued)

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 decreased by £665,624 (2014 increase of £75,357), which has been recognised in the statement of comprehensive income.

The group's share of the losses in Caffè 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 Caffè Nero Gida Urunleri As at 31 May 2015 are as follows:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| <i>Share of the joint venture's balance sheet:</i> | | |
| Non-current assets | 2,743 | 3,357 |
| Current assets | 567 | 838 |
| Share of gross assets | 3,310 | 4,395 |
| Current liabilities | (7,456) | (5,875) |
| Non-current liabilities | (518) | (1,186) |
| Share of gross liabilities | (7,974) | (7,060) |
| Share of net liabilities | (4,665) | (2,666) |

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

Share of the joint venture's results:

| | 2015 £000 | 2014 £000 |
|-------------------------|--------------|--------------|
| Revenue | 8,338 | 8,060 |
| Cost of sales | (7,247) | (6,658) |
| Administrative expenses | (4,251) | (2,538) |
| Finance costs | (938) | (764) |
| Loss before tax | (4,098) | (1,900) |
| Tax | - | - |
| Loss for the year | (4,098) | (1,900) |

Notes to the financial statements

at 31 May 2015

12. Non current asset investments (continued)

The share of the assets, liabilities, income and expenses of Green Coffee Sp. Z.o.o at 31 May 2015 are as follows:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| <i>Share of the joint venture's balance sheet:</i> | | |
| Non-current assets | 1,953 | 1,832 |
| Current assets | 374 | 267 |
| Share of gross assets | 2,327 | 2,098 |
| Current liabilities | (623) | (559) |
| Non-current liabilities | (761) | (509) |
| Share of gross liabilities | (1,384) | (1,068) |
| Share of net assets | 943 | 1,038 |

Share of the joint venture's results:

| | 2015 £000 | 2014 £000 |
|--------------------------|--------------|--------------|
| Revenue | 4,257 | 2,794 |
| Cost of sales | (2,848) | (2,104) |
| Administrative expenses | (1,291) | (857) |
| Finance costs | (56) | 36 |
| Profit/(loss) before tax | 62 | (130) |
| Tax charge | (32) | — |
| Profit for the year | 30 | (130) |

Notes to the financial statements

at 31 May 2015

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:

| <i>Name of company</i> | <i>Proportion of voting rights and shares held</i> | <i>Nature of Business</i> |
|---|--|---------------------------|
| 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 |
| Caffe Nero Ireland Limited | 100% | Coffee retail |
| Caffe Nero Americas Limited | 100% | Holding |
| Caffe Nero Americas Incorporated (Incorporated in the United States) | 100% | Coffee retail |
| <i>Joint ventures</i> | | |
| Caffe Nero Gida Urunleri AS (Incorporated in Turkey) | 50% | Coffee retail |
| Green Coffee Sp z.o.o. (Incorporated in Poland) | 65.1% | Coffee retail |
| Muffia Sp. z.o.o Sp.k (Incorporated in Poland) | 30% | Food production |

All shareholdings are of ordinary equity shares.

Notes to the financial statements

at 31 May 2015

13. Lease premiums

| | <i>Lease premiums £000</i> |
|--|------------------------------------|
| Cost: | |
| At 31 May 2014 | 5,011 |
| Additions | 162 |
| At 31 May 2015 | <u>5,173</u> |
| Amortisation: | |
| At 31 May 2014 | 3,923 |
| Charge for the year | 262 |
| At 31 May 2015 | <u>4,185</u> |
| Net book value: | |
| At 31 May 2015 | <u>988</u> |
| At 31 May 2014 | <u>1,088</u> |
| The net book value at 31 May 2015 is split as follows: | |
| Non-current assets | <u>726</u> |
| Current assets | <u>262</u> |
| The net book value at 31 May 2014 is split as follows: | |
| Non-current assets | <u>788</u> |
| Current assets | <u>301</u> |

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

14. Other receivables

| | <i>Group 2015 £000</i> | <i>Company 2015 £000</i> | <i>Group 2014 £000</i> | <i>Company 2014 £000</i> |
|---|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| <i>Non-current:</i> | | | | |
| Other debtors (rent deposits) | 97 | — | 101 | — |
| Cash held on deposit in Turkey | 1,470 | — | 1,366 | — |
| | <u>1,567</u> | <u>—</u> | <u>1,467</u> | <u>—</u> |
| <i>Current:</i> | | | | |
| Amounts due from subsidiary undertaking | — | 126,159 | — | 112,337 |
| Amounts due from parent company | 1,083 | — | 580 | — |
| Trade debtors | 3,558 | — | 5,080 | — |
| Prepayments | 5,829 | — | 4,622 | — |
| Fair value of call option | 13 | — | 148 | — |
| | <u>10,483</u> | <u>126,159</u> | <u>10,429</u> | <u>112,337</u> |

Notes to the financial statements

at 31 May 2015

14. Other receivables (continued)

As at 31 May 2015 the ageing analysis of trade debtors due to third parties was as follows:

| | | <i>Past due not impaired.</i> | | | |
|------|---------------|--|----------------|---------------------|---------------------|
| | <i>Total</i> | <i>Neither past due nor impaired</i> | <i>< 30</i> | <i>30 – 60 days</i> | <i>> 60 days</i> |
| | <i>£000's</i> | <i>£000's</i> | <i>£000's</i> | <i>£000's</i> | <i>£000's</i> |
| 2015 | 3,558 | 1,746 | 607 | 162 | 1,043 |
| 2014 | 5,080 | 1,598 | 353 | 36 | 3,093 |

15. Inventories

| | <i>Group</i> | <i>Company</i> | <i>Group</i> | <i>Company</i> |
|------------------|--------------|----------------|--------------|----------------|
| | <i>2015</i> | <i>2015</i> | <i>2014</i> | <i>2014</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Goods for resale | 3,055 | – | 2,611 | – |

16. Trade and other payables

| | <i>Group</i> | <i>Company</i> | <i>Group</i> | <i>Company</i> |
|--|--------------|----------------|--------------|----------------|
| | <i>2015</i> | <i>2015</i> | <i>2014</i> | <i>2014</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Trade payables | 17,203 | – | 17,814 | – |
| Amounts due to subsidiary undertaking | – | 515 | – | 515 |
| Amounts due to parent undertaking | 653 | – | – | – |
| Other creditors, including taxation and social security | 8,242 | – | 7,596 | – |
| Accruals and deferred income | 18,584 | – | 18,110 | – |
| Interest and fees accruals | 90 | – | 708 | – |
| Fair value of put option | 1,058 | – | 527 | – |
| | 45,830 | 515 | 44,755 | 515 |

Notes to the financial statements

at 31 May 2015

17. Provisions

| | 2015 £000 | 2014 £000 |
|----------------------|--------------|--------------|
| At 1 June 2014 | 136 | 330 |
| Utilised in the year | (136) | (194) |
| At 31 May 2015 | <u>–</u> | <u>136</u> |

Provisions relate to onerous lease obligations where the company's lease commitments exceed anticipated future income. The provision is based on assumptions concerning income in future periods and the timing of cash flows is dependent on the remaining term of the leases, which is up to 5 years.

18. Other financial liabilities

Group

At 31 May 2015

| | Current £000 | Non-current £000 | Total £000 |
|--|-----------------|---------------------|----------------|
| Interest bearing loans and borrowings: | | | |
| Term loan – Senior – £100,000,000 | – | 95,566 | 95,566 |
| Term loan – Revolver facility – £5,000,000 | 2,500 | – | 2,500 |
| Term loan – Capex facility – £20,000,000 | 5,000 | – | 5,000 |
| Mezzanine term loan – £153,000,000 | – | 147,935 | 147,935 |
| Rolled up interest – Mezzanine term loan | – | 10,902 | 10,902 |
| Loan from parent undertaking | 98,450 | – | 98,450 |
| Rolled up interest due to parent undertaking | 105,967 | – | 105,967 |
| Total | <u>211,917</u> | <u>254,403</u> | <u>466,320</u> |

Amounts disclosed above are net of issue costs.

At 31 May 2014

| | Current £000 | Non-current £000 | Total £000 |
|--|-----------------|---------------------|----------------|
| Interest bearing loans and borrowings: | | | |
| Term loan – Senior – £100,000,000 | – | 94,329 | 94,329 |
| Term loan – Revolver facility – £2,500,000 | 2,500 | – | 2,500 |
| Mezzanine term loan – £153,000,000 | – | 146,830 | 146,830 |
| Rolled up interest – Mezzanine term loan | – | 3,018 | 3,018 |
| Loan from parent undertaking | 98,450 | – | 98,450 |
| Rolled up interest due to parent undertaking | 92,145 | – | 92,145 |
| Total | <u>193,095</u> | <u>244,176</u> | <u>437,271</u> |

Amounts disclosed above are net of issue costs.

Notes to the financial statements

at 31 May 2015

18. Other financial liabilities (continued)

Company

At 31 May 2015

| | <i>Current</i> | <i>Non-current</i> | <i>Total 2015</i> |
|--|----------------|--------------------|-------------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Interest bearing loans and borrowings: | | | |
| Loan from parent undertaking | 98,450 | – | 98,450 |
| Rolled up interest due to parent undertaking | 105,967 | – | 105,967 |
| | <u>204,417</u> | <u>–</u> | <u>204,417</u> |

At 31 May 2014

| | <i>Current</i> | <i>Non-current</i> | <i>Total 2014</i> |
|--|----------------|--------------------|-------------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Interest bearing loans and borrowings: | | | |
| Loan from parent undertaking | 98,450 | – | 98,450 |
| Rolled up interest due to parent undertaking | 92,145 | – | 92,145 |
| | <u>190,595</u> | <u>–</u> | <u>190,595</u> |

During the prior year the group refinanced its facilities, substantially reducing its cost of capital. Details of the new facilities are set out below.

The loans from the parent undertaking are repayable on demand. Interest is to be paid as agreed between the company and the parent company. Interest is currently agreed as payable at 25.125% per annum in the first year, 23.125% per annum in the second year, and 7.125% semi-annually thereafter.

The group's immediate parent undertaking, Rome PIK Holdco Limited, has confirmed to the directors that it will not seek repayment of amounts owed until such time as the group is able to meet its liability. However, the loan is still classified as repayable on demand per the terms of the agreement.

Loan repayment dates

| | <i>£000</i> |
|---|--------------|
| Senior A (Interest charged at LIBOR* + 3.5% margin) | |
| 23 December 2018 | 100,000 |
| Mezzanine (Interest charged at LIBOR + 5.0% cash margin + 5.0% PIK margin**) | |
| 23 December 2019 | 153,000 |
| Revolving credit facility (Interest charged at LIBOR* + 3.5% margin) | |
| The facility expires on 23 December 2018 | 2,500 |
| Capex facility (Interest charged at LIBOR* + 3.5% margin) | |
| 23 June 2017 | 1,250 |
| 23 December 2017 | 1,250 |
| 23 June 2018 | 1,250 |
| 23 December 2018 | <u>1,250</u> |
| | 5,000 |

Notes to the financial statements

at 31 May 2015

18. Other financial liabilities (continued)

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

**5.0% of the interest payable is settled by cash, 5.0% is rolled up into the carrying value of the loan.

The term loans were principally taken out to refinance the loans taken out to fund the acquisition of Caffè 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 £200.0 million of the term loans over a period of three years to February 2017.

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.

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, credit risk and liquidity risk. The Board reviews and agrees policies for managing exposure to each of these risks and these policies are summarised below.

Interest rate risk

The group borrows in 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.

Credit risk

The group monitors its exposure to credit risk through detailed checks on customers and regular review of outstanding receivables. The company mitigates its exposure by only lending to group undertakings.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other loans and facilities. The group regularly reviews its exposure and ensures funds are available as required.

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2015 and 31 May 2014 based on contractual undiscounted payments.

As at 31 May 2015

Group

| | On Demand £000 | Within 1 year £000 | 1-5 years £000 | More than 5 years £000 | Total £000 |
|---|-------------------|-----------------------|-------------------|------------------------------|----------------|
| Trade and other payables | — | 17,203 | — | — | 17,203 |
| Mezzanine loan | — | — | 153,000 | — | 153,000 |
| Rolled up interest on mezzanine loan | — | — | 49,273 | — | 49,273 |
| Variable interest on mezzanine loan | — | 9,962 | 48,276 | — | 58,238 |
| Senior loans | — | — | 107,500 | — | 107,500 |
| Variable interest on senior loans | — | 4,569 | 17,738 | — | 22,307 |
| Loan from parent | 98,450 | — | — | — | 98,450 |
| Rolled up interest on loan from parent | 105,967 | — | — | — | 105,967 |
| Interest rate swap | — | — | 4,153 | — | 4,153 |
| Variable interest on swap facilities | — | 2,502 | 2 | — | 2,504 |
| | <u>204,417</u> | <u>34,326</u> | <u>379,942</u> | <u>—</u> | <u>618,595</u> |

Company

| | On Demand £000 | Within 1 year £000 | 1-5 years £000 | More than 5 years £000 | Total £000 |
|---|-------------------|-----------------------|-------------------|------------------------------|----------------|
| Trade and other payables | — | 515 | — | — | 515 |
| Loan from parent | 98,450 | — | — | — | 98,450 |
| Rolled up interest on loan from parent | 105,967 | — | — | — | 105,967 |
| | <u>204,417</u> | <u>515</u> | <u>—</u> | <u>—</u> | <u>204,932</u> |

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

As at 31 May 2014

Group

| | On Demand £000 | Within 1 year £000 | 1-5 years £000 | More than 5 years £000 | Total £000 |
|---|-------------------|-----------------------|-------------------|------------------------------|----------------|
| Trade and other payables | – | 18,541 | – | – | 18,541 |
| Mezzanine loan | – | – | – | 153,000 | 153,000 |
| Rolled up interest on mezzanine loan | – | – | – | 49,273 | 49,273 |
| Variable interest on mezzanine loan | – | 9,465 | 52,154 | 10,270 | 71,889 |
| Senior loans | 2,500 | – | 100,000 | – | 100,250 |
| Variable interest on senior loans | – | 4,356 | 23,375 | – | 27,731 |
| Loan from parent | 98,450 | – | – | – | 98,450 |
| Rolled up interest on loan from parent | 92,145 | – | – | – | 92,145 |
| Interest rate swap | – | 3,836 | – | – | 3,836 |
| Variable interest on swap facilities | – | 2,502 | 4 | – | 2,506 |
| | <u>193,095</u> | <u>38,700</u> | <u>175,533</u> | <u>212,543</u> | <u>617,621</u> |

Company

| | On Demand £000 | Within 1 year £000 | 1-5 years £000 | More than 5 years £000 | Total £000 |
|---|-------------------|-----------------------|-------------------|------------------------------|----------------|
| Trade and other payables | – | 515 | – | – | 515 |
| Loan from parent | 98,450 | – | – | – | 98,450 |
| Rolled up interest on loan from parent | 92,145 | – | – | – | 92,145 |
| | <u>190,595</u> | <u>515</u> | <u>–</u> | <u>–</u> | <u>191,110</u> |

The table below sets-out the interest rate risk profile. Interest rates on variable rate loans have been based on LIBOR at the relevant balance sheet date. The PIK notes and Mezzanine loans accrue rolled-up interest, which is not payable until the maturity of the loan under the terms of the finance agreements. The Mezzanine loan also has a cash interest payable element. Future interest on the PIK and Mezzanine loans is charged on the unpaid interest element as well as the original capital amount. Interest will accrue on previously unpaid interest charges throughout the term of each agreement. Interest due on the senior loans is not rolled-up and is payable on a quarterly basis on contractual due dates. The contract maturity table assumes that interest will continue to be accrued until the termination date of each agreement.

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

As at 31 May 2015

| | Within 1 year £000 | 1-2 years £000 | 2-3 years £000 | 3-4 years £000 | 4-5 years £000 | More than 5 years £000 | Total £000 |
|--|--------------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|---------------|
| <i>Fixed rate</i> | | | | | | | |
| Senior Facilities under interest rate swap | (1,818) | – | (1,818) | (74,545) | – | – | (78,181) |
| Mezzanine Facilities under interest rate swap | – | – | – | – | (111,273) | – | (111,273) |
| Loans from parent | (98,450) | – | – | – | – | – | (98,450) |
| Rolled up interest on loan from parent | (105,967) | – | – | – | – | – | (105,967) |
| | (206,235) | – | (1,818) | (74,545) | (111,273) | – | (393,871) |
| <i>Floating rate</i> | | | | | | | |
| Cash and short term deposits | 11,543 | – | – | – | – | – | 11,543 |
| Senior Facilities | (682) | – | (682) | (27,955) | – | – | (29,319) |
| Mezzanine Facilities | – | – | – | – | (41,727) | – | (41,727) |
| Rolled up interest on Mezzanine loan | – | – | – | – | (10,902) | – | (10,902) |
| | 10,861 | – | (682) | (27,955) | (52,629) | – | (70,405) |
| | (195,374) | – | (2,500) | (102,500) | (163,902) | – | (464,276) |

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

As at 31 May 2014

| | Within 1 year £000 | 1-2 years £000 | 2-3 years £000 | 3-4 years £000 | 4-5 years £000 | More than 5 years £000 | Total £000 |
|---|--------------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|---------------|
| <i>Fixed rate</i> | | | | | | | |
| Senior Facilities under interest rate swap | (1,818) | — | — | — | (72,727) | — | (74,545) |
| Mezzanine Facilities under interest rate swap | — | — | — | — | — | (111,273) | (111,273) |
| Loans from parent | (98,450) | — | — | — | — | — | (98,450) |
| Rolled up interest on loan from parent | (92,145) | — | — | — | — | — | (92,145) |
| | (192,413) | — | — | — | (72,727) | (111,273) | (376,413) |
| <i>Floating rate</i> | | | | | | | |
| Cash and short term deposits | 9,126 | — | — | — | — | — | 9,126 |
| Senior Facilities | (682) | — | — | — | (27,273) | — | (27,955) |
| Mezzanine Facilities | — | — | — | — | — | (41,727) | (41,727) |
| Rolled up interest on Mezzanine loan | — | — | — | — | — | (3,018) | (3,018) |
| | 8,444 | — | — | — | (27,273) | (44,745) | (63,574) |
| | (183,969) | — | — | — | (100,000) | (156,018) | (439,987) |

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

Year ended 31 May 2015

| 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 |
| Loan from Parent* | 98,450 | – | – | – | 98,450 |
| Rolled up Interest on Loan from Parent | 105,967 | – | – | – | 105,967 |
| | <u>204,417</u> | <u>515</u> | <u>–</u> | <u>–</u> | <u>204,932</u> |

Year ended 31 May 2014

| 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 |
| Loan from Parent* | 98,450 | – | – | – | 98,450 |
| Rolled up Interest on Loan from Parent | 92,145 | – | – | – | 92,145 |
| | <u>190,595</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>190,080</u> |

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

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

at 31 May 2015

19. Financial instruments (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).

| | <i>Increase / decrease in basis points</i> | <i>Effect on result before tax £000</i> |
|---------------------|--|---|
| Floating rate loans | | |
| 2015 | +100 | -714 |
| | -100 | +714 |
| 2014 | +100 | -727 |
| | -100 | +727 |
| Financial assets | | |
| 2015 | +100 | +115 |
| | -100 | -115 |
| 2014 | +100 | +91 |
| | -100 | -91 |

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.

| | <i>2015 £000</i> | <i>2014 £000</i> |
|---|----------------------|----------------------|
| Investments | 2,200 | 2,170 |
| Other receivables | 6,208 | 7,127 |
| Cash at bank and in hand | 11,543 | 9,126 |
| Trade and other payables | (17,293) | (18,522) |
| Loans from parent undertaking | (204,417) | (190,595) |
| Current portion of third party long term borrowings | — | — |
| Long term third party borrowings | (261,900) | (246,676) |
| Interest rate swap and currency swap | (4,153) | (3,836) |
| Call option | 13 | 148 |
| Put option | (1,058) | (527) |

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

Interest rate swaps

The group's interest rate swaps have a duration of three years and payments of interest under the hedge arrangements are due on the same dates as those on which the interest payments on the underlying borrowings fall due for payment. Payments and receipts under these interest rate swaps are recognised in the statement of comprehensive income when they become due and the interest rate swap is accounted for at fair value through the profit and loss. During the year the group embedded the fair value of the interest rate swap existing as at 7 January 2014 into its new swap arrangements. As a result of this and taking its new swaps into account, the overall fair value of its interest rate swaps decreased by £317,321 to a liability of £4,153,000 (2014 – liability of £3,836,000).

The table below summarises the details of the interest rate swaps:

| | <i>Principal amount</i> £000 | <i>Termination</i> date | <i>Interest rate</i> % |
|-------|---------------------------------|----------------------------|---------------------------|
| 1 | 75,000 | 28 February 2017 | 3.02% |
| 2 | 60,000 | 28 February 2017 | 1.40% |
| 3 | 35,000 | 28 February 2017 | 1.43% |
| 4 | 30,000 | 28 February 2017 | 1.33% |
| Total | 200,000 | | 2.00% |

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 prior year the B1 Senior loan was repaid and the Exchange rate swap terminated.

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 (2014 – 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 (2014: level 3) financial instruments as their valuations are based on non-observable inputs.

Notes to the financial statements

at 31 May 2015

19. Financial instruments (continued)

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.

Company

The company limits its exposure to credit risk by only lending to fellow group companies who are considered low risk due to the strength of the enlarged group of which the company is a member. The maximum credit risk exposure is represented by the carrying value of the amount due from the parent undertaking.

Borrowing facilities

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

| | 2015 | 2014 |
|----------------------------------|--------|--------|
| | £000 | £000 |
| Expiring one to five years | 17,500 | 22,500 |
| Expiring in more than five years | — | — |

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.

Notes to the financial statements

at 31 May 2015

20. Authorised and issued share capital

| <i>Authorised</i> | <i>£1 Ordinary shares</i> | |
|---|---------------------------|----------|
| | <i>No.</i> | <i>£</i> |
| £1 ordinary shares (At 31 May 2015 and 31 May 2014) | 100 | 100 |
| <i>Allotted, called up and fully paid</i> | <i>£1 Ordinary shares</i> | |
| | <i>No.</i> | <i>£</i> |
| £1 ordinary shares (At 31 May 2015 and 31 May 2014) | 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 £1,470,263 (2014 – £1,366,403).

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 2015, these guarantees totalled £261.9 million (2014 – £246.7 million).

22. Capital commitments

At 31 May 2015, capital commitments contracted but not provided for in the financial statements were £0.4million (2014 – £0.9 million).

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.

Notes to the financial statements

at 31 May 2015

23. Other financial commitments (continued)

Restrictions (continued)

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

| <i>Group</i> | <i>Land and buildings</i> | |
|---|---------------------------|----------------|
| | <i>2015</i> | <i>2014</i> |
| | <i>£000</i> | <i>£000</i> |
| Due: | | |
| In less than one year | 44,362 | 35,985 |
| After one year but not more than five years | 107,394 | 105,786 |
| After five years | 42,935 | 52,327 |
| | <u>194,691</u> | <u>194,099</u> |

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 2015 is £2.0 million (2014 – £2.0 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 Caffè Nero Group Limited into Rome Holdco Sarl (the ultimate controlling party) in the form of equity and preferred equity certificates. Consequently,

Saratoga Limited and Paladin Partners 1 hold 67% and 33% of Rome Holdco Sarl respectively. In addition to this equity share ownership, at 31 May 2015, Saratoga Limited and Paladin Partners 1 held £25.8million (2014 – £25.8 million) and £65.7 million (2014 – £65.7 million) of preferred equity certificates respectively. Gerry Ford and Ben Price hold interest in the preferred equity certificates, as follows:

| | |
|---------------|--------------------------------------|
| G W Ford (1) | £42.0 million (2014 – £41.9 million) |
| B J Price (2) | £2.1 million (2014 – £2.1 million) |

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

| | |
|--------------------|--------------------------------------|
| Saratoga Limited | £25.8 million (2014 – £25.8 million) |
| Paladin Partners 1 | £16.2 million (2014 – £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 (2014 – £2.1 million) |
|--------------------|------------------------------------|

Notes to the financial statements

at 31 May 2015

24. Related party transactions (continued)

Group

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

| | 2015 | 2014 |
|---|-----------|-----------|
| | £000 | £000 |
| Amounts owed to Rome PIK Holdco Limited | (204,417) | (190,595) |
| Amounts owed to Rome Intermediate Holdings Limited | (468) | - |
| Amounts owed by Rome Holdco Sarl. | 555 | 555 |
| Amounts owed to Saratoga Limited | (818) | (90) |
| Amounts owed to Cheyson Partners Limited - services | (135) | (114) |

Company

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

| | 2015 | 2014 |
|--|-----------|-----------|
| | £000 | £000 |
| Amounts owed to Rome PIK Holdco Limited | (204,417) | (190,595) |
| Amounts owed by Rome Bidco Limited | 126,159 | 112,337 |
| Amounts owed to Caffè Nero Group Limited | (515) | (515) |

Cheyson Partners Limited manages Paladin Partners I, 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):

- Interest of £13.8m has accrued during the year (2014 – £13.7m) on the group's loan from its immediate parent undertaking Rome PIK Holdco Limited. The amount due to Rome PIK Holdco Limited at the year end was £204.4m (2014 – £190.6m).
- Rome Bidco Limited has paid monitoring fees to Saratoga Limited and Cheyson Partners Limited. At 31 May 2015, the amounts paid during the year were £78,000 and £154,800 respectively (2014 – £120,000 and £142,800 respectively).
- The group made a further investment of £4,098,000 (2014 – £1,900,000) in Caffè Nero Gida Urunleri, a 50% joint venture. The outstanding investment in Caffè Nero Gida Urunleri was offset by losses leaving a nil balance at the year end.
- The group invested £nil in Green Coffee Sp. z.o.o. in which it holds 65.1% of the share capital. Transactions with key management personnel (comprising the directors) are disclosed below:

| | Group | Group | Company | Company |
|------------------------------|------------|------------|----------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| | £000 | £000 | £000 | £000 |
| Short-term employee benefits | 717 | 699 | - | - |
| Post-employment benefits | 20 | 19 | - | - |
| | <u>737</u> | <u>718</u> | <u>-</u> | <u>-</u> |

Notes to the financial statements

at 31 May 2015

25. Ultimate parent undertaking and controlling party

At the year end, the group's immediate parent undertaking was Rome PIK Holdco Limited. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the group is a member is Rome Holdco Sarl, a company incorporated in Luxembourg.

At the year end, the majority shareholder in Rome Holdco Sarl is Saratoga Ltd, a company incorporated in the Isle of Man, which is regarded as the ultimate controlling party of the company.

26. Subsequent events

On 11 August 2015 the company completed the acquisition of 50% of the shares of Caffè Nero Gida Urunleri AS in Turkey, bringing the company's ownership of Caffè Nero Gida Urunleri AS to 100%. As part of the acquisition it was agreed that a royalty should not have been charged by the company to Caffè Nero Gida Urunleri AS in any previous years.