Caffè Nero Group Holdings Ltd

(formerly known as Rome Pikco Limited)

Report and Financial Statements

31 May 2017

Directors
G W Ford
B J Price

Secretary
B J Price

Auditor
Ernst & Young LLP
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Strategic report

The directors present their strategic report and directors' report and financial statements for Caffè Nero Group Holdings Ltd (formerly known as Rome Pikco Limited) ('the company') and its subsidiaries (collectively referred to as 'the group') for the year ended 31 May 2017.

Principal activities

Caffè Nero Group Holdings Ltd is the holding company of Rome Bidco Limited, which owns Italian Coffee Holdings Ltd (formerly known as Caffe Nero Group Limited), and Caffe Nero Investments Limited. Italian Coffee Holdings acts as the holding company for three brands trading in the UK and Ireland as Caffe Nero, Harris & Hoole and Aroma, as well as a high quality coffee roasting facility. Caffe Nero Investments Limited is the holding company for the three brands' operations outside the UK and Ireland.

Caffe Nero is a brand of high quality Italian style coffee houses. In addition to its core range of hand crafted espresso–based coffees, Caffe Nero offers an array of pastries, baked goods, freshly made panini, sandwiches, salads and pastas, as well as cakes and biscotti. In transport hubs, Caffe Nero trades as Nero Express. Caffe Nero currently operates in 8 countries.

Harris & Hoole, which was acquired during the year, is a group of speciality artisan coffee houses operating in supermarkets, high streets and airports in the UK.

Aroma is a brand of premium quality coffee for sale to third parties.

The directors believe that there are strong growth prospects in all the markets in which the group operates for high quality branded coffee and intend to continue the growth of the Caffe Nero, Harris & Hoole and Aroma brands in its existing territories.

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:

Expansion

A key part of the group's strategy is to increase in scale. A key measure of this is the number of stores opened in a year. 33 Caffe Nero stores were opened in the UK and Ireland as well as 30 additional international stores in the year, bringing the total number of Caffe Nero stores worldwide to 785.

The acquisition of Harris & Hoole in June 2016 added 36 stores to the group with an additional new site opened during the year, taking the total to 37 stores.

The Group therefore had 822 stores operating worldwide at the year end. We expect to open approximately 85 stores next year worldwide across all our brands.

For Aroma, the year was mostly concerned with establishing and preparing our coffee product and the brand to get ready for market entry.

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 an annual range of 3–5% growth in worldwide like for like sales. Last year, performance of stores open for more than one year was 2.8% like for like sales growth for the group as a whole, slightly below target.

Store profit (gross profit)

The success of the group in its store opening programmes and like for like sales growth is ultimately displayed by means of increased store profit in absolute terms. Last year the group's store profit increased by £6.5m to £71.5m (2016 - £65.0m), a 10% increase.

Strategic report (continued)

Business review

The company's performance is summarised below:

	2017 £000	2016 £000
Revenue	313,137	274,535
Store profit	71,497	65,040
Operating profit	17,699	17,158
Loss before tax	(25,508)	(24,219)
Caffe Nero worldwide new store openings	63	59
Harris & Hoole stores acquired and new store openings post acquisition	37	-
Total worldwide stores at the year end	822	733

As at 31 May 2017 Caffe Nero had a total of 822 stores in 8 countries. 100 stores were opened during the year with 11 closures.

UK and Ireland - Caffe Nero had 637 stores operating in over 250 towns and cities at the year end. It opened 33 stores in the year and handed 9 stores back to landlords resulting in a net increase of 24 stores or 3.9% of the estate in these two countries.

The acquisition of Harris & Hoole in June 2016 added 36 stores to the group with an additional new site opened during the year, totalling 37 stores at the year end.

Turkey - The group opened 7 stores in Turkey. Caffe Nero Turkey now has a total of 52 stores at the year end. Continued progress is expected, as Caffe Nero continues to roll out new stores.

Poland - Green Caffe Nero, the brand as it is known in Poland, opened 12 sites during the year, bringing the total to 51. Green Caffe Nero achieved a positive performance at EBITDA level and the directors are very encouraged by its performance. With the addition of profitable new stores and ongoing growth in existing stores, continued progress is expected in Poland.

USA - The group opened 7 sites in Massachusetts in the USA in the year, bringing its total in the USA to 13. The directors are satisfied with the performance of these new sites and further openings are expected in FY18.

Other territories - The group has a number of franchises operating in the Arabian Gulf, Croatia and also in Cyprus. The revenues from these franchise agreements are included in these financial statements. At the year-end, 21 Caffe Nero stores were open in the United Arab Emirates, 2 in Croatia and 9 in Cyprus.

Ethics and sustainability

The company believes that it is of critical importance to assist the communities in which it operates and where it buys its key product, green coffee beans.

The Nero Foundation has been set up to sponsor deeds and allocate funds for worthy organisations in communities throughout the UK, and in countries from which it sources its green beans.

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.

Strategic report (continued)

Capital management (continued)

During the prior year the group refinanced its banking facilities to extend their maturity and reduce the overall cost of capital. A £135m senior facility (of which £132.5m was drawn at year end) was put in place with reduced interest rates, which expires in January 2021. The rates associated with the £153m mezzanine facility were also improved, and the maturity date was extended to January 2022. Full details of the facilities can be found in notes 18 and 19 of these accounts. Draw downs in the year were used to finance the acquisition of Harris and Hoole Limited by a subsidiary undertaking, Nero Holdings Limited, as well as increase the investment in Green Coffee Sp. z.o.o, a company majority owned by Caffe Nero Ventures, a subsidiary undertaking.

In addition to the above and subsequent to the year end, the group refinanced its banking facilities to extend their maturity by 19 months (to September 2022 and 2023 respectively) and further reduce the overall cost of capital.

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 Caffe 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.

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 Caffe Nero operates;
- A rise in interest rates which will affect the amount of interest payable on the group's loans; and
- The outcome of Brexit negotiations especially as they affect availability of personnel, principally in London.

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.

Strategic report (continued)

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 Santander at variable money market rates. The group's policy is to keep approximately 66% 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 2017

Directors' report

Results and dividends

The group generated a loss before taxation of £25.5 m (2016 – loss before taxation of £24.2 m). No dividend is proposed (2016 – £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 and from the addition of new stores across its eight territories.

Treasury and financial risk management

At year end the Group had net liabilities of £295.2 m (2016 – £270.1 m). It is the group's policy to hedge approximately 66% 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 £295.2 m 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 £235.1 m 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 The Nero Company (formerly known as Rome Holdco 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 (£312.9 m) are not due within twelve months of the date of authorising these financial statements for issue, and will only start becoming due in September 2022.

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 The Nero Company, the largest parent company of the group of which Caffè Nero Group Holdings Ltd is a member, were as follows:

	At 31 May 2017	*At 31 May 2016*
	£20 each	*£20 each*
G W Ford (1)	17,378	14,017
B J Price (2)	310	266

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

G W Ford	15,455
Paladin Partners 1	1,923

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

Paladin Partners 1	310

Additionally, B J Price has 495 shares in Rome Intermediate Holdings Sarl (the immediate parent of which is The Nero Company) held on his behalf through an Employee Benefit Trust. G W Ford also holds 157 shares directly in Rome Intermediate Holdings Sarl.

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 37 days (2016 – 43 days).

Employees

In the year, the group is pleased to have created over 600 jobs worldwide, of which 397 new jobs were in the UK and Ireland (2016 – 155).

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.

The group has a very extensive training program, benefiting circa 5000 people worldwide during the year, including training 421 apprentices in the UK (2016 – 304). It believes in developing its people and provides courses in coffee making and business management to provide employees with the skills necessary to pursue a career both inside and outside the group.

Taxation

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

	2017	*2016*
	£'000	*£'000*
VAT	30,011	28,118
Employment taxes	16,141	13,808
Business rates	14,962	14,654
	61,114	56,580

The Group generated a loss before taxation of £25.5 m for the year. Therefore, no entity within the Group was due to pay UK corporation tax for the year. The Group's loss before tax arose due to third party, arm's length interest payments to banks. For the sake of clarity, the Group has not included any of the interest payable to ultimate shareholder companies, only third party banks, in its corporation tax computations. The group's UK tax computations do not contain any overseas profits or losses, just UK results.

Donations

The group contributes to the Nero Foundation which distributes money to charities in the UK and overseas. Local charities are selected by store teams and funds that are raised are matched by the Foundation. In the year The Allegra Foundation, Steps Charity, St. Mungos and Rowcroft Hospice were supported in this way.

In addition, through our direct to farmer coffee buying programmes we support farming communities in the La Esmeralda region of Nicaragua. During the year, we funded the provision of fresh drinking water facilities to four schools in this area, with further development plans for the schools in the future.

Directors' report (continued)

Statement of disclosure of information to the auditor

The directors who were members of the Board at the time of approving the directors' report are set out on page 1. Having made enquiries of fellow directors and the 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 2017

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;
- prepare the financial statements on a going concern basis, unless they consider it to be inappropriate to do so; and
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 Caffè Nero Group Holdings Ltd

We have audited the financial statements of Caffe Nero Group Holdings Ltd for the year ended 31 May 2017 which comprise the Group Statement of Comprehensive Income, Group and Company Statement 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 parent 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 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and the financial statements to identify material inconsistencies with the audited financial statements 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 parent company's affairs at 31 May 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report (continued)

to the members of Caffè Nero Group Holdings Ltd

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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 2017

Group statement of comprehensive income

for the year ended 31 May 2017

	Notes	*2017* *£000*	*2016* *£000*
Revenue	2	313,137	274,535
Cost of sales		(241,640)	(209,495)
Gross profit		71,497	65,040
Administrative expenses		(53,700)	(45,892)
Movement in fair value of currency contracts		(98)	-
Fair value adjustment arising on acquisition of business	3	-	(1,990)
Operating profit	3	17,699	17,158
Finance income	6	7	23
Finance costs and similar charges	7	(43,670)	(41,669)
Share of post-tax profit of joint ventures	12	456	269
Loss before taxation		(25,508)	(24,219)
Income tax expense	8	(108)	-
Loss for the year		(25,616)	(24,219)
Other comprehensive income		26	-
Total comprehensive loss for the year		(25,590)	(24,219)

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

Group statement of financial position

As at 31 May 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	10	82,137	71,985
Intangible assets	11	187,753	186,315
Investment in joint ventures	12	6,014	3,073
Lease premiums	13	456	832
Other receivables	14	1,512	919
		277,872	263,124
Current assets			
Other receivables	14	28,194	15,741
Inventories	15	5,135	4,225
Lease premiums	13	186	221
Cash and cash equivalents		14,583	13,457
		48,098	33,644
Total assets		325,970	296,768
Current liabilities			
Derivative financial instruments		(1,433)	(1,848)
Trade and other payables	16	(69,450)	(54,484)
Other financial liabilities	18	(237,641)	(227,595)
		(308,524)	(283,927)
Non-current liabilities			
Other financial liabilities	18	(312,249)	(282,858)
Provisions	17	(374)	(109)
		(312,623)	(282,967)
Total liabilities		(621,147)	(566,894)
Net liabilities		(295,177)	(270,126)
Capital and reserves			
Called up share capital	20	-	-
Share premium account		2,024	2,024
Foreign exchange translation reserve		514	(25)
Retained earnings		(297,715)	(272,125)
Total equity		(295,177)	(270,126)

The financial statements were approved by the board of directors on 5 October 2017 and signed on its behalf by:

Gerry Ford
Director

Ben Price
Director

Company statement of financial position

As at 31 May 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Investments	12	2,024	2,024
Current assets			
Other receivables	14	156,883	140,983
Cash and cash equivalents		2	2
		156,885	140,985
Total assets		158,909	143,009
Current liabilities			
Trade and other payables	16	(515)	(515)
Other financial liabilities	18	(235,141)	(219,241)
		(235,656)	(219,756)
Non-current liabilities			
Other financial liabilities	18	-	-
Total liabilities		(235,656)	(219,756)
Net liabiities		(76,747)	(76,747)
Capital and reserves			
Called up share capital	20	-	-
Share premium account		2,024	2,024
Retained earnings		(78,771)	(78,771)
Total equity		(76,747)	(76,747)

The financial statements were approved by the board of directors on 5 October 2017 and signed on its behalf by:

Gerry Ford
Director

Ben Price
Director

Group statement of cash flows

for the year ended 31 May 2017

	2017	*2016*
	£000	*£000*
Operating activities		
Loss before taxation	(25,508)	(24,219)
Adjustments to reconcile loss for the year to net cash flow from operating activities:		
Finance expense	44,144	41,401
Finance income	(7)	(24)
Unrealised gain/(loss) on foreign exchange	208	(88)
Movement in fair value of options	(889)	233
Depreciation of property, plant and equipment, amortisation of intangible assets and amortisation of lease premiums	24,318	22,129
Impairment of property, plant and equipment	235	93
Fair value adjustment arising on acquisition of business	-	1,990
Fair value of currency contract	98	-
Share of profit of joint venture	(456)	(269)
	42,143	41,246
Increase in inventories	(794)	(1,007)
Increase in other receivables	(5,547)	(8,723)
Increase in trade and other payables	7,299	7,605
Increase/(decrease) in provisions	(47)	40
Net cash from operating activities	43,054	39,161
Investing activities		
Payments to acquire intangible fixed assets	(829)	(1,316)
Payments to acquire other non-current assets	-	(23)
Investment in subsidiary (net of cash acquired)	(5,496)	(10,371)
Investment in joint ventures	(2,485)	(852)
Payments to acquire property, plant and equipment	(27,793)	(22,661)
Proceeds from disposal of property, plant and equipment	-	1,654
Interest received	7	24
Net repayment of amounts due to parent	-	(163)
Net cash used in investing activities	(36,596)	(33,708)
Financing activities		
New third party long-term loans	12,032	15,886
Interest paid	(16,538)	(18,091)
Loan issue costs and other bank fees paid	(288)	(1,334)
Loan advanced to parent	(538)	-
Net cash used in financing activities	(5,332)	(3,539)
Net increase in cash and cash equivalents	1,126	1,914
Cash and cash equivalents at 1 June	13,457	11,543
Cash and cash equivalents at 31 May	14,583	13,457

Company statement of cash flows

for the year ended 31 May 2017

	2017	*2016*
	£000	*£000*
Operating activities		
Loss before taxation	-	-
Financing costs	15,899	14,824
Interest receivable	(15,899)	(14,824)
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 2017

	Called up share capital £000	*Share premium account £000*	*Foreign exchange translation reserve £000*	*Retained earnings £000*	*Total £000*
At 31 May 2015	-	2,024	143	(247,906)	(245,739)
Total comprehensive income for the year	-	-	-	(24,219)	(24,219)
Retranslation movement	-	-	(168)	-	(168)
At 31 May 2016	-	2,024	(25)	(272,125)	(270,126)
Total comprehensive income for the year	-	-	-	(25,590)	(25,590)
Retranslation movement	-	-	539	-	539
At 31 May 2017	-	2,024	514	(297,715)	(295,177)

Company statement of changes in shareholders' equity

for the year ended 31 May 2017

	Called up share capital	*Share premium account*	*Retained earnings*	*Total*
	£000	*£000*	*£000*	*£000*
At 31 May 2015	-	2,024	(78,771)	(76,747)
Total comprehensive income for the year	-	-	-	-
At 31 May 2016	-	2,024	(78,771)	(76,747)
Total comprehensive income for the year	-	-	-	-
At 31 May 2017	-	2,024	(78,771)	(76,747)

Notes to the financial statements

at 31 May 2017

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 5 October 2017. Caffè Nero Group Holdings Ltd 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 £295.2 m 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 £235.1 m 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 The Nero Company 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 (£312.9 m) 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 2017

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 2017, the estimated liability for unredeemed points was approximately £981,807 (2016 – £924,335).

Basis of consolidation

The consolidated financial statements comprise the financial statement of the Group and its subsidiaries at 31 May 2017. 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 investe)
- 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 cicumstances 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 agreemnts
- The Gorup'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 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 2017

1. Accounting policies (continued)

Business combinations

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

Goodwill

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

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

Intangible assets

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

Software	–	3 years
Brand	–	10 - 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 2017

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 2017

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 2017

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 2017

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

Development fee income

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

Royalty fee income

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

Opening fee income

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

Interest income

Revenue is recognised as interest accrues applying the effective interest method.

Rental income

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

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 2017

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
IFRS 9	Financial Instruments: Classification and measurement	01 January 2018
IFRS 15	Revenue from Contracts with Customers	01 January 2018
IFRS 16	Leases	01 January 2019

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, other than IFRS 16 Leases, which is currently being assessed

Notes to the financial statements

at 31 May 2017

2. Revenue

Revenue is analysed as follows:

	2017 £000	2016 £000
Coffee shop sales and associated income	312,040	273,790
Royalty fee income, opening fees and other charges	1,097	745
	313,137	274,535
Finance income (note 6)	7	23
Total revenue	313,144	274,558

Revenue is derived from the following geographic areas:

	2017 £000	2016 £000
UK and Ireland	286,638	257,739
Turkey	18,088	13,070
US	6,758	2,980
Poland	378	-
Croatia	33	-
Gulf States	757	511
Cyprus	485	235
	313,137	274,535

3. Operating profit

Operating profit is stated after charging/(crediting):

		2017 £000	2016 £000
Auditors' remuneration	– audit of group financial statements	90	81
	– audit of financial statements of subsidiaries	84	75
	– other services relating to tax	61	81
Costs relating directly to opening new sites		645	624
Depreciation of property, plant and equipment		20,132	18,476
Impairment of property, plant and equipment		235	125
Fair value adjustment arising from acquisition of business		-	1,990
Amortisation of intangible assets		3,776	3,688
Amortisation of lease premiums		411	221
Operating lease rentals	– land and buildings	58,078	50,023
Other operating income	– rental income	(162)	(139)
Other operating income	– marketing income	(2,115)	(1,178)

Operating lease rentals are split between minimum lease payments of £54.6 million (2016 – £47.8 million) and contingent rents of £3.5 million (2016 – £2.2 million).

Notes to the financial statements

at 31 May 2017

4. Directors emoluments

No remuneration was paid or is payable to the directors in their capacity as directors of the company (2016 – £nil). The directors are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £1,037,165 (2016 – £967,531) in respect of services to the 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:

	2017	*2016*
	£	*£*
Basic salary	988,806	920,999
Fees and bonuses	-	-
Pension	19,710	19,706
Benefits	28,649	26,826
	1,037,165	967,531

In respect of the highest paid director:	*2017*	*2016*
	£000	*£000*
Aggregate emoluments in respect of qualifying services	473	458

5. Staff costs

	2017	*2016*
	£000	*£000*
Wages and salaries	80,323	71,236
Social security costs	5,736	4,896
Other pension costs	18	18
	86,077	76,150

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

	2017	*2016*
	No.	*No.*
Operational	4,516	4,043
Administration	869	848
	5,385	4,891

Notes to the financial statements

at 31 May 2017

6. Finance income

	2017	*2016*
	£000	*£000*
Bank interest receivable	7	23

7. Finance costs and similar charges

	2017	*2016*
	£000	*£000*
Senior debt interest	7,069	7,599
Mezzanine debt interest	9,142	9,556
Mezzanine debt interest (rolled up)	8,271	8,178
Amortisation of loan issue costs	2,571	2,433
Bank fees	258	242
Change in fair value of interest rate swap	(415)	(2,305)
Interest on loan from parent (rolled up)	15,899	14,824
Other interest payable	652	715
Movement in fair value of foreign currency loan	1,112	194
Change in fair value of put and call options	(889)	233
	43,670	41,669

8. Income tax

No income tax is payable for the year (2016 – £nil).

The tax assessed for the year differs from the average rate of corporation tax in the UK of 19.83% (2016 – 20.00%). The differences are explained below:

	2017	*2016*
	£'000	*£'000*
Loss before tax	(25,508)	(24,219)
Loss before tax at 19.83% (2016: 20.00%) (average rate for the period)	(5,058)	(4,844)
Expenses not deductible for tax purposes	862	1,895
Income not taxable	(268)	(210)
Foreign tax	108	-
Losses not recognised	3,892	-
Group relief surrendered/(claimed) for nil payment	-	2,965
Movement in deferred tax asset recognised	572	194
Tax charge	108	-

The Group generated a loss before taxation of £25.5 m for the year. Therefore, no entity within the Group was due to pay UK corporation tax for the year. The Group's loss before tax arose due to third party, arm's length interest payments to banks. For the sake of clarity, the Group has not included any of the interest payable to ultimate shareholder companies, only third party banks, in its corporation tax computations. The group's UK tax computations do not contain any overseas profits or losses, just UK results.

Notes to the financial statements

at 31 May 2017

8. Income tax (continued)

(a) Deferred tax

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

	Recognised 2017 £000*	*Not recognised 2017 £000*	*Recognised 2016 £000*	*Not recognised 2016 £000*
Decelerated capital allowances	5,130	6,710	5,960	937
Deductable temporary differences	(5,130)	430	(5,960)	458
Tax losses	-	5,980	-	3,038
Deferred tax asset	-	13,120	-	4,433

*Deferred tax assets of £5.13m and deferred tax liabilities of £5.13m are offset and therefore not recognised on the Balance Sheet in accordance with IAS12 section 74.

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.

The Finance (No.2) Act reduced the UK corporation tax rate from 1 April 2017 to 19% and by further 1% to 18% from 1 April 2020. A further reduction in the corporation tax rate to 17% from 1 April 2020 was then substantively enacted in Finance Act 2016.

Entities within the group have claimed UK group relief in the year to mitigate their UK corporation tax liabilities.

9. Results attributable to members of parent undertaking

The post-tax profit attributable to the parent undertaking for the year was £nil (2016 – profit of £nil).

Notes to the financial statements

at 31 May 2017

10. Property, plant and equipment

Group

	Leasehold improvements £000	Furniture, fittings and equipment £000	Total £000
Cost:			
At 31 May 2016	128,815	71,220	200,035
Acquired with subsidiary	99	2,426	2,525
Additions	15,867	11,926	27,793
Effect of translation to presentational currency	44	193	237
At 31 May 2017	144,825	85,765	230,590
Depreciation and impairment:			
At 31 May 2016	78,656	49,394	128,050
Provided during the year	3,042	17,090	20,132
Impairment	165	70	235
Effect of translation to presentational currency	1	35	36
At 31 May 2017	81,863	66,589	148,453
Net book value:			
At 31 May 2017	62,961	19,176	82,137
At 31 May 2016	50,159	21,826	71,985

Asset written down to nil net book value but with a gross cost of £13,570,000 (2016 – £8,894,000) are still in use by the Group at 31 May 2017.

The impairment charge relates to unrecoverable elements of assets relating to cash generating units. Two stores were impaired during the year as a result of poor trading performance, these have been written down to a net book value of nil since the directors do not consider that these stores 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 9.3% (2016 – 9.3%). 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 2017

11. Intangible assets

Group

	Software	*Brand*	*Trademark*	*Goodwill on acquisition*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 31 May 2016	3,187	60,000	119	172,940	236,246
Acquired with subsidiary	15	-	247	-	262
Additions	826	1,668	-	2,458	4,952
At 31 May 2017	4,028	61,668	366	175,398	241,460
Amortisation and impairment:					
At 31 May 2016	1,631	28,000	-	20,300	49,931
Charge for the year	776	3,000	-	-	3,776
At 31 May 2017	2,407	31,000	-	20,300	53,707
Net book value:					
At 31 May 2017	1,621	30,668	366	155,098	187,753
At 31 May 2016	1,556	32,000	119	152,640	186,315

Goodwill arose as follows:

1. On acquisition of Italian Coffee Holdings Ltd (formerly known as Caffe Nero Group Limited) on 1 February 2007. The brand value also arose on the same acquisition and is being amortised over 20 years.
2. During the prior year the company acquired a 50% shareholding in Caffe Nero Gida Urunleri AS, taking the group's total shareholding to 100%. Goodwill on acquisition of £14.1m has been recognised.
3. During the year the company acquired a 100% shareholding in Harris and Hoole Limited. Goodwill on acquisition of £2.5m has been recognised, and a brand value of £1.7m has been recognised. The brand value was based on a 10 year forecast, hence is being amortised over 10 years.

Impairment testing of goodwill

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

UK (Italian Coffee Holdings Ltd and Harris and Hoole Limited)

Goodwill of £160.8m arose on the acquisition of the UK Caffe Nero stores in 2007. During the year additional goodwill of £2.5m arose due to the acquisition of Harris and Hoole Limited. 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:

Notes to the financial statements

at 31 May 2017

11. Intangible assets (continued)

Discount rate

A post-tax discount rate of 9.3% has been used (2016 – 9.3%). 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% (2016 – 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% (2016 – 2.5%) has been used to calculate expected cash flows of Italian Coffee Holdings Ltd after 5 years. This assumption is consistent with the long–term growth projections for the industry.

Sensitivity to changes in assumptions

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

Acquisition of Harris and Hoole Limited

On 23 June 2016 a company within the group, Nero Holdings Limited, acquired 100% of the share capital of Harris and Hoole Limited, leading to an additional £2.5m goodwill in the year. Details of the assets and liabilities acquired and goodwill arising are as follows:

	Attributed fair value *£000*
Non-current assets	2,502
Trade and other receivables	1,464
Cash and cash equivalents	2,058
Trade and other payables	(2,596)
Fair value of acquired net assets of subsidiary	3,428
Brand	1,668
Goodwill	2,458
Total purchase consideration	7,554

The purchase consideration disclosed above comprises cash and cash equivalents paid to the acquiree's previous owner of £7.6 million excluding fees. Goodwill is primarily attributable to returns expected from stores.

International (Caffe Nero Gida Urunleri AS)

Goodwill of £12.1m arose on the acquisition of Caffe Nero Gida Urunleri AS during the prior year.

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:

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at 31 May 2017

11. Intangible assets (continued)

Discount rate

A post-tax discount rate of 11.8% has been used. The discount rate has been derived from the company's weighted average cost of capital, adjusted to reflect a greater risk premium relating to Turkey.

EBITDA growth

The discounted cash flow model was driven by EBITDA, representing the operating cash flows of the business. The growth rate is reflects current growth rates and inflation. 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 8% has been used to calculate expected cash flows of Caffe Nero Gida Urunleri AS after 5 years. This assumption reflects current growth rates and inflation.

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.

Owing to recent political developments, there is inherent uncertainty in the valuation, however, the directors consider it too early to conclude the short, medium and long term impact and therefore consider the prior year transaction price to be the most reliable estimate of the recoverable amount. The situation will continue to be monitored and remedial action taken if the directors consider this to be necessary.

12. Non-current asset investments

	Investment in joint ventures	
	2017	*2016*
	£000	*£000*
Group		
Cost:		
At 1 June	3,073	2,200
Investments during the year	2,485	604
Profit for the year	456	269
At 31 May	6,014	3,073

	Investment in subsidiary undertakings
	£000
Company	
Cost at 31 May 2016 and 31 May 2017	2,024

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

Notes to the financial statements

at 31 May 2017

12. Non-current asset investments (continued)

The company holds all the equity share capital of Rome Bidco Limited, which is the parent company of Italian Coffee Holdings Ltd (formerly known as Caffe Nero Group Limited), which operates Italian style coffee houses. Italian Coffee Holdings Ltd holds all the equity share capital of Nero Holdings Limited, Harris and Hoole Limited, Caffe Nero Ireland Limited and Aroma Limited, which also operate coffee houses. Italian Coffee Holdings Ltd also holds all the equity share capital of Nero Coffee Roasting Limited, which roasts and packages coffee for the worldwide operations of the group. 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 Caffe Nero Investments Limited for £100. Caffe Nero Investments Limited is the holding company of Caffe Nero Ventures Limited, which is the management company of the group's overseas subsidiary Caffe Nero Gida Urunleri AS, joint venture Green Coffee Sp z.o.o, and franchises. The group holds 100% of the ordinary shares of Caffe Nero Gida Urunleri AS and 90.0% 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 year a further £2.5 million was invested bringing the company's stake to 90.0%. 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.

The company has a call option to acquire the remaining 10% of Green Coffee Sp. 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 increased by £889,358 (2016 decrease of £232,729), which has been recognised in the statement of comprehensive income.

The share of the assets, liabilities, income and expenses of Green Coffee Sp. Z.o.o at 31 May 2017 are as follows:

	2017	*2016*
	£000	*£000*
Share of the joint venture's balance sheet:		
Non-current assets	5,371	2,889
Current assets	1,309	757
Share of gross assets	6,680	3,646
Current liabilities	(1,742)	(999)
Non-current liabilities	(2,097)	(1,105)
Share of gross liabilities	(3,839)	(2,104)
Share of net assets	2,841	1,542

Notes to the financial statements

at 31 May 2017

12. Non-current asset investments (continued)

Share of the joint venture's results:	*2017* *£000*	*2016* *£000*
Revenue	12,248	6,053
Cost of sales	(7,805)	(4,044)
Administrative expenses	(3,735)	(1,772)
Finance costs	(126)	(78)
Profit before tax	582	159
Tax charge	(126)	(57)
Profit for the year	456	102

Details of group undertakings

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

Name of company	*Proportion of voting rights and shares held*	*Nature of Business*
Rome Bidco Limited (1)	100%	Financing
Italian Coffee Holdings Ltd (1) (formerly known as Caffe Nero Group Limited)	100%	Holding
Harris and Hoole Limited (1)	100%	Coffee retail
Nero Holdings Limited (1)	100%	Coffee retail
Aroma Limited (1)	100%	Coffee retail
Caffe Nero Ventures Limited (1)	100%	Holding
Caffe Nero Investments Limited (1)	100%	Holding
Nero Coffee Roasting Limited (1)	100%	Coffee Roasting
Caffe Nero Ireland Limited (2) (Incorporated in the Republic of Ireland)	100%	Coffee retail
Caffe Nero Americas Limited (1)	100%	Holding
Caffe Nero Americas Incorporated (3) (Incorporated in the United States)	100%	Coffee retail
Caffe Nero Gida Urunleri AS (4) (Incorporated in Turkey)	100%	Coffee retail
Joint ventures		
Green Coffee Sp z.o.o. (Incorporated in Poland)	90.0%	Coffee retail
Muffia Sp. z.o.o Sp.k (Incorporated in Poland)	30%	Food production

All shareholdings are of ordinary equity shares.

(1) Registered address for subsidiaries is: 3 Neal Street, London, WC2H 9PU
(2) Registered address for subsidiary is: 2nd Floor Beaux Lane House, Mercer Street Lower, Dublin 2
(3) Registered address for subsidiary is: 320 Congress St Fl 4,Boston, MA, 02210 United States
(4) Registered address for subsidiary is: Büyükdere Cad. No:103 Noramin İş Merkezi Maslak Şişli, İstanbul, Turkey

Notes to the financial statements

at 31 May 2017

13. Lease premiums

	Lease premiums £000
Cost:	
At 31 May 2016	5,459
Acquired with subsidiary	-
At 31 May 2017	5,459
Amortisation:	
At 31 May 2016	4,406
Charge for the year	411
At 31 May 2017	4,817
Net book value:	
At 31 May 2017	642
At 31 May 2016	1,053
The net book value at 31 May 2017 is split as follows:	
Non-current assets	456
Current assets	186
The net book value at 31 May 2016 is split as follows:	
Non-current assets	832
Current assets	221

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

14. Other receivables

	Group 2017 £000	*Company 2017 £000*	*Group 2016 £000*	*Company 2016 £000*
Non-current:				
Other debtors (rent deposits)	103	-	97	-
Value added taxes ("VAT") receivable	1,338	-	722	-
Deposits and guarantees given	71	-	100	-
	1,512	-	919	-
Current:				
Amounts due from related party	521	156,883	-	140,983
Amounts due from parent company	1,878	-	1,256	-
Trade debtors	2,742	-	6,011	-
Prepayments	17,083	-	8,471	-
Corporation tax asset	5,874	-	-	-
Fair value of call option	96	-	3	-
	28,194	156,883	15,741	140,983

Notes to the financial statements

at 31 May 2017

14. Other receivables (continued)

As at 31 May 2017 the ageing analysis of trade debtors due to third parties was as follows:

			Past due not impaired		
	Total	*Neither past due nor impaired*	*< 30*	*30 – 60 days*	*> 60 days*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*
2017	2,742	789	944	141	868
2016	6,011	4,687	395	279	650

15. Inventories

	Group 2017 £000	*Company 2017 £000*	*Group 2016 £000*	*Company 2016 £000*
Goods for resale	5,135	-	4,225	-

16. Trade and other payables

	Group 2017 £000	*Company 2017 £000*	*Group 2016 £000*	*Company 2016 £000*
Trade payables	35,649	-	24,480	-
Amounts due to subsidiary undertaking	2	515	-	515
Foreign tax payable	108	-	-	-
Other creditors, including taxation and social security	9,508	-	8,460	-
Accruals and deferred income	23,494	-	20,068	-
Interest and fees accruals	107	-	196	-
Fair value of currency contracts	98	-		
Fair value of put option	484	-	1,280	-
	69,450	515	54,484	515

Notes to the financial statements

at 31 May 2017

17. Provisions

	2017	*2016*
	£000	*£000*
At 1 June 2016	109	-
Utilised in the year	(119)	-
Acquired with subsidiary	384	109
At 31 May 2017	374	109

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 2017	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Term loan – Senior – £117,000,000	-	114,189	114,189
Term loan – Revolver facility – £5,000,000	2,500	-	2,500
Term loan – Capex facility – £13,000,000	-	13,000	13,000
Mezzanine term loan – £153,000,000	-	150,161	150,161
Rolled up interest – Mezzanine term loan	-	27,351	27,351
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	136,691	-	136,691
Third party bank loans	-	7,548	7,548
Total	237,641	312,249	549,890

Amounts disclosed above are net of issue costs.

At 31 May 2016	*Current*	*Non-current*	*Total*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Term loan – Senior – £117,000,000	-	112,734	112,734
Term loan – Revolver facility – £5,000,000	2,500	-	2,500
Term loan – Capex facility – £13,000,000	-	2,000	2,000
Mezzanine term loan – £153,000,000	-	149,044	149,044
Rolled up interest – Mezzanine term loan	-	19,080	19,080
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	120,791	-	120,791
Third party bank loans	5,854	-	5,854
Total	227,595	282,858	510,453

Amounts disclosed above are net of issue costs.

Notes to the financial statements

at 31 May 2017

18. Other financial liabilities (continued)

Company

At 31 May 2017	*Current*	*Non-current*	*Total 2017*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	136,691	-	136,391
	235,141	-	235,141

At 31 May 2016	*Current*	*Non-current*	*Total 2016*
	£000	*£000*	*£000*
Interest bearing loans and borrowings:			
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	120,791	-	120,791
	219,241	-	219,241

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 semi-annually at 7.125%.

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

	£000
Senior (Interest charged at LIBOR* + 3.0% margin)	
29 January 2021	117,000
Mezzanine (Interest charged at LIBOR + 4.25% cash margin + 4.75% PIK margin**)	
29 January 2022	153,000
Revolving credit facility (Interest charged at LIBOR* +3.0% margin)	
The facility expires on 29 January 2021	2,500
Capex facility (Interest charged at LIBOR* +3.0% margin)	
29 January 2021	13,000

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

**4.25% of the interest payable is settled by cash, 4.75% is rolled up into the carrying value of the loan.

Notes to the financial statements

at 31 May 2017

18. Other financial liabilities (continued)

The term loans were principally taken out to refinance the loans taken out to fund the acquisition of Italian Coffee Holdings Ltd (formerly known as Caffe Nero Group Limited) in 2007 (taking the business from listed on the London Stock Exchange into private ownership). During the prior year, the group refinanced its banking facilities to extend their maturity and reduce the overall cost of capital. A new £135m senior facility (of which £132.5m was drawn at year end) was put in place with reduced interest rates, which expires in January 2021. The rates associated with the £153m mezzanine facility were also improved, and the maturity date was extended to January 2022. 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 two years to February 2019.

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

Finance costs in the prior year on the new facilities were £7.4m for Senior debt and £6.8m for Mezzanine debt. Additional finance costs associated with the re-financing of the loan in the prior year were £1.0m for Senior debt and £0.1m for Mezzanine debt. These finance costs are presented net of the underlying loan and are amortised over the duration of the facilities. Amortisation of £2.6m (2016 – £2.4m) was charged in the year.

19. Financial instruments

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

The main risks arising from the group and company's use of financial instruments are interest rate risk, 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 Santander at variable money market rates. The group's policy is to keep approximately 66% 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 2017

19. Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2017 and 31 May 2016 based on contractual undiscounted payments.

As at 31 May 2017

Group

	On Demand	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Trade and other payables	-	35,649	-	-	35,649
Mezzanine loan	-	-	153,000	-	153,000
Rolled up interest on mezzanine loan	-	-	65,469	-	65,469
Variable interest on mezzanine loan	-	8,647	34,206	-	42,853
Senior loans	2,500	-	130,000	-	132,500
Variable interest on senior loans	-	4,364	11,299	-	15,663
Loan from parent	98,450	-	-	-	98,450
Rolled up interest on loan from parent	136,691	-	-	-	136,691
Interest rate swap	-	-	1,433	-	1,433
Variable interest on swap facilities	-	871	651	-	1,522
Third party bank loans	-	-	7,548	-	7,548
	237,641	49,531	403,606	-	690,778

Company

	On Demand	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Trade and other payables	-	515	-	-	515
Loan from parent	98,450	-	-	-	98,450
Rolled up interest on loan from parent	136,691	-	-	-	136,691
	235,141	515	-	-	235,656

Notes to the financial statements

at 31 May 2017

19. Financial instruments (continued)

As at 31 May 2016

Group

	On Demand *£000*	*Within 1 year* *£000*	*1-5 years* *£000*	*More than 5 years* *£000*	*Total* *£000*
Trade and other payables	-	24,480	-	-	24,480
Mezzanine loan	-	-	-	153,000	153,000
Rolled up interest on mezzanine loan	-	-	-	70,705	70,705
Variable interest on mezzanine loan	-	9,141	41,207	6,710	57,058
Senior loans	2,500	-	119,000	-	121,500
Variable interest on senior loans	-	4,273	15,335	-	19,608
Loan from parent	98,450	-	-	-	98,450
Rolled up interest on loan from parent	120,791	-	-	-	120,791
Interest rate swap	-	2,106	(258)	-	1,848
Variable interest on swap facilities	-	2,210	703	-	2,913
Third party bank loans	-	-	5,854	-	5,854
	221,741	42,210	181,841	230,415	676,207

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	120,791	-	-	-	120,791
	219,241	515	-	-	219,756

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 2017

19. Financial instruments (continued)

As at 31 May 2017

	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*
Fixed rate							
Senior Facilities under interest rate swap	(1,754)	-	-	(91,228)	-	-	(92,982)
Mezzanine Facilities under interest rate swap	-	-	-	-	(107,368)	-	(107,368)
Loans from parent	(98,450)	-	-	-	-	-	(98,450)
Rolled up interest on loan from parent	(136,691)	-	-	-	-	-	(136,691)
	(236,895)	-	-	(91,228)	(107,368)	-	(435,491)
Floating rate							
Cash and short term deposits	14,583	-	-	-	-	-	14,583
Senior Facilities	(746)	-	-	(38,772)	-	-	(39,518)
Mezzanine Facilities	-	-	-	-	(45,632)	-	(45,632)
Rolled up interest on Mezzanine loan	-	-	-	-	(27,351)	-	(27,351)
Third party bank loans	-	-	-	(7,548)	-	-	(7,548)
	13,837	-	-	(46,320)	(72,983)	-	(105,466)
	(233,058)	-	-	(137,548)	(180,351)	-	(540,957)

Notes to the financial statements

at 31 May 2017

19. Financial instruments (continued)

As at 31 May 2016

	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*
Fixed rate							
Senior Facilities under interest rate swap	(1,754)	-	-	(1,754)	(83,860)	-	(87,368)
Mezzanine Facilities under interest rate swap	-	-	-	-	-	(107,368)	(107,368)
Loans from parent	(98,450)	-	-	-	-	-	(98,450)
Rolled up interest on loan from parent	(120,791)	-	-	-	-	-	(120,791)
	(220,995)	-	-	(1,754)	(83,860)	(107,368)	(413,977)
Floating rate							
Cash and short term deposits	13,457	-	-	-	-	-	13,457
Senior Facilities	(746)	-	-	(746)	(35,640)	-	(37,132)
Mezzanine Facilities	-	-	-	-	-	(45,632)	(45,632)
Rolled up interest on Mezzanine loan	-	-	-	-	-	(19,080)	(19,080)
Third party bank loans	-	-	-	-	(5,854)	-	(5,854)
	12,711	-	-	(746)	(41,494)	(64,712)	(94,241)
	(208,284)	-	-	(2,500)	(125,354)	(172,080)	(508,218)

Notes to the financial statements

at 31 May 2017

19. Financial instruments (continued)

Year ended 31 May 2017

Company	*On Demand*	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Amounts due to subsidiary undertaking	-	515	-	-	515
Loan from Parent*	98,450	-	-	-	98,450
Rolled up Interest on Loan from Parent	136,691	-	-	-	136,691
	235,141	515	-	-	235,656

Year ended 31 May 2016

Company	*On Demand*	*Within 1 year*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Amounts due to subsidiary undertaking	-	515	-	-	515
Loan from Parent*	98,450	-	-	-	98,450
Rolled up Interest on Loan from Parent	120,791	-	-	-	120,791
	219,241	515	-	-	219,756

* 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 2017

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).

	Increase / decrease in basis points	*Effect on result before tax £000*
Floating rate loans		
2017		
	+100	-1,129
2016	-100	+1,129
	+100	-936
	-100	+936
Financial assets		
2017		
	+100	+146
2016	-100	-146
	+100	+135
	-100	-135

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.

	2017 *£000*	*2016* *£000*
Investments	6,014	3,073
Other receivables	12,527	8,186
Cash at bank and in hand	14,583	13,457
Trade and other payables	(35,756)	(24,677)
Loans from parent undertaking	(235,141)	(219,241)
Current portion of third party long term borrowings	(2,500)	(2,500)
Long term third party borrowings	(312,249)	(291,080)
Interest rate swap	(1,433)	(1,848)
Call option	96	3
Put option	(484)	(1,280)
Fair value of currency contracts	(98)	-

Notes to the financial statements

at 31 May 2017

19. Financial instruments (continued)

Interest rate swaps

The group's interest rate swaps have a duration of two 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 prior year the group committed to a new interest rate swap arrangement, which commenced in February 2017, when the previous swaps expired.

The overall fair value of its interest rate swaps increased by £415,000 to a total liability of £1,433,000 (2016 – liability of £1,848,000).

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

	Principal amount £000	*Termination date*	*Interest rate %*
1	40,000	28 February 2019	0.78%
2	80,000	28 February 2019	0.80%
3	40,000	28 February 2019	0.80%
4	40,000	28 February 2019	0.79%
Total	200,000		0.80%

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. 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. This is also based on multiples of EBITDA. 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 (2016 – 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 and fair value of the international CGU are classified as level 3 (2016: level 3) financial instruments as their valuations are based on non-observable inputs.

Credit risk

Group

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.

Notes to the financial statements

at 31 May 2017

19. Financial instruments (continued)

Borrowing facilities

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

	2017	*2016*
	£000	*£000*
Expiring one to five years	2,500	13,500
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.

20. Authorised and issued share capital

		£1 Ordinary shares
Authorised	*No.*	*£*
£1 ordinary shares (At 31 May 2017 and 31 May 2016)	100	100

		£1 Ordinary shares
Allotted, called up and fully paid	*No.*	*£*
£1 ordinary shares (At 31 May 2017 and 31 May 2016)	51	51

The company has one class of share with equal voting rights.

21. Contingent liability

Group

At the year-end there were no contingent liabilities (2016 - £nil).

A subsidiary of the group, Rome Bidco Limited, has guaranteed a loan of $8.5m to its Turkish subsidiary, Caffe Nero Gida Urunleri AS. Rome Bidco Limited has also guaranteed a loan of $1.2m (2016 - $nil) to Caffe Nero Americas Inc., a subsidiary of the group.

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 2017, these guarantees totalled £312.9 million (2016 – £293.6 million).

Notes to the financial statements

at 31 May 2017

22. Capital commitments

At 31 May 2017, capital commitments contracted but not provided for in the financial statements were £0.6 million (2016 – £0.3 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.

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

Group	*Land and buildings*	
	2017	*2016*
	£000	*£000*
Due:		
In less than one year	48,271	37,945
After one year but not more than five years	116,810	113,719
After five years	51,149	46,863
	216,230	198,527

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 2017 is £0.6 million (2016 – £0.7 million)

Notes to the financial statements

at 31 May 2017

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 Italian Coffee Holdings Ltd into The Nero Company (the ultimate controlling party) in the form of equity and preferred equity certificates.

During the year Saratoga Limited and Paladin Partners 1 exchanged their preferred equity certificates for ordinary shares in The Nero Company. Following that conversion, Saratoga Limited transferred all of its ordinary shares in The Nero Company to G W Ford.

Group

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

	2017 *£000*	*2016* *£000*
Amounts owed to Rome PIK Holdco Limited	(235,141)	(219,241)
Amounts owed by Rome Intermediate Holdings Limited	1,027	538
Amounts owed by The Nero Company.	850	744
Amounts owed to Saratoga Limited	(144)	(90)
Amounts owed to Cheyson Partners Limited - services	(126)	(60)

Company

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

	2017 *£000*	*2016* *£000*
Amounts owed to Rome PIK Holdco Limited	(235,141)	(219,241)
Amounts owed by Rome Bidco Limited	156,883	140,983
Amounts owed to Italian Coffee Holdings Ltd	(515)	(515)

Cheyson Partners Limited manages Paladin Partners 1, a 36% 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 £15.9m has accrued during the year (2016 – £14.8m) 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 £235.1m (2016 – £219.2m).
- Rome Bidco Limited has paid monitoring fees to Saratoga Limited and Cheyson Partners Limited. At 31 May 2017, the amounts paid during the year were £36,000 and £18,000 respectively (2016 – £45,000 and £45,000 respectively).
- The group invested £2.5m (2016 - £0.6m) in Green Coffee Sp. z.o.o. in which it holds 90.0% of the share capital.

Notes to the financial statements

at 31 May 2017

24. Related party transactions (continued)

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

	Group 2017 £000	*Group 2016 £000*	*Company 2017 £000*	*Company 2016 £000*
Short-term employee benefits	1,017	948	-	-
Post-employment benefits	20	20	-	-
	1,037	968	-	-

25. Ultimate parent undertaking

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

Immediate parent company	Rome PIK Holdco Limited
Parent company of the largest group for which accounts are prepared	The Nero Company (1)
Majority shareholder of The Nero Company	G W Ford (2)

(1) The Nero Company is a company incorporated in Luxembourg. Copies of these group accounts can be obtained from Avenue 46a JF Kennedy, Luxembourg, L-1855.

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

26. Subsequent events

On the 8 September 2017 the company refinanced its senior and junior banking facilities to extend their maturity date by 19 months and further reduce the overall cost of capital.