

# **Rome Pikco Limited**

## **Report and Financial Statements**

31 May 2014

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COMPANIES HOUSE

**Directors**

G W Ford  
B J Price

**Secretary**

B J Price

**Auditor**

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

**Banker**

Lloyds TSB Bank Plc  
25 Gresham Street  
London EC2V 7HN

**Solicitor**

Linklaters  
1 Silk Street  
London EC2Y 8HQ

**Registered Office**

3 Neal Street  
London WC2H 9PU

Registered No. 05936386

## Strategic report

The directors present their strategic report and directors' report and financial statements for Rome Pikco Limited ('the company') and its subsidiaries (collectively referred to as 'the group') for the year ended 31 May 2014.

### Principal activities

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

### Key performance indicators

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

#### Number of stores opening

A key part of the group's strategy is to increase in scale. The key measure of this is the number of stores opened. Net stores opened in the UK in the year were 31 as well as 15 international stores.

#### Like for like sales

The group seeks to increase profitability by increasing the sales of units open for more than one year. The group targets a range of 2–4% growth in like for like sales. The overall current year performance of units open for more than one year was within the target range at 2.8%.

#### Store profit (gross profit)

The success of the group in its store opening programme and like for like sales is shown through increased store profit in absolute terms. Gross margin slightly increased to 24.7% (2013 – 24.4%).

#### EBITDA

The ability of the group to fund its future rollout without recourse to external finance is determined by EBITDA. The group was able to grow EBITDA by £2.7 million (7.6%) despite the challenging trading environment due to the continued expansion of stores, growing maturity of younger existing stores and careful cost management in the business.

### Business review

The company's performance is summarised below:

	2014	2013
	£000	£000
Revenue	223,441	205,302
EBITDA	37,842	35,163
Operating profit	20,126	18,434
Loss before tax	(29,643)	(23,295)
Gross margin	24.7%	24.4%
New store openings (UK and international)	46	58
Like for like sales	205,090	199,670
Store profit	55,376	50,203

At 31 May 2014, Caffè Nero had 550 stores operating in 247 UK towns and cities. The group opened 36 stores in the year and handed five stores back to landlords resulting in a net increase of 31 stores or 6% of the UK estate. The directors believe that there is the potential in the UK market for at least 750 Caffè Nero stores. EBITDA has increased 7.6% to £37.8m (2013: £35.2m).

## Strategic report (continued)

The group's joint venture in Turkey, Caffè Nero Gıda Ürünleri AS ('Caffè Nero Turkey'), opened four stores in Turkey. Caffè Nero Turkey now has four sites in Ankara and Izmir as well as 40 in Istanbul and has a total of 44 stores at the year end. Caffè Nero Turkey generated EBITDA of £0.9m in the year (2013 – £0.4m). The directors are satisfied with the progress of the joint venture. With the addition of further new profitable stores, a full year of trading in newly opened sites and increasing brand awareness, continued progress is expected.

The group's joint venture in Poland, Green Caffè Nero, opened eight sites in Warsaw during the year bringing the total to 22. Green Caffè Nero achieved a break-even performance at EBITDA level and the directors are satisfied with its performance. With the addition of profitable new stores and ongoing growth in existing stores, continued progress is expected in Poland.

The group opened one site in Dublin, in the Republic of Ireland and one site in Boston in the USA. The directors are satisfied with the performance of both of these new sites and further openings are expected in FY15.

The group has a number of franchises operating in the Arabian Gulf and also in Cyprus. The revenues from these franchise agreements are included in these financial statements. At the year-end, 14 Caffè Nero stores were open in the United Arab Emirates and three in Cyprus.

### Capital management

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

### Principle risks and uncertainties

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

#### Group specific risks

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

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

#### Broader sector or macroeconomic risks

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

  
Ben Price

Director

6 October 2014

## Directors' report

### Results and dividends

The company generated a loss before taxation of £29.6m (2013 – loss before taxation of £23.3m). No dividend is proposed (2013 – nil).

### Treasury and financial risk management

At year end the Group had net liabilities of £224.3m (2013: £194.7m). It is the group's policy to hedge at least 75% of its exposure to interest rate risk on the floating rate third party debt. Further details of the group's financial objectives and exposure to risk are set out in note 19.

### Going concern

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

The group is in a net liability position of £217.6m 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 £190.6m owed by the group until such time as the group is able to meet these liabilities. Rome PIK Holdco effectively owes these funds to various holding companies up to Rome Intermediate Holdings Sarl and the various holding companies have also received confirmation that repayment will not be requested until such time that they are able to meet these liabilities. The majority of the remainder of the group's third party loans (£246.7m) 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.

### Directors of the company

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

	<i>At 31 May 2014</i>	<i>At 31 May 2013</i>
	<i>£20 each</i>	<i>£20 each</i>
G W Ford (1)	13,883	13,883
B J Price (2)	266	266

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

Saratoga Limited	13,570
Paladin Partners 1	313

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

Paladin Partners 1	266
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Additionally, B J Price has 495 shares in Rome Intermediate Holdings Sarl (the immediate parent of which is Rome Holdco Sarl) held on his behalf through an Employee Benefit Trust.

### Creditor payment policy and practice

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. Average creditor days at the year end were 46 days (2013 – 46 days).

## Directors' report (continued)

### Employees

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

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

### Donations

A contribution of £2,000 was made for charitable purposes (2013 – £3,800).

### 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  
Secretary

6 October 2014

## Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements under International Financial Reporting Standards as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the group for that period. In preparing the financial statements the directors are required to:

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

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

# **Independent auditors' report**

## **to the members of Rome Pikco Limited**

We have audited the financial statements of Rome Pikco Limited for the year ended 31 May 2014 which comprise the Group Statement of Comprehensive Income, Group and Company Statements of Financial Position, Group and Company Statements of Cash Flow, Group and Company Statements of Changes in Shareholders' Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 May 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

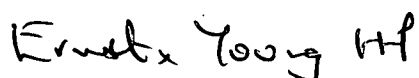
# **Independent auditors' report (continued)**

**to the members of Rome Pikco Limited**

## **Matters on which we are required to report by exception**

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

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



Andy Glover (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
6 October 2014

# Group statement of comprehensive income

for the year ended 31 May 2014

	Notes	2014 £000	2013 £000
			<i>Restated*</i>
<b>Revenue</b>	2	223,441	205,302
Cost of sales		(168,065)	(155,099)
<b>Gross profit</b>		<u>55,376</u>	<u>50,203</u>
Administrative expenses excluding depreciation, amortisation, impairment, foreign exchange and movement on provisions		(17,534)	(15,040)
<b>EBITDA</b>	1	<u>37,842</u>	<u>35,163</u>
Administrative expenses – depreciation, amortisation, impairment, foreign exchange and movement on provisions		(17,716)	(16,729)
Total administrative expenses		<u>(35,250)</u>	<u>(31,769)</u>
<b>Operating profit</b>	3	20,126	18,434
Finance income	6	24	55
Finance costs and similar charges	7	(47,763)	(41,561)
Share of post tax loss of joint ventures	12	(2,030)	(223)
<b>Loss before taxation</b>		<u>(29,643)</u>	<u>(23,295)</u>
Income tax credit	8	2,619	1,289
<b>Loss for the year</b>		<u>(27,024)</u>	<u>(22,006)</u>
Other comprehensive income		–	–
<b>Total comprehensive income for the year</b>		<u>(27,024)</u>	<u>(22,006)</u>

\*Restated for prior year adjustment as explained in Note 1

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

# Group statement of financial position

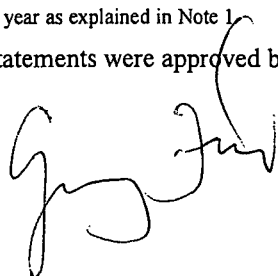
at 31 May 2014

		2014 £000	2013 £000 <i>Restated*</i>	2012 £000 <i>Restated*</i>
	<i>Notes</i>			
<b>Non-current assets</b>				
Property, plant and equipment	10	62,601	57,401	54,637
Intangible assets	11	179,076	181,840	184,799
Investment in joint ventures	12	2,170	1,611	–
Lease premiums	13	788	1,060	1,271
Other receivables	14	1,467	1,580	1,555
Deferred tax assets	8	7,413	6,624	6,979
		<u>253,515</u>	<u>250,116</u>	<u>249,241</u>
<b>Current assets</b>				
Other receivables	14	10,429	9,257	7,483
Inventories	15	2,611	2,169	2,605
Lease premiums	13	301	329	328
Cash and cash equivalents		9,126	11,096	9,191
		<u>22,467</u>	<u>22,851</u>	<u>19,607</u>
<b>Total assets</b>		<u>275,982</u>	<u>272,967</u>	<u>268,848</u>
<b>Current liabilities</b>				
Derivative financial instruments		(3,836)	(4,235)	(43,013)
Trade and other payables	16	(44,755)	(44,877)	(185,175)
Other financial liabilities	18	(193,095)	(199,165)	(7,192)
		<u>(241,686)</u>	<u>(248,277)</u>	<u>(235,380)</u>
<b>Non-current liabilities</b>				
Other financial liabilities	18	(244,176)	(205,541)	(190,544)
Provision	17	(136)	(330)	(455)
Deferred tax liability	8	(7,600)	(9,430)	(10,560)
		<u>(251,912)</u>	<u>(215,301)</u>	<u>(201,559)</u>
<b>Total liabilities</b>		<u>(493,598)</u>	<u>(463,578)</u>	<u>(436,939)</u>
<b>Net liabilities</b>		<u>(217,616)</u>	<u>(190,611)</u>	<u>(168,091)</u>
<b>Capital and reserves</b>				
Called up share capital	20	–	–	–
Share premium account		2,024	2,024	2,024
Exchange reserve		19	–	–
Retained earnings		(219,659)	(192,635)	(170,115)
<b>Total equity</b>		<u>(217,616)</u>	<u>(190,611)</u>	<u>(168,091)</u>

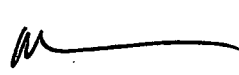
\*Restated for prior year as explained in Note 1

The financial statements were approved by the board of directors on 6 October 2014 and signed on its behalf by:

G W Ford  
Director



Ben Price  
Director



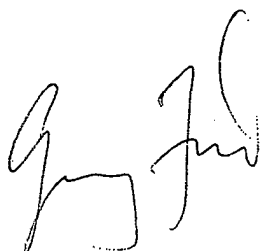
## Company statement of financial position

at 31 May 2014

	Notes	2014 £000	2013 £000
<b>Non-current assets</b>			
Investments	12	2,024	2,024
<b>Current assets</b>			
Other receivables	14	112,337	196,292
Cash and cash equivalents		2	2
		<u>112,339</u>	<u>196,294</u>
<b>Total assets</b>		<u>114,363</u>	<u>198,318</u>
<b>Current liabilities</b>			
Trade and other payables	16	(515)	(1,160)
Other financial liabilities	18	(190,595)	(191,869)
		<u>(191,110)</u>	<u>(193,029)</u>
<b>Non-current liabilities</b>			
Other financial liabilities	18	-	(72,224)
<b>Total liabilities</b>		<u>(191,110)</u>	<u>(265,253)</u>
<b>Net liabilities</b>		<u>(76,747)</u>	<u>(66,935)</u>
<b>Capital and reserves</b>			
Called up share capital	20	-	-
Share premium account		2,024	2,024
Retained earnings		(78,771)	(68,959)
<b>Total equity</b>		<u>(76,747)</u>	<u>(66,935)</u>

The financial statements were approved by the board of directors on 6 October 2014 and signed on its behalf by:

G W Ford  
Director



Ben Price  
Director



# Group statement of cash flows

for the year ended 31 May 2014

	2014 £000	2013 £000
<b>Operating activities</b>		
Loss before taxation	(29,643)	(23,295)
<i>Adjustments to reconcile loss for the year to net cash flow from operating activities:</i>		
Finance expense	47,763	41,561
Finance income	(24)	(55)
Unrealised loss on foreign exchange	117	(39)
Depreciation of property, plant and equipment, amortisation of intangible assets and amortisation of lease premiums	17,564	16,442
Impairment of property, plant and equipment	150	382
Loss on disposal of property, plant and equipment	82	86
Share of loss of joint venture	2,030	223
	<u>38,039</u>	<u>35,305</u>
(Increase)/Decrease in inventories	(442)	435
(Increase)/Decrease in other receivables	(1,150)	(1,406)
Increase/(Decrease) in trade and other payables	1,790	(310)
Increase/(Decrease) in provision	(194)	(123)
<b>Net cash from operating activities</b>	<u>38,043</u>	<u>33,901</u>
<b>Investing activities</b>		
Payments to acquire intangible fixed assets	(440)	(146)
Payments towards acquiring lease premiums	-	(120)
Investment in joint ventures	(2,589)	(1,630)
Payments to acquire property, plant and equipment	(19,124)	(15,183)
Proceeds from disposal of property, plant and equipment	21	-
Interest received	23	55
Net repayment of amounts due to parent	(86)	(227)
<b>Net cash used in investing activities</b>	<u>(22,195)</u>	<u>(17,251)</u>
<b>Financing activities</b>		
New third party long-term loans	255,500	2,000
Interest paid	(14,666)	(11,613)
Loan issue costs and other bank fees paid	(12,144)	(231)
Repayment of loan note with ultimate shareholder	(15,000)	-
Repayment of financial liabilities	(231,508)	(4,901)
<b>Net cash used in financing activities</b>	<u>(17,818)</u>	<u>(14,745)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(1,970)</u>	<u>1,905</u>
Cash and cash equivalents at 1 June	11,096	9,191
<b>Cash and cash equivalents at 31 May</b>	<u>9,126</u>	<u>11,096</u>

## Company statement of cash flows

for the year ended 31 May 2014

	2014 £000	2013 £000
<b>Operating activities</b>		
Loss before taxation	(9,812)	(12,253)
Financing costs	23,538	24,997
Interest receivable	(13,726)	(12,744)
<b>Net cash flow from operating activities</b>	<u>-</u>	<u>-</u>
<b>Investing activities</b>		
Net proceeds from subsidiaries	<u>-</u>	<u>-</u>
<b>Net cash flow from investing activities</b>	<u>-</u>	<u>-</u>
<b>Financing activities</b>		
Loan advanced by subsidiary	<u>-</u>	<u>-</u>
<b>Net cash flow used in financing activities</b>	<u>-</u>	<u>-</u>
<b>Net movement in cash and cash equivalents</b>	<u>-</u>	<u>-</u>
Cash and cash equivalents at 1 June	<u>2</u>	<u>2</u>
<b>Cash and cash equivalents at 31 May</b>	<u><u>2</u></u>	<u><u>2</u></u>

## Group statement of changes in shareholders' equity

for the year ended 31 May 2014

	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Exchange reserve £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At 31 May 2012 (as previously reported)	–	2,024	–	(174,734)	(172,710)
Impact of prior period adjustment (note 1)	–	–	–	4,619	4,619
At 31 May 2012 (restated)	–	2,024	–	(170,115)	(168,091)
Total comprehensive income for the year (restated – note 1)	–	–	–	(22,520)	(22,520)
At 31 May 2013 (restated)	–	2,024	–	(192,635)	(190,611)
Total comprehensive income for the year	–	–	–	(27,024)	(27,024)
Retranslation movement	–	–	19	–	19
At 31 May 2014	–	2,024	19	(219,659)	(217,616)

## Company statement of changes in shareholders' equity

for the year ended 31 May 2014

	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At 31 May 2012	–	2,024	(56,706)	(54,682)
Total comprehensive income for the year	–	–	(12,253)	(12,253)
At 31 May 2013	–	2,024	(68,959)	(66,935)
Total comprehensive income for the year	–	–	(9,812)	(9,812)
At 31 May 2014	–	2,024	(78,771)	(76,747)

## Notes to the financial statements

for the year ended 31 May 2014

### 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 6 October 2014. Rome Pikco Limited is a private limited company incorporated and domiciled in England and Wales.

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, in accordance with the provisions of the Companies Act 2006.

#### ***Going concern***

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

The group is in a net liability position of £217.6m 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 £190.6m owed by the group until such time as the group is able to meet these liabilities. Rome PIK Holdco effectively owes these funds to various holding companies up to Rome Intermediate Holdings Sarl and the various holding companies have also received confirmation that repayment will not be requested until such time that they are able to meet these liabilities. The majority of the remainder of the group's third party loans (£246.7m) 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.

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

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

#### ***Key sources of estimation uncertainty and accounting judgement***

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year is the measurement and impairment of intangible assets and property, plant and equipment ('fixed assets'). The Group identifies whether fixed assets are impaired on an annual basis, and this requires an assessment of indicators of impairment and an estimation of the value in use of the group of cash generating units to which the fixed assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate. Further details are provided in note 11

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *Key sources of estimation uncertainty and accounting judgement (continued)*

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

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

The group estimates the fair value of the relevant points awarded under the customer loyalty programme by applying statistical techniques. Inputs to the relevant models include making assumptions about expected redemption rates and the average length of time taken to obtain the nine points required for redemption. As points issued under the programme do not expire, such estimates are subject to significant uncertainty. At 31 May 2014, the estimated liability for unredeemed points was approximately £804,000 (2013 – £739,000). This is included within Accruals.

#### *Basis of consolidation*

The consolidated financial statements comprise the financial statement of the Group and its subsidiaries at 30 May 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

#### *Interests in joint ventures*

The group has contractual arrangements with other parties, which represents joint ventures. These take the form of an agreement to share control over another entity. Where the joint venture is established through an interest in a company, partnership or other entity (a jointly controlled entity), the group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and any impairment in value of

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *Interests in joint ventures (continued)*

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.

#### *Business combinations*

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

#### *Goodwill*

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

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

#### *Intangible assets*

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

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

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

#### *Property, plant and equipment*

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

# Notes to the financial statements

for the year ended 31 May 2014

## 1. Accounting policies (continued)

### *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.

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.

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *Interest bearing loans and overdrafts*

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

#### *Borrowing costs*

Borrowing costs are recognised as an expense when incurred.

#### *Store opening costs*

Operating costs incurred by stores prior to opening are written off to the statement of comprehensive income in the period in which they are incurred.

#### *Inventories*

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

#### *Provisions*

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

#### *Financial assets*

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

#### *Loans and receivables*

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

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Assets are carried in the balance sheet at fair value with gains or losses recognised in the statement of comprehensive income. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

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.

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *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.

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.

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *Income taxes (continued)*

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.

#### *Restatement*

The financial statements have been restated to:-

1. Derecognise deferred tax assets in respect of tax losses, and;
2. Recognise deferred tax assets in respect of decelerated capital allowances.

The restatement resulted in an increase in recognised deferred tax assets of £4,105,000, of which £(514,000) arose in 2013 and £4,619,000 arose in 2012. The corresponding entry in both years was to the result for the year reported in the group statement of comprehensive income (a loss of £22,006,000 was reported in 2013 and a profit of £41,363,000 was reported in 2012).

#### *Capital instruments*

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

#### *Derecognition of financial assets and liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of comprehensive income.

#### *Revenue recognition*

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

##### *Sale of goods*

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

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

##### *Development fee income*

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

## Notes to the financial statements

for the year ended 31 May 2014

### 1. Accounting policies (continued)

#### *Royalty fee income*

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

#### *Opening fee income*

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

#### *Interest income*

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

#### *Rental income*

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

#### *Marketing income*

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

#### *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.

# Notes to the financial statements

for the year ended 31 May 2014

## 1. Accounting policies (continued)

### 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 10	IFRS 10 Consolidated Financial Statements	1 January 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 28 (R)	Associates and Joint Ventures	1 January 2014
IAS 27(R)	Separate financial statements	1 January 2014
IAS 32	Amendment - offsetting of financial assets and financial liabilities	1 January 2014
IAS 36	Amendment – Impairment of assets	1 January 2014
IAS 39	Amendment-Financial instruments: recognition and measurement	1 January 2014
IFRS 9	Amendment - Financial Instruments: Classification and Measurement	1 January 2015

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.

## 2. Revenue

Revenue is analysed as follows:

	2014 £000	2013 £000
Coffee shop sales and associated income	222,452	204,326
Royalty fee income, opening fees and other charges	989	976
	<u>223,441</u>	<u>205,302</u>
Finance income (note 6)	24	55
Total revenue	<u>223,465</u>	<u>205,357</u>

## Notes to the financial statements

for the year ended 31 May 2014

### 2. Revenue (continued)

Revenue is derived from the following geographic areas:

	2014 £000	2013 £000
UK	222,399	204,326
Turkey	566	553
Gulf States	362	315
Cyprus	59	108
US	55	-
	<u>223,441</u>	<u>205,302</u>

### 3. Operating profit

Operating profit is stated after charging/(crediting):

	2014 £000	2013 £000
Auditors' remuneration – audit of group financial statements	75	75
– audit of financial statements of subsidiaries	58	74
– other services relating to tax	37	93
– due diligence services	130	-
Costs relating directly to opening new sites	683	769
Depreciation of property, plant and equipment	14,060	13,005
Impairment of property, plant and equipment	150	382
Amortisation of intangible assets	3,204	3,105
Amortisation of lease premiums	300	330
Loss/(Gain) on disposal of property, plant and equipment	82	85
Operating lease rentals – land and buildings	37,355	36,865
Other operating income – rental income	(318)	(393)
Other operating income – marketing income	(615)	(713)
Loss on foreign exchange	<u>2</u>	<u>(58)</u>

Operating lease rentals are split between minimum lease payments of £34.6 million (2013 – £34.3 million) and contingent rents of £2.8 million (2013 – £2.6 million)

## Notes to the financial statements

for the year ended 31 May 2014

### 4. Directors emoluments

No remuneration was paid or is payable to the directors in their capacity as directors of the company (2013 – nil). The directors are also directors of a fellow group undertaking, Nero Holdings Limited, who paid the directors emoluments and pension contributions of £718,772 (2013 – £631,573) in respect of services to the enlarged UK group of which the company is a member.

It is not possible to identify the proportion of these emoluments that relate to services to this company.

Amounts paid on a group basis are summarised below:

	<i>Basic salary</i>	<i>Fees and bonuses</i>	<i>Benefits</i>	<i>Pension</i>	<i>Total 2014</i>
	£	£	£	£	£
G W Ford	374,083	45,000	14,580	18,839	452,503
B J Price	241,333	15,000	9,697	239	266,269
Total	615,417	60,000	24,278	19,078	718,772

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

### 5. Staff costs

	<i>2014</i>	<i>2013</i>
	£000	£000
Wages and salaries	54,467	52,183
Social security costs	4,103	3,653
Other pension costs	19	18
	58,589	55,854

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

	<i>2014</i>	<i>2013</i>
	No.	No.
Operational	3,134	2,945
Administration	753	686
	3,887	3,631

### 6. Finance income

	<i>2014</i>	<i>2013</i>
	£000	£000
Bank interest receivable	24	55

## Notes to the financial statements

for the year ended 31 May 2014

### 7. Finance expenses and similar charges

	2014 £000	2013 £000
Senior debt interest	6,780	7,625
Mezzanine debt interest	11,817	8,221
PIK notes interest	7,993	11,928
Amortisation of loan issue costs	7,932	1,514
Bank fees	207	231
Gain on fair value of interest rate and currency swap	(618)	(2,957)
Euro loan revaluation	-	2,003
Interest on loan from parent	13,726	12,745
(Gain)/loss on fair value of put and call options	(75)	251
	<u>47,763</u>	<u>41,561</u>

### 8. Income tax credit

(a) Analysis of tax in the year:

	2014 £000	2013 £000
		<i>Restated*</i>
Current tax	-	-
Deferred tax	(2,619)	(1,289)
Income tax credit reported in the statement of comprehensive income	<u>(2,619)</u>	<u>(1,289)</u>

(b) Reconciliation of total tax (credit)

The tax assessed for the year differs from the standard average rate of corporation tax in the UK of 22.7% (2013 – 23.8%). The differences are explained below:

	2014 £000	2013 £000
		<i>Restated*</i>
Loss on ordinary activities before tax	(29,643)	(23,295)
Loss on ordinary activities multiplied by the standard average rate of corporation tax in the UK of 22.67% (2013 – 23.8%)	(6,720)	(5,544)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,186	2,091
Group relief	3,111	3,033
Higher taxes on overseas earnings	-	-
Movement in deferred tax asset not recognised	(136)	(232)
Impact of rate change on deferred tax credit	(60)	(123)
Income tax credit reported in the consolidated statement of comprehensive income	<u>(2,619)</u>	<u>(1,289)</u>

## Notes to the financial statements

for the year ended 31 May 2014

### 8. Income tax credit (continued)

#### (c) Deferred tax

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

	<i>Recognised</i>	<i>Not recognised</i>	<i>Recognised</i>	<i>Not recognised</i>
	<i>2014</i>	<i>2014</i>	<i>2013</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
			<i>Restated*</i>	<i>Restated*</i>
Decelerated capital allowances	7,413	–	6,624	–
Other differences – fair value adjustments	(7,600)	977	(9,430)	1,562
Tax losses	–	2,149	–	2,613
Net deferred tax (assets)	<u>(187)</u>	<u>3,126</u>	<u>(2,806)</u>	<u>3,725</u>

Movements in the net deferred tax liability are as follows:

	<i>£000</i>
At 31 May 2013 (restated – note 1)	(2,806)
Movement in the year	<u>2,619</u>
At 31 May 2014	<u>(187)</u>

The main rate of corporation tax in the UK reduced from 23% to 21% on 1 April 2014.

The Finance Act 2013 included a further reduction in the main rate of corporation tax from 21% to 20% from 1 April 2015 and this further reduction was substantively enacted on 2 July 2013. Therefore, the company's deferred tax balances are stated based on the tax rate which the deferred tax balances are expected to unwind.

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

### 9. Loss attributable to members of parent undertaking

The post-tax loss attributable to the parent undertaking for the year was £9,812,000 (2013 – £12,253,000).

## Notes to the financial statements

for the year ended 31 May 2014

### 10. Property, plant and equipment

*Group*

	<i>Leasehold improvements</i>	<i>Furniture, fittings and equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 31 May 2013	88,928	42,852	131,780
Additions	11,957	7,514	19,471
Disposals	(70)	(36)	(106)
At 31 May 2014	100,815	50,330	151,145
Depreciation and impairment:			
At 31 May 2013	45,183	29,196	74,379
Provided during the year	8,733	5,326	14,060
Impairment	150	-	150
Disposals	(45)	-	(45)
At 31 May 2014	54,021	34,522	88,544
Net book value:			
At 31 May 2014	46,794	15,808	62,601
At 31 May 2013	43,745	13,656	57,401

Assets written down to nil net book value but with a cost of £6,604,000 (2013 – £3,997,000) are still in use by the group at 31 May 2014.

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

The recoverable amounts of the stores are calculated from value in use calculations based on cash flow projections approved by senior management. The post tax discount rate applied to cash flow projections is 10.1% (2013 – 9.8%). The growth rate applied is store specific and dependent on the age of the store.

Impairment assumptions are covered in Note 11.

## Notes to the financial statements

for the year ended 31 May 2014

### 11. Intangible assets

*Group*

	<i>Software</i> £000	<i>Brand</i> £000	<i>Trademark</i> £000	<i>Goodwill on acquisition</i> £000	<i>Total</i> £000
Cost:					
At 31 May 2013	639	60,000	119	160,821	221,579
Additions	440	-	-	-	440
At 31 May 2014	1,079	60,000	119	160,821	222,019
Amortisation and impairment:					
At 31 May 2013	439	19,000	-	20,300	39,739
Charge for the year	204	3,000	-	-	3,204
At 31 May 2014	643	22,000	-	20,300	42,943
Net book value:					
At 31 May 2014	436	38,000	119	140,521	179,076
At 31 May 2013	200	41,000	119	140,521	181,840

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

#### Impairment testing of goodwill

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

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

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

#### Discount rate

A post-tax discount rate of 10.1% has been used (2013 – 9.8%). 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% (2013 – 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% (2013 – 3%) has been used to calculate expected cash flows after 5 years. This assumption is consistent with the long-term growth projections for the industry.

## Notes to the financial statements

for the year ended 31 May 2014

### 11. Intangible assets (continued)

#### *Sensitivity to changes in assumptions*

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

### 12. Non current asset investments

	<i>Investment in joint ventures</i>	<i>Investment in joint ventures</i>
	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
<i>Group</i>		
Cost:		
At 1 June	1,611	–
Investments during the year	2,589	1,834
Share of loss of joint ventures	(2,030)	(223)
At 31 May	<u>2,170</u>	<u>1,611</u>
		<i>Investment in subsidiary undertakings</i>
		<i>£000</i>
<i>Company</i>		
Cost at 31 May 2013 and 31 May 2014:		<u>2,024</u>

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

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

On 1 March 2007, Rome Bidco Limited acquired the entire share capital of Caffè Nero Investments Limited for £100. Caffè Nero Investments Limited is the holding company of Caffè Nero Ventures Limited, which is the management company of the group's overseas joint ventures Caffè Nero Gida Urunleri AS and Green Coffee Sp z.o.o, (acquired during the year) and franchises. The group holds 50% of the ordinary shares of Caffè Nero Gida Urunleri AS and 58.5% of Green Coffee sp z.o.o.

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

## Notes to the financial statements

for the year ended 31 May 2014

### 12. Non current asset investments (continued)

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

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

The execution price of the above is dependent on company performance. The call and put options are accounted for at fair value through profit and loss, the call option is recognised as a financial asset (note 14) and the put option is recognised as a financial liability (note 16). On initial recognition, the options had a fair value of £290,280 and £494,200 respectively. The fair value of the options increased by £75,357 (2013 decline of £250,941) which has been recognised in the statement of comprehensive income.

The group's share of the losses in Caffè Nero Gida Urunleri AS has not been recognised in full as the investment has been written down to nil. The share of the assets, liabilities, income and expenses of Caffè Nero Gida Urunleri As at 31 May 2014 are as follows:

	2014 £000	2013 £000
<i>Share of the joint venture's balance sheet:</i>		
Non-current assets	3,357	4,559
Current assets	838	591
Share of gross assets	4,395	5,150
Current liabilities	(5,875)	(4,461)
Non-current liabilities	(1,186)	(1,817)
Share of gross liabilities	(7,060)	(6,278)
Share of net liabilities	(2,666)	(1,128)

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

*Share of the joint venture's results:*

	2014 £000	2013 £000
Revenue	8,060	7,874
Cost of sales	(6,658)	(6,526)
Administrative expenses	(2,538)	(2,294)
Finance costs	(764)	(610)
Loss before tax	(1,900)	(1,556)
Tax credit	-	15
Loss for the year	(1,900)	(1,541)

## Notes to the financial statements

for the year ended 31 May 2014

### 12. Non current asset investments (continued)

The share of the assets, liabilities, income and expenses of Green Coffee Sp. Z.o.o at 31 May 2014 are as follows:

	2014 £000	2013 £000
<i>Share of the joint venture's balance sheet:</i>		
Non-current assets	1,832	840
Current assets	267	352
Share of gross assets	2,098	1,192
Current liabilities	(559)	(696)
Non-current liabilities	(509)	-
Share of gross liabilities	(1,068)	(696)
Share of net assets	1,038	496

*Share of the joint venture's results:*

	2014 £000	2013 £000
Revenue	2,794	1,497
Cost of sales	(2,104)	(1,250)
Administrative expenses	(857)	(346)
Finance income/(costs)	36	(8)
Loss before tax	(130)	(107)
Tax credit	-	4
Loss for the year	(130)	(103)

## Notes to the financial statements

for the year ended 31 May 2014

### 12. Non current asset investments (continued)

#### Details of group undertakings

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

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

All shareholdings are of ordinary equity shares.

## Notes to the financial statements

for the year ended 31 May 2014

### 13. Lease premiums

	<i>Lease premiums £000</i>
Cost:	
At 31 May 2013 and 31 May 2014	3,571
Amortisation:	
At 31 May 2013	2,182
Charge for the year	300
At 31 May 2014	<u>2,482</u>
Net book value:	
At 31 May 2014	<u>1,089</u>
At 31 May 2013	<u>1,389</u>
The net book value at 31 May 2014 is split as follows:	
Non-current assets	<u>788</u>
Current assets	<u>301</u>
The net book value at 31 May 2013 is split as follows:	
Non-current assets	<u>1,060</u>
Current assets	<u>329</u>

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

### 14. Other receivables

	<i>Group 2014 £000</i>	<i>Company 2014 £000</i>	<i>Group 2013 £000</i>	<i>Company 2013 £000</i>
<i>Non-current:</i>				
Other debtors (rent deposits)	101	–	96	–
Cash held on deposit in Turkey	1,366	–	1,484	–
	<u>1,467</u>	<u>–</u>	<u>1,580</u>	<u>–</u>
<i>Current:</i>				
Amounts due from subsidiary undertaking	–	112,337	–	196,292
Amounts due from parent company	580	–	495	–
Trade debtors	5,080	–	3,912	–
Prepayments	4,622	–	4,652	–
Fair value of call option	148	–	198	–
	<u>10,429</u>	<u>112,337</u>	<u>9,257</u>	<u>196,292</u>

## Notes to the financial statements

for the year ended 31 May 2014

### 14. Other receivables (continued)

As at 31 May 2014 the ageing analysis of trade debtors due to third parties was as follows:

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due not impaired</i>		
			<i>&lt; 30</i>	<i>30 – 60 days</i>	<i>&gt; 60 days</i>
	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>
2014	5,080	1,598	353	36	3,093
2013	3,912	2,326	142	440	1,004

### 15. Inventories

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2014</i>	<i>2014</i>	<i>2013</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Goods for resale	2,611	–	2,169	–

### 16. Trade and other payables

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2014</i>	<i>2014</i>	<i>2013</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade payables	17,814	–	17,471	–
Amounts due to subsidiary undertaking	–	515	–	515
Other creditors, including taxation and social security	7,596	–	6,680	–
Accruals and deferred income	18,110	–	17,225	–
Interest and fees accruals	708	–	2,848	645
Fair value of put option	527	–	653	–
	44,755	515	44,877	1,160

## Notes to the financial statements

for the year ended 31 May 2014

### 17. Provision

	2014 £000	2013 £000
At 1 June 2013	330	455
Utilised in the year	(194)	(125)
At 31 May 2014	136	330

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 2014*

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

Amounts disclosed above are net of issue costs.

*At 31 May 2013*

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

## Notes to the financial statements

for the year ended 31 May 2014

### 18. Other financial liabilities (continued)

#### Company

At 31 May 2014

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

At 31 May 2013

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

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

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

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

#### Loan repayment dates

	£000
<b>Senior A (Interest charged at LIBOR* + 3.5% margin)</b>	
23 December 2018	100,000
<b>Mezzanine (Interest charged at LIBOR + 5.0% cash margin + 5.0% PIK margin**)</b>	
23 December 2019	153,000
<b>Revolving credit facility (Interest charged at LIBOR* + 3.5% margin)</b>	
The facility expires on 23 December 2018	2,500

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

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

## Notes to the financial statements

for the year ended 31 May 2014

### 18. Other financial liabilities (continued)

The term loans were principally taken out to refinance the loans taken out to fund the acquisition of Caffè Nero Group Limited in 2007. The term loans are charged interest at the rates as set out in the table above. In order to hedge exposure to interest rate risk, the Group has entered into an interest rate swap to fix the interest rate on £200.0 million of the term loans over a period of three years to February 2017.

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

31 May 2013:

*Loan repayment dates*

£000

**Senior A (Interest charged at LIBOR\* + 4.75% margin)**

30 November 2013 and 31 May 2014	2,648
30 November 2014 and 31 May 2015	3,421
30 November 2015 and 31 May 2016	3,869
30 November 2016	4,073

**Senior B1 (Interest charged at LIBOR\* +5.00% margin)**

30 November 2017	29,718
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**Senior B2 (Interest charged at LIBOR\* +5.25% margin)**

30 November 2017	25,500
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**Mezzanine (Interest charged at 8.25% cash margin + 6.75% PIK margin\*\*)**

5 December 2020	50,000
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**PIK Notes (Interest charged at 19.00%)**

5 December 2020	49,000
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**Capex facility (Interest charged at LIBOR\* +7.00% margin)**

30 November 2017	7,000
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**Revolving credit facility (Interest charged at LIBOR\* +4.75% margin)**

The facility expires on 30 November 2016	2,000
--	-------

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

\*\*8.25% of the interest payable is settled by cash, 6.75% is rolled up into the carrying value of the loan. Interest will be charged at LIBOR\* + 5.05% after 5 January 2014.

The term loans were principally taken out to finance the acquisition of Caffè Nero Group Limited in 2007. The term loans are charged interest at the rates as set out in the table above. In order to hedge exposure to interest rate risk, the Group entered into an interest rate swap to fix the interest rate on £79.8 million of the term loans over a period of three years to February 2016.

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments

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

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

#### Interest rate risk

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

#### Credit risk

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

#### Liquidity risk

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2014 and 31 May 2013 based on contractual undiscounted payments.

31 May 2014

Group

	<i>On Demand</i>	<i>Within 1 year</i>	<i>1-5years</i>	<i>More than 5</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>years</i>	<i>£000</i>
				<i>£000</i>	
Trade and other payables	–	18,541	–	–	18,541
Revolving credit facility	2,500	–	–	–	2,500
Mezzanine loan	–	–	–	146,830	146,830
Rolled up interest on mezzanine loan	–	–	–	49,273	49,273
Variable interest on mezzanine loan	–	9,465	52,154	10,270	71,889
Senior loans	–	–	94,329	–	94,329
Variable interest on senior loans	–	4,356	23,375	–	27,731
Loan from parent	98,450	–	–	–	98,450
Rolled up interest on loan from parent	92,145	–	–	–	92,145
Interest rate swap	–	3,836	–	–	3,836
Variable interest on swap facilities	–	2,502	4	–	2,506
	<u>193,095</u>	<u>38,700</u>	<u>169,862</u>	<u>206,373</u>	<u>693,466</u>

Company

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

31 May 2013

Group

	<i>On Demand</i>	<i>Within 1 year</i>	<i>1-5 years</i>	<i>More than 5</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>years</i>	<i>£000</i>
				<i>£000</i>	
Trade and other payables	–	18,124	–	–	18,124
Revolving credit facility	2,000	–	–	–	2,000
Capex facility	–	–	7,000	–	7,000
Mezzanine loan	–	–	–	50,000	50,000
Rolled up interest on mezzanine loan	–	–	–	45,568	45,568
Fixed cash interest on Mezzanine loan	–	3,526	1,254	–	4,780
Variable interest on mezzanine loan	–	–	22,572	18,650	41,222
Senior loans	–	5,296	73,871	–	79,167
Variable interest on senior loans	–	5,124	18,342	2,582	26,048
Loan from parent (2)	98,450	–	–	–	98,450
Rolled up interest on loan from parent	93,419	–	–	–	93,419
Interest rate swap	–	4,235	–	–	4,235
	<u>193,869</u>	<u>36,305</u>	<u>123,039</u>	<u>116,800</u>	<u>470,013</u>

Company

	<i>On Demand</i>	<i>Within 1 year</i>	<i>1-5 years</i>	<i>More than 5</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>years</i>	<i>£000</i>
				<i>£000</i>	
Mezzanine loan	–	–	72,224	–	72,224
Loan from parent	98,450	–	–	–	98,450
Rolled up interest on loan from parent	93,419	–	–	–	93,419
	<u>191,869</u>	<u>–</u>	<u>72,224</u>	<u>–</u>	<u>264,093</u>

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

Year ended May 2014

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

Year ended 31 May 2013

	Within 1 year £000	1-2years £000	2-3years £000	3-4 years £000	4-5years £000	More than 5 years £000	Total £000
<b>Fixed rate</b>							
Loans under interest rate swap	(5,296)	(6,842)	(7,738)	(59,291)	–	–	(79,167)
Loan from parent undertaking (1)	(4,423)	–	–	–	–	–	(4,423)
Loan from parent undertaking (2)	(98,450)	–	–	–	–	–	(98,450)
Rolled up interest on loan from parent undertaking	(93,419)	–	–	–	–	–	(93,419)
	<u>(201,588)</u>	<u>(6,842)</u>	<u>(7,738)</u>	<u>(59,291)</u>	<u>–</u>	<u>–</u>	<u>(275,459)</u>
<b>Floating rate</b>							
Capex facility	–	–	–	–	(7,000)	–	(7,000)
Revolving credit facility	(2,000)	–	–	–	–	–	(2,000)
Mezzanine loan	–	–	–	–	–	(50,000)	(50,000)
Rolled up interest on mezzanine loan	–	–	–	–	–	(45,568)	(45,568)
	<u>(2,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,000)</u>	<u>(95,568)</u>	<u>(104,568)</u>
	<u>(203,588)</u>	<u>(6,842)</u>	<u>(7,738)</u>	<u>(59,291)</u>	<u>(7,000)</u>	<u>(95,568)</u>	<u>(379,027)</u>

Year ended 31 May 2014

Company	On Demand £000	Within 1 year £000	1-5 years £000	More than 5 years £000	Total £000
Amounts due to subsidiary undertaking	–	515	–	–	515
Loan from Parent*	98,450	–	–	–	98,450
Rolled up Interest on Loan from Parent	92,145	–	–	–	92,145
	<u>190,595</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>190,080</u>

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

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

Year ended 31 May 2013

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

### 19.

Year ended 31 May 2013

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

## Notes to the financial statements

for the year ended 31 May 2014.

### 19. Financial instruments (continued)

#### 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.

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

	<i>Increase / decrease in basis points</i>	<i>Effect on result before tax £</i>
Floating rate loans		
2014	+100	-727
	-100	+727
2013	+100	-90
	-100	+90
Financial assets		
2014	+100	+91
	-100	-91
2013	+100	+114
	-100	-114

### 19.

#### Company

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

#### Fair values of financial assets and liabilities

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

	<i>2014 £000</i>	<i>2013 £000</i>
Investments	2,170	1,611
Other receivables	7,128	5,987
Cash at bank and in hand	9,126	11,096
Trade and other payables	(18,522)	(20,319)
Loans from parent undertaking	(190,595)	(191,869)
Current portion of third party long term borrowings	–	(7,296)
Long term third party borrowings	(246,676)	(205,542)
Interest rate swap and currency swap	(3,836)	(4,235)
Call option	148	198
Put option	(527)	(653)

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

#### Interest rate swaps

The group's interest rate swaps have a duration of three years and payments of interest under the hedge arrangements are due on the same dates as those on which the interest payments on the underlying borrowings fall due for payment. Payments and receipts under these interest rate swaps are recognised in the statement of comprehensive income when they become due and the interest rate swap is accounted for at fair value through the profit and loss. During the year the group embedded the fair value of the interest rate swap existing as at 7 January 2014 into its new swap arrangements. As a result of this and taking its new swaps into account, the overall fair value of its interest rate swaps decreased by £618,000 to a liability of £3,836,000 (2013 – liability of £3,013,000).

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

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

#### Exchange rate swap

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

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

### 19.

#### Put and call options

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

#### Fair value hierarchy

In accordance with IFRS 7 Financial Instruments: Disclosures, financial instruments which are carried at fair value in the balance sheet are analysed as level 1, 2, or 3. The company classified interest rate and exchange rate swaps as level 2 financial instruments (2013 – level 2) as their fair value is determined based on techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The call and put options are classified as level 3 financial instruments as their valuations are based on non-observable inputs.

## Notes to the financial statements

for the year ended 31 May 2014

### 19. Financial instruments (continued)

#### Credit risk

##### *Group*

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

##### *Company*

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

#### Borrowing facilities

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

	2014	2013
	£000	£000
Expiring one to five years	22,500	-
Expiring in more than five years	-	1,000

#### Capital management

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

## Notes to the financial statements

for the year ended 31 May 2014

### 20. Authorised and issued share capital

	<i>£1 Ordinary shares</i>	
<i>Authorised</i>	<i>No.</i>	<i>£</i>
£1 ordinary shares (At 31 May 2014 and 31 May 2013)	100	100
	<i>£1 Ordinary shares</i>	
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>
£1 ordinary shares (At 31 May 2014 and 31 May 2013)	51	51

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

### 21. Contingent liability

#### *Group*

The group has deposited cash as security for part of the bank loan of its joint venture, which amounted to £1,366,403 (2013 – £1,483,515).

#### *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 2014, these guarantees totalled £246.7 million (2013 – £221.4 million).

### 22. Capital commitments

At 31 May 2014, capital commitments contracted but not provided for in the financial statements were £0.9 million (2013 – £0.4 million).

## Notes to the financial statements

for the year ended 31 May 2014

### 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:

<i>Group</i>	<i>Land and buildings</i>	
	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Due:		
In less than one year	35,985	35,938
After one year but not more than five years	105,786	103,972
After five years	52,327	64,525
	<u>194,099</u>	<u>204,435</u>

#### Subleases

The group subleases areas of leased properties and receives sublease payments from third parties. Group companies other than the parent have sublet space in certain properties. These typically are flats on short term tenancies, other commercial lettings on periods of less than 5 years and shops on leases of up to 10 years. The future minimum sublease payments expected to be received under non-cancellable sublease agreements at 31 May 2014 is £2.0 million (2013 – £2.0 million)

## Notes to the financial statements

for the year ended 31 May 2014

### 24. Related party transactions

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

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

Saratoga Limited and Paladin Partners 1 hold 67.0% and 33.0% of Rome Holdco Sarl respectively. In addition to this equity share ownership, at 31 May 2014, Saratoga Limited and Paladin Partners 1 held £25.8 million (2013 – £32.7 million) and £65.7 million (2013 – £65.7million) of preferred equity certificates respectively. Gerry Ford and Ben Price hold interest in the preferred equity certificates, as follows:

G W Ford (1)	£41.9million (2013 – £48.8 million)
B J Price (2)	£2.1 million (2013 – £2.1 million)

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

Saratoga Limited	£25.8million (2013 – £32.7 million)
Paladin Partners 1	£16.1 million (2013 – £16.1 million)

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

Paladin Partners 1	£2.1million (2013 – £2.1 million)
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#### *Group*

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

	2014 £000	2013 £000
Amounts owed to Rome PIK Holdco Limited	(190,595)	(191,869)
Amounts owed by Rome Holdco Sarl.	555	495
Amounts owed to Saratoga Limited	(90)	(42)
Amounts owed to Cheyson Partners Limited - services	(114)	(88)

#### *Company*

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

	2014 £000	2013 £000
Amounts owed to Rome PIK Holdco Limited	(190,595)	(191,869)
Amounts owed by Rome Bidco Limited	112,337	196,292
Amounts owed to Caffè Nero Group Limited	(515)	(515)

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

## Notes to the financial statements

for the year ended 31 May 2014

### 24. Related party transactions (continued)

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

- Interest of £13.7m has accrued during the year (2013 £12.7m) on the group's loan from its immediate parent undertaking Rome PIK Holdco Limited. The group repaid £15m of this loan (2013 - £nil) during the year. The amount due to Rome PIK Holdco Limited at the year end was £190.6m (2013 - £191.9m).
- Rome Bidco Limited has paid monitoring fees to Saratoga Limited and Cheyson Partners Limited. At 31 May 2014, the amounts paid during the year were £120,000 and £142,800 respectively (2013 - £21,000 and £54,000 respectively).
- The group made a further investment of £1,900,000 (2013 - £120,000) in Caffè Nero Gida Urunleri, a 50% joint venture. The outstanding investment in Caffè Nero Gida Urunleri was offset by losses leaving a nil balance at the year end
- The group invested £689,000 in Green Coffee Sp. z.o.o. in which it holds 65.1% of the share capital. This investment was written down by £130,000 representing the group's share of the losses for the year leaving a balance of £2,170,000 at the year end.

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

	<i>Group</i>	<i>Group</i>	<i>Company</i>	<i>Company</i>
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Short-term employee benefits	699	654	–	–
Post-employment benefits	19	18	–	–
	<u>718</u>	<u>672</u>	<u>–</u>	<u>–</u>

### 25. Ultimate parent undertaking

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

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