

**Costa Limited**  
**Annual Report and Financial Statements**  
**for the Period from 1 March 2019 to 31 December 2019**

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## **COSTA LIMITED**

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**COSTA LIMITED**

**Company Information**

<b>Registered number:</b>	1270695
<b>Directors</b>	J Crookall N Lake G McDonald G Mowat
<b>Company secretary</b>	R Fairhurst
<b>Registered office</b>	Costa House, Houghton Hall Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire LU5 5YG
<b>Statutory auditor</b>	Ernst & Young LLP 400 Capability Green, Luton, Bedfordshire, LU1 3LU

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019**

The directors present their strategic report for the financial period from 1 March 2019 to 31 December 2019.

#### **Fair review of the business**

The loss for the period after taxation is £14,674,000 (28 February 2019: profit of £76,269,000).

This year has been a strong trading year for Costa, since becoming a subsidiary of The Coca-Cola Company. The Company is reporting a 43 weeks financial period ended 31 December 2019 to enable its year end to align with its ultimate parent The Coca-Cola Company, which acquired the Company in January 2019.

Costa intends to establish an international multi-channel strategy with equity stores, franchises, joint ventures and wholesale operations in Europe, Asia Pacific, the Middle East and Africa. The Directors believe that this multi-channel "Total Coffee Company" strategy represents a unique proposition and that the Company has the capacity to further build on its international foundations, with strong backing from The Coca-Cola Company.

The Company aims to serve the best, hand-crafted coffee and fresh food to customers through well designed stores and digital offerings. The Company launched a variety of new products during the year, offering seasonal variations and more choice for customers with gluten free and vegan preferences. The Company created a digital loyalty scheme giving customers the platform to click and collect products, as well as earn points for future purchases in stores and on Costa Express machines.

#### **2019 Performance highlight**

The Company's key financial and other performance indicators during the period were as follows:

	<b>43 weeks ended</b>	<b>52 weeks ended</b>	
	<b>31 December</b>	<b>28 February</b>	
	<b>2019 £'000</b>	<b>2019 £'000</b>	<b>Change</b>
Turnover (continuing operations)	880,587	999,626	(12)%
Operating profit	12,185	95,825	(87)%
(Loss)/Profit after tax	(14,674)	76,269	(119)%
Net assets	464,872	474,702	(2)%

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Principal risks and uncertainties**

##### **Cyber and data security**

**Risk:** Cyber and data security remains a key risk as it could reduce the effectiveness of systems or result in a loss of data. This in turn could result in loss of income and/or reputational damage.

**Mitigation:** A series of IT security controls is in place, including up-to-date antivirus software across the estate, network/system monitoring and regular penetration testing to identify vulnerabilities. A continuous security improvement programme is in place improving security and data controls. Specifically, during the year network security has been enhanced and a framework of industry-recognised security standards is being implemented.

##### **Brand perception**

**Risk:** a long-term decline in the customer perception of the Company's brand would impact its ability to grow and achieve appropriate levels of return.

**Mitigation:** To ensure the Company maintains and improves the strength of its brand, it continually completes market research and monitors opinion with focus groups and net guest scores to ensure the right levels of investment and innovation in customer offerings are maintained. The rate and level of investment in the refurbishments of Costa stores is also monitored as well as net promoter scores.

##### **Change Management**

**Risk:** the Company's ability to execute the significant volume of change.

**Mitigation:** The Company has embarked on an extensive programme of change to replace legacy finance, point of sale, customer relationship management and human resource systems, whilst also delivering an ongoing efficiency programme and upgrading digital capability and customer propositions enabling Costa to deliver its growth plans over the coming years. To help ensure the successful delivery of these change projects, internal project delivery expertise and capability has been significantly enhanced and a robust assurance management framework has been put in place coupled with regular reporting to the Executive Committee.

##### **Political and economic climate impact**

**Risk:** uncertain/volatile political and economic climate results in a decline in GDP, consumer and business spending and inflation pressure impacting growth plans.

**Mitigation:** There is a rigorous business planning process in place which considers many scenarios with appropriate responses. The Company also has strong site selection teams with well-established processes in place based on market and economic fundamentals, both at a macro and micro level. These are supported by sensitivity analysis and a robust investment appraisal process to help deliver good levels of return and good progress is being made with the efficiency programme that aims to deliver £250 million of savings over five years.

##### **Staff engagement and retention**

**Risk:** failure to maintain staff engagement and retention in a tightening labour market.

**Mitigation:** The success of the Company's businesses would not be possible without the passion and commitment of its teams. Team engagement is fundamental. This is monitored closely through the annual engagement survey 'Costa and me', the results of which are reviewed by the Executive Committee and the Board, with trends analysed and appropriate actions reviewed and agreed. Human resource systems are also being upgraded to provide greater insight. Team retention is a key component of the Company's balanced scorecard (Costacard) and Annual Incentive Scheme.

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Principal risks and uncertainties (continued)**

##### **Roastery**

**Risk:** there is an inability to operate the Costa roastery for more than one week.

**Mitigation:** The workforce at the roastery is long standing and experienced thereby mitigating this risk and use is made of an independent risk engineering report. There is also a contingency plan which includes roasting coffee elsewhere if required which is regularly tested.

##### **Climate Change**

**Risk:** Climate change may impact coffee bean prices.

**Mitigation:** Costa recognises that to have a sustainable coffee business we need to invest in a sustainable coffee supply, ensuring that our coffee is grown in a way that protects the environment and allows the communities growing our coffee to thrive. We only buy Rainforest Alliance certified coffee. The Rainforest Alliance is a non-profit organisation, working to create a future in which people and nature thrive in harmony. By working together with diverse stakeholders including farmers, businesses, consumers and more, the Rainforest Alliance is building an alliance to improve livelihoods, protect biodiversity, amplify the voices of farmers and forest communities, and help them mitigate and adapt to climate change.

##### **Brexit**

**Risk:** Brexit carries the increased risk of disruption to coffee exports, raw material imports, the availability of labour and in addition, an increased financial exposure on foreign exchange and duty tariffs.

**Mitigation:** The directors of the Company are closely monitoring the impact of UK's exit from the European Union. The risks being identified and mitigated are split between macro and micro-economics. The macro-economic risks relate to consumer attitude and behaviour, whilst micro-economic risks are the export supply of roasted coffee, raw material imports, the hiring and retention of labour, plus financial related risks around foreign exchange and duty tariffs. We have contingency plans firmly in place and continue to evolve these with our major suppliers to help maintain the supply of key products lines and alternatives. The Company will continue to monitor the progress of Brexit and mitigate the risks identified.

##### **Coronavirus (COVID-19)**

**Risk:** From March 2020 the COVID-19 global pandemic arose in the UK and introduced significant uncertainty for the UK economy.

**Mitigation:** COVID-19 will have a significant impact on our finances during 2020 especially during Q2 where the UK Retail business was most impacted due to its size and cost base.

The Company's Directors have updated the plans for 2020 based on the impact of COVID-19 and have built a strategy for reset and growth in three phases:

- Managing the crisis - focusing on looking after our people and ruthlessly prioritising spend;
- Resetting to emerge stronger - preparing to win in our core markets and support winning propositions such as Costa Express, Proud to Serve and Ready to Drink;
- Invest in growth for the future - investing in initiatives that allow us to stay ahead of long-term trends and for future international launches.

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Principal risks and uncertainties (continued)**

Strong steps have been taken to protect the business and manage cash through the crisis to ensure the business can come out of the crisis stronger and ready to grow in the future. The following 9 areas have been identified as priorities:

- Prioritise the health and wellbeing of our people, customers and consumers. The Company ensuring that it follows government guidelines, delivered a rapid response to close stores (97% of the UK stores were initially closed) and set up Costa Express to continue to operate safely. The Company is monitoring the situation and following the Government guidelines to reassure its customers and employees on any decisions taken to re-open shops. The business has offered goodwill gestures to support the national efforts including free coffee to medical teams and care packages to key workers.
- Ruthless focus on discretionary spend and thoughtful access to government support where necessary.
- Must win in the UK Retail and Costa Express as footfall returns to recover sales at pace. The Company is focusing on changes in customer sentiment and needs and providing contactless Drive-Thru and deliver to support re-opening and contactless Costa Express ordering.
- Review retail basics and franchise opportunities.
- Continue to support Costa Express, Proud to Serve, Ready to Drink and At Home launches.
- Invest in initiatives that allow the business to stay ahead of long-term changes in consumer trends.
- Plan for launches in key international markets to ensure we maximise in 2021.
- Continue 'Must Do' technology programmes.

#### **Corporate governance**

As required by the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations'), the Company is required to report on which corporate governance code has been applied in the financial period. In this financial period, the Company had adopted The Wates Corporate Governance Principles for Large Private Companies (the 'Wates Principles'). An explanation of how the Company applied them is set out below:

#### ***Wates Principles***

The vision of the Company to become the World's Number One Coffee Brand and its purpose of 'inspiring the world to love great coffee.' was regularly communicated to the Company's employees and the directors' believe that the Company operates with a clear sense of purpose and collective vision. During the financial period, the Company adopted a new leadership signature – "Think customer, think big, think bold, be obsessive about growth, execute with pace, champion our values". Following consultation with the Company's employees on the values which best encapsulated the Company's culture, the Company adopted four core values of Passion, Warmth, Courage and Trust. The Company's annual employee survey is used to monitor the Company's employees' perceptions of the extent to which the Company's values are exhibited by the Company's management and team members. The Company's strategy was discussed regularly by the Company's Executive Committee in conjunction with setting a three-year Long-Range Plan. The plan focused on building the Costa brands' global brand preference and differentiating Costa from its competition as a total coffee company by virtue of the range of platforms available to distribute coffee.

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

During the financial period, the board consisted of the Chief Executive Officer, Chief People Officer, Chief Financial Officer and the Managing Director for the UK and Ireland. Meetings held throughout the year were usually chaired by the Chief Executive Officer.

As the Company is a wholly owned subsidiary of The Coca-Cola Company, the board does not consider it necessary to separate the roles of the Chair and Chief Executive Officer. The Chief Executive Officer is the main liaison with The Coca-Cola Company and has regular communication with its representatives.

The Company is the parent company of a number of subsidiaries which operate various Costa branded businesses.

#### ***The Executive Committee***

Given the structure of the group of which the Company is the parent, the board considers that, the day to day management of the group should be delegated to an Executive Committee which is comprised of –

Chief Executive Officer (CEO)  
Chief Financial Officer (CFO)  
Chief People Officer (CPO)  
Chief Information Officer  
Chief Marketing Officer  
Managing Director UK & Ireland  
Managing Director Costa Express  
Chief Operating Officer, Costa International  
Managing Director, Europe and MENA  
General Counsel  
Global Customer Director

The structure of the Executive Committee ensures that all main business units and functions in the Group are represented and involved in key decisions. The Committee holds a short weekly meeting to review recent trading and current priorities and meets on one or two days each month to consider more strategic matters. The board considers that the size and structure of the Committee is appropriate to meet the group's strategic needs and enable effective decision making. The Committee has a broad range of skills, background, experience and knowledge, including relating to finance, human resources, information systems, marketing, operations and legal matters.

Accountability and responsibility for decisions is closely defined in a detailed Delegation of Authority (DOA). The DOA sets out a robust internal control process via the requirement for a " Request for Approval " ( RFA) for important matters such as capital expenditure, acquisitions and sales of real property and leases , asset impairments, treasury and financing matters, supply, purchase and service agreements, marketing commitments and revenue agreements. Records of approvals given are maintained in an on-line system. The DOA is reviewed regularly, at least once a year.

Each of the Group's main business units are subject to a detailed business review meeting each quarter. The review is attended by an appropriate member of the Executive Committee and discusses budgets, performance, strategy and any capital expenditure along with current issues and opportunities of the business.

The Executive Committee receives regular financial reports and consumer data to assist in monitoring the performance of the business and make informed decisions.



## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

The Executive Committee regularly considers all opportunities to grow the business and create long term value. As a subsidiary of The Coca-Cola Company, the company is required to put in place a system of internal controls which complies with the United States' Sarbanes-Oxley Act. The company has put in place a Risks & Controls Matrix framework. The principal risks and uncertainties of the Company are discussed in more detail above.

The Company participates in an on-line Incident Management and Company Reputation system to manage its response to incidents which may affect the reputation of the Company.

#### ***Setting Remuneration***

The Company regularly reviews the pay and remuneration of employees in comparable roles in its sector and more broadly in the case of functional roles. Remuneration for directors and senior management is directly linked to performance both at an individual and Company level and is designed to incentivise the delivery of the Company's strategy. Remuneration is also designed to attract and retain the calibre of individuals required to meet the Company's objectives.

#### ***Remuneration Decisions***

A Remuneration Committee comprising the CEO, the CPO and representatives of The Coca-Cola Company sets the Company's policy towards the remuneration of all of its employees, including the level of any annual pay increases and design of employee incentive schemes. The appointments and remuneration of all senior employees require the approval of the Committee's members.

Costa has good relationships with its stakeholders as, discussed in the following statement.

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Section 172 statement**

The board of directors of the Company have individually and collectively acted to promote the success of the Company for the benefit of its shareholders and other stakeholders as defined in S172 of the Companies Act 2006.

In doing this, the directors have specifically considered:

- the long-term consequences of any decisions;
- the interests and wellbeing of the Company's employees;
- the need to develop and maintain long standing and collaborative relationships with suppliers, customers and other key trading partners;
- the impact of business operations on the community and the environment;
- the reputation of the Company, known for its high standard of business conduct; and
- the need to act fairly between shareholders and other capital providers.

The following summarises how the directors have performed their duties during the period:-

#### ***Shareholders and other capital providers***

Following the 3 January 2019 acquisition of the Company by European Refreshments, a wholly owned subsidiary of The Coca-Cola Company, the directors have integrated the strategic, planning and corporate governance practices of the Company with those of The Coca-Cola Company and its wider group. The directors are excited about the opportunities presented by this and the positive impacts being forecasted for all stakeholders.

The Company has no long-term debt with other capital providers.

#### ***Employees***

The directors receive regular updates on matters relating to its workforce, including feedback from employee engagement surveys and health and safety reviews. These are taken in to consideration when considering organisational changes, employee remuneration and rewards and capital investments in store, operational and support service infrastructure.

The directors advocate passionately for diversity in the Company's workforce, in the knowledge that this diversity helps the business to thrive in the communities it serves.

## **COSTA LIMITED**

### **Strategic Report for the Financial Period Ended 31 December 2019 (continued)**

#### ***Customers and Suppliers***

As the operator of a global brand, the views of the Company's end consumers are very important. Consumer views on our brand, product quality, product delivery and value for money are regularly assessed by the directors, and are considered in product and supply chain planning, loyalty programs, store operating models and other areas.

Suppliers are regularly and robustly assessed for their standards and compliance with Costa Coffee supplier guiding principles, the details of which can be found in the responsible sourcing section of our website [www.costa.co.uk](http://www.costa.co.uk).

#### ***Community and environment***

The directors have implemented sustainability practices, planning and initiatives that operate with the guiding principle that to inspire the world to love great coffee, the business must respect the planet and support communities behind the coffee.

The Costa Coffee brand is a member of the Rainforest Alliance, has established the Costa Foundation and is working on numerous recycling, waste management and carbon footprint reduction initiatives, details of which can be found in the Behind the Beans section of our website [www.costa.co.uk](http://www.costa.co.uk).

#### ***Key Decisions***

The key decisions made during the period related principally to the approval of capital expenditure, entering into contracts for IT services and franchise agreements.

#### ***Capital Expenditure***

During the period the Company invested £27m on 84 new stores in the period either to be opened during the period or in the next financial periods. The Company approved the acquisition of the entire issued share capital of Cuppa-Cino Trading Limited. The Company also approved substantial investments in IT.

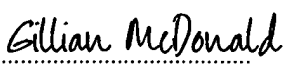
#### ***IT Service Contracts***

During the period the Company entered a new long-term contract for the provision of IT services following its separation from the systems operated by its former parent company Whitbread Group plc. The Company also entered a long-term contract for its new People Human Capital Management System.

#### ***Franchise Agreements***

During the period the Company renewed a number of significant franchise agreements with long established partners.

Approved by the Board on 23 December 2020 and signed on its behalf by:

  
.....  
G McDonald  
Director

## **COSTA LIMITED**

### **Directors' Report for the Financial Period Ended 31 December 2019**

Registered No. 1270695

The directors present their report and the financial statements for the period from 1 March 2019 to 31 December 2019.

#### **Directors of the Company**

The directors who held office during the year were as follows:

J Cotta (resigned 30 June 2019)

S Highfield (resigned 31 August 2020)

N Lake (appointed 18 June 2019)

G McDonald (appointed 2 December 2019)

K Seljeflot (resigned 11 March 2020)

D Paul (resigned 29 November 2019)

The following directors were appointed after the year end:

J Crookall (appointed 11 March 2020)

G Mowat (appointed 29 June 2020)

#### **Principal activity**

The principal activity of the Company during the year continued to be the production and sale of coffee. Coffee is sold through a chain of coffee shops, both owned and franchised, and to wholesale customers.

#### **Dividends**

During the period the Company did not declare or pay any dividend. In respect of the financial period ended 28 February 2019 a dividend of £281,339,000 was made to the former parent Whitbread Group PLC.

#### **Employment of disabled persons**

Costa has a range of employment policies covering such issues as diversity, employee wellbeing and equal opportunities. The Company takes its responsibilities to the disabled seriously and seeks not to discriminate under any circumstances (including in relation to training, career development and promotion) against current or prospective employees because of any disability or for any other reason. Fair and full consideration is given to applications for employment made by disabled persons, having regard to their aptitudes and abilities. Employees who become disabled during their career at Costa will be retained in employment wherever possible and given help with rehabilitation and training.

#### **Employee involvement**

The importance of good relations and communications with employees is fundamental to the continued success of our business. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate to its own needs. In addition, our employee opinion survey, 'Costa and Me', is conducted annually to provide insight into the views of employees.

## **COSTA LIMITED**

### **Directors' Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Employment Policies**

Costa has robust employment policies in place to ensure equality of opportunity for all employees and potential employees regardless of disability, age, diversity, gender, race, ethnicity, religion, pregnancies, married or civil partnership status and sexual orientation.

#### **Anti-bribery**

Costa has a zero-tolerance policy to bribery. There are training and ongoing assessments for employees giving them the clear understanding of areas with bribery risks and how to mitigate them. The Company has procedures and policies on how the Company engages with suppliers and other third-party contractors to prevent bribery.

#### **Modern Slavery Act**

The Company's Modern Slavery Act 2015 statement is reviewed by the board annually and published on the Company's website. Costa and its subsidiaries have necessary measures to ensure that policies and procedures on slavery and human trafficking are not being practiced in its supply chain. Please refer to the Company's website for further information.

#### **Future developments**

No significant future developments are expected.

#### **Events after the balance sheet date**

Shortly after the end of the financial period, the COVID-19 pandemic emerged as a major socio-economic and business event. The Company's strategic response to the pandemic is laid out in the Strategic Report

On 23rd March 2020 all Costa stores temporarily closed except for a small percentage supporting key workers were shut following government announcements. While stores were closed furlough was claimed from the government for those colleagues impacted and additional cost saving measures were put in place across marketing, IT and other discretionary cost lines. During the closure period Costa fitted all stores with protective screens, other appropriate PPE and redesigned stores to meet social distancing requirements. The number of stores that could use collect or delivery from our digital services was also significantly increased.

Our stores opened on a phased basis from May with the majority of stores open by August. Upon resumption of trade our Drive Thru estate showed strong performance as were the easiest channel for our customers to get their Costa products in a way which reflected the current consumer environment. Our participation of collect and delivery also increased from pre-COVID levels. Within the Express channel the majority of our machines traded throughout the lockdown period as petrol stations and convenience stores remained open, the machines traded robustly as one of the few ways to get a quality coffee.

The Group has continued to trade throughout 2020 using its cash reserves. The directors consider COVID-19 to be a non-adjusting event but it could have a material impact on the Group's turnover, asset recoverability and results for the year ending 31 December 2020.

There are no other post balance sheet events that would require an adjustment or disclosure in the financial statements.

#### **Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

## **COSTA LIMITED**

### **Directors' Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Going concern**

The Directors of Costa Limited have undertaken a thorough assessment of Costa Limited and its UK domiciled subsidiaries (the Group) financial forecasts to end of 2021, including the impact of COVID-19 in the UK. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited to its UK Domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. The Group has modelled downturn scenarios which have been detailed below that include mitigations reducing discretionary marketing and capital spend and, where appropriate, utilising government support for furloughed colleagues and deferring VAT and tax payments. As a result of the modelling, the Directors have deemed it appropriate to adopt the going-concern basis in the preparation of the financial statements of the Company for the financial period ended 31 December 2019.

The Group is funded by its operating profits and working capital improvements. As at 31 December 2019, the Group held a substantial cash balance of £317m and had no external borrowing. Despite the strong position of the Group's financial position, it has become clear that COVID-19 has introduced a significant amount of economic uncertainty in 2020 for the retail and hospitality sectors, which has impacted the Group's ability to generate revenue and profit. As at the date of signing, there remains no external debt facilities drawn down on by the Group and it still has a substantial cash balance. Should it be required, the Group could seek external debt, however, at present management have no plans or requirements to do so.

On 23 March 2020, the Group decided to close all its retail stores and drive thru lanes in the UK with the exception of c.60 stores in NHS hospitals which remained safely open. Many Express machines remained in operation as they are situated in 'essential' stores such as petrol stations. In April 2020, stores were slowly re-opening in the UK, initially with two drive thru stores on 22 April 2020 followed by 2 retail stores on 24 April 2020 offering delivery only. From May 2020 onwards further Drive thru lanes, delivery only stores and take-away only stores re-opened. The UK business model and main cash generating business unit has remained resilient to COVID-19 and as at the end of June 2020 over 1,100 stores were open. Eat-in options were available at c.1000 stores from 16 July 2020 onwards.

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.

In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

- The base case position was prepared which included management's assumptions and estimates formulated through experience of the March to June 2020 lockdown.
- Severe but plausible scenarios were prepared based on the above base case, which then included sensitivity analysis over revenues from July 2020 to December 2021.
- In addition, the Directors considered a stress test to determine the extent that revenue would need to decline throughout the forecast period for liquidity to be fully eroded.

The key sensitivities and mitigations reflected in the severe but plausible downside scenario are:

- Sales volumes reduced to approximately 80% of the base case scenario to 31 December 2021.
- Reduced Capital Expenditure and marketing spend: whilst the absolute value of spend was reduced versus plan, the Group is committed to its growth plan and is forecasting to continue to invest in capital expenditure primarily for Express Machines, retail stores and IT systems. However, if there is a further downturn in the market, the Group has the ability to reduce Capex and marketing expense by 50% and remain cash positive
- Government support by using the job retention scheme, taking advantage of business rate relief schemes and deferral of VAT and Tax payments

## **COSTA LIMITED**

### **Directors' Report for the Financial Period Ended 31 December 2019 (continued)**

#### **Going concern (continued)**

Whilst not reflected in the forecasts, the Directors noted that they could utilise an undrawn £30m overdraft facility as an additional mitigation if required.

After taking into consideration the circumstances described above, the financial statements have been prepared on the assumption that the Group is a going concern.

#### **Price risk, credit risk, liquidity risk and cash flow risk**

##### **Credit risk and impairment**

The Company is exposed to a small amount of credit risk attributable to its trade and other receivables. This is minimised by dealing with counterparties with good credit ratings. The amounts included in the balance sheet are net of expected credit losses, which have been estimated by management based on prior experience and any known factors at the balance sheet date. The Company's maximum exposure on its trade and other receivables is the carrying amount as disclosed in Note 15.

The Company minimises the risk of default in relation to cash and cash equivalents by spreading these deposits across a number of counterparties and dealing in accordance with The Coca-Cola Company Group Treasury Policy which specifies acceptable credit ratings and maximum investments for any counterparty.

##### **Foreign exchange risk**

Foreign exchange risk is currently not significant to the Company and is managed by The Coca-Cola Company Group Treasury team under its Group Treasury policy.

##### **Interest rate risk**

Interest rate risk is currently not significant to the Company and is managed by The Coca-Cola Company Group Treasury team under its Group Treasury policy.

##### **Liquidity risk**

Excess cash used in managing liquidity is placed on interest-bearing deposits and are managed by The Coca-Cola Company Group Treasury team under the Group Treasury policy.


##### **Capital risk management**

The Company's primary objective in regard to capital management is to ensure that it continues to operate as a going concern and has sufficient funds at its disposal to grow the business for the benefit of shareholders. The Company aims to maintain sufficient funds for working capital and future investment in order to meet growth targets.

#### **Appointment of auditors**

The Company reviews and makes recommendations each year in accordance with section 486 of the Companies Act 2006 with regards to the appointments of external auditors. Following the Annual General meeting Ernst & Young LLP were appointed as the external auditors with the effect from 2 March 2020.

Approved by the Board on 23 December 2020 and signed on its behalf by:

  
.....  
G McDonald  
Director

## **COSTA LIMITED**

### **Statement of Directors' Responsibilities**

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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



## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF COSTA LIMITED

### Opinion

We have audited the financial statements of Costa Limited for the period from 1 March 2019 to 31 December 2019, which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – Effects of COVID-19

We draw attention to the Directors' assessment of Going Concern, note 1 and 27 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19, which is impacting finances, supply chains, consumer demand and personnel available for work. Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern

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

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

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF COSTA LIMITED (continued)**

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

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

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF COSTA LIMITED  
(continued)**

**Use of our report**

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.

*Ernst & Young LLP*

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Anup Sodhi

(Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Luton

Date: 23 December 2020

**COSTA LIMITED****Income Statement for the 43 Weeks Ended 31 December 2019**

		<b>43 weeks ended 31 December 2019</b>	<b>52 weeks ended 28 February 2019</b>
	<b>Note</b>	<b>£ 000</b>	<b>£ 000</b>
Revenue	4	880,587	999,626
Operating costs		<u>(868,402)</u>	<u>(903,801)</u>
<b>Operating profit</b>	<b>5</b>	<b>12,185</b>	<b>95,825</b>
Finance income	7	1,560	5,389
Finance costs	8	<u>(8,409)</u>	<u>(76)</u>
<b>Profit before tax</b>		<b>5,336</b>	<b>101,138</b>
Tax expense	10	<u>(20,010)</u>	<u>(24,869)</u>
<b>(Loss)/profit for the period</b>		<b><u>(14,674)</u></b>	<b><u>76,269</u></b>

The above results were derived from continuing operations.

**COSTA LIMITED****Statement of Comprehensive Income for the Financial Period Ended 31 December 2019**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
(Loss)/profit for the period	<u>(14,674)</u>	<u>76,269</u>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Unrealised gain/(loss) on cash flow hedges before tax	401	(54)
Deferred tax on cash flow hedges	<u>(127)</u>	<u>215</u>
	<u>274</u>	<u>161</u>
<b>Total comprehensive income for the period</b>	<u><u>(14,400)</u></u>	<u><u>76,430</u></u>

**COSTA LIMITED****Statement of Financial Position**  
as at 31 December 2019

	<b>Note</b>	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	24,568	23,084
Property, plant and equipment	12	229,617	222,147
Right-of-use assets	13	471,179	-
Investments	14	114,413	145,172
Deferred tax assets	10	6,565	5,372
Other non-current financial asset	16	4,827	-
		<u>851,169</u>	<u>395,776</u>
<b>Current assets</b>			
Inventories	15	18,622	22,306
Trade and other receivables	16	110,413	225,133
Cash and cash equivalents		290,638	20,910
		<u>419,673</u>	<u>268,349</u>
<b>Total assets</b>		<b><u>1,270,842</u></b>	<b><u>664,125</u></b>
<b>Current liabilities</b>			
Current portion of long-term lease liabilities	23	90,562	-
Trade and other payables	18	303,456	165,392
Income tax liability	10	2,586	7,503
Deferred income		10,308	7,477
Provisions	19	-	1,200
Derivative financial instruments		-	401
		<u>406,912</u>	<u>181,973</u>
Long term lease liabilities	23	399,058	-
Provisions	19	-	7,450
		<u>399,058</u>	<u>7,450</u>
<b>Total liabilities</b>		<b><u>805,970</u></b>	<b><u>189,423</u></b>
<b>Net assets</b>		<b><u>464,872</u></b>	<b><u>474,702</u></b>
<b>Equity</b>			
Called-up share capital	20	91,258	91,258
Other reserves		122,440	117,469
Profit and loss account		251,174	265,975
<b>Total equity</b>		<b><u>464,872</u></b>	<b><u>474,702</u></b>

The notes on pages 23 to 62 form an integral part of these financial statements.

## **COSTA LIMITED**

### **Statement of Financial Position** as at 31 December 2019 (continued)

Approved by the Board on 23 December 2020 and signed on its behalf by:



G McDonald  
Director

Company number 1270695

**COSTA LIMITED****Statement of Changes in Equity for the Financial Period Ended 31 December 2019**

	<b>Called-up share capital £ 000</b>	<b>Other reserves £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total equity £ 000</b>
At 2 March 2018	67,817	(347)	470,830	538,300
Profit for the year	-	-	76,269	76,269
Other comprehensive income/ (loss)	-	(54)	215	161
Total comprehensive income/(loss)	-	(54)	76,484	76,430
Dividends	-	-	(281,339)	(281,339)
New share capital subscribed	23,441	-	-	23,441
Capital contribution	-	117,870	-	117,870
<b>At 28 February 2019</b>	<b>91,258</b>	<b>117,469</b>	<b>265,975</b>	<b>474,702</b>

	<b>Called-up share capital £ 000</b>	<b>Other reserves £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total equity £ 000</b>
At 1 March 2019	91,258	117,469	265,975	474,702
Loss for the year	-	-	(14,674)	(14,674)
Other comprehensive income/ (loss)	-	401	(127)	274
Total comprehensive income/(loss)	-	401	(14,801)	(14,400)
Employee share plan charge	-	4,393	-	4,393
Tax on employee share plans	-	177	-	177
<b>At 31 December 2019</b>	<b>91,258</b>	<b>122,440</b>	<b>251,174</b>	<b>464,872</b>

The notes on pages 23 to 62 form an integral part of these financial statements.



## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019**

#### **1 General information and basis of preparation**

The Company is a private company limited by share capital incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales.

The address of its registered office is:

Costa House,  
Houghton Hall Business Park,  
Porz Avenue, Houghton Regis,  
Dunstable,  
Bedfordshire  
LU5 5YG

These financial statements were authorised for issue by the Board on 23 December 2020.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards.

In the prior financial period, the Company prepared consolidated financial statements under International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRSs"), as it was unable to claim exemption from preparing group financial statements in that financial period, and prepared Company financial statements in accordance with FRS101.

In the current financial period, the Company claims the exemption from preparing consolidated financial statements under section 400 of the Companies Act 2006, as it is included in the group financial statements of The Coca-Cola Company, incorporated in Delaware, United States of America. These financial statements present information about the Company as an individual undertaking and not as a group.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). The financial statements have therefore been prepared in accordance with FRS 101.

The financial period represents 43 weeks to 31 December 2019 (prior financial period: 52 weeks to 28 February 2019). The Company is reporting a 43 weeks financial period ended 31 December 2019, to enable its period end to align with its controlling counterpart The Coca-Cola Company, which acquired the business in January 2019.

The financial statements are presented in pounds sterling, rounded to the nearest thousand.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **1 General information and basis of preparation (continued)**

##### **Going concern**

The Directors of Costa Limited have undertaken a thorough assessment of Costa Limited and its UK domiciled subsidiaries (the Group) financial forecasts to end of 2021, including the impact of COVID-19 in the UK. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited to its UK Domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. The Group has modelled downturn scenarios which have been detailed below that include mitigations reducing discretionary marketing and capital spend and, where appropriate, utilising government support for furloughed colleagues and deferring VAT and tax payments. As a result of the modelling, the Directors have deemed it appropriate to adopt the going-concern basis in the preparation of the financial statements of the Company for the financial period ended 31 December 2019.

The Group is funded by its operating profits and working capital improvements. As at 31 December 2019, the Group held a substantial cash balance of £317m and had no external borrowing. Despite the strong position of the Group's financial position, it has become clear that COVID-19 has introduced a significant amount of economic uncertainty in 2020 for the retail and hospitality sectors, which has impacted the Group's ability to generate revenue and profit. As at the date of signing, there remains no external debt facilities drawn down on by the Group and it still has a substantial cash balance. Should it be required, the Group could seek external debt, however, at present management have no plans or requirements to do so.

On 23 March 2020, the Group decided to close all its retail stores and drive thru lanes in the UK with the exception of c.60 stores in NHS hospitals which remained safely open. Many Express machines remained in operation as they are situated in 'essential' stores such as petrol stations. In April 2020, stores were slowly re-opening in the UK, initially with two drive thru stores on 22 April 2020 followed by 2 retail stores on 24 April 2020 offering delivery only. From May 2020 onwards further Drive thru lanes, delivery only stores and take-away only stores re-opened. The UK business model and main cash generating business unit has remained resilient to COVID-19 and as at the end of June 2020 over 1,100 stores were open. Eat-in options were available at c.1000 stores from 16 July 2020 onwards.

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.

In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

- The base case position was prepared which included management's assumptions and estimates formulated through experience of the March to June 2020 lockdown.
- Severe but plausible scenarios were prepared based on the above base case, which then included sensitivity analysis over revenues from July 2020 to December 2021.
- In addition, the Directors considered a stress test to determine the extent that revenue would need to decline throughout the forecast period for liquidity to be fully eroded.

The key sensitivities and mitigations reflected in the severe but plausible downside scenario are:

- Sales volumes reduced to approximately 80% of the base case scenario to 31 December 2021.
- Reduced Capital Expenditure and marketing spend: whilst the absolute value of spend was reduced versus plan, the Group is committed to its growth plan and is forecasting to continue to invest in capital expenditure primarily for Express Machines, retail stores and IT systems. However, if there is a further downturn in the market, the Group has the ability to reduce Capex and marketing expense by 50% and remain cash positive

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **1 General information and basis of preparation (continued)**

##### **Going concern (continued)**

- Government support by using the job retention scheme, taking advantage of business rate relief schemes and deferral of VAT and Tax payments

Whilst not reflected in the forecasts, the Directors noted that they could utilise an undrawn £30m overdraft facility as an additional mitigation if required.

After taking into consideration the circumstances described above, the financial statements have been prepared on the assumption that the Group is a going concern.

#### **2 Accounting policies**

##### **Summary of disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IAS 7 Statement of Cash Flows;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- (d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- (e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (i) the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total; and
- (j) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
- (k) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Changes resulting from adoption of IFRS 16**

IFRS 16 Leases became mandatorily effective under FRS101 for financial periods beginning on or after 1 January 2019. The Company has applied this for the first time in this accounting period which resulted in changes to the accounting policies.

The Company transitioned to IFRS 16 using the modified retrospective approach and as a result the cumulative effect of initial application is recognised in retained earnings at 1 March 2019. The prior period figures were not adjusted. On adoption of IFRS 16, the Company elected to apply the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 March 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases under IAS 17, except for short-term leases and leases of low value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the short-term lease exemptions to leases with a lease term not exceeding 12 months from the date of initial application;
- Applied the low-value assets recognition exemption;
- Relied on its assessment of whether the leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from measurement of the right-of-use assets at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

No adjustments are required on transition to IFRS 16 for leases where the Company acts as a lessor, except for a sub-lease. A reassessment of the classification of a sub-lease is required under IFRS 16.

The impact on the balance sheet as at the 1 March 2019 date of transition is as follows:

	<b>£ 000</b>
Right-of-use assets	474,890
Lease receivables	5,192
Prepayments	(4,686)
Lease liabilities	(498,089)
Accruals	18,126
Onerous contracts	6,232

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****2 Accounting policies (continued)**

The effect of adoption of IFRS 16 as at 1 March 2019 is as follows:

	<b>As originally reported 28 February 2019 £ 000</b>
<b>Note</b>	
Operating lease commitments at 28 February 2019	<u>407,686</u>
Discounted operating lease commitments using the weighted average incremental borrowing rate 2.24 % at 1 March 2019	384,868
Recognition exemption for short-term leases	(5,568)
Adjustment to 28 February 2019 operating lease commitments (*)	36,740
Extension and termination option reasonably certain to be exercised	<u>82,049</u>
<b>Lease liabilities recognised at 1 March 2019</b>	<b><u>498,089</u></b>

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 March 2019.

(\*) Following a review of the Company's lease portfolio on transition to IFRS16 lease accounting, the operating lease commitment disclosed in the prior period note was restated to include leases with the contractual commitment of £41.1m, which after discounting at the incremental borrowing rate is £36.7m. The restatement was required as previous leases for properties and motor vehicle leases were not included in the operating lease commitment note and as the leasing standard was implemented, the completeness of the lease portfolio was reviewed that resulted in further leases being included.

None of the other standards, interpretations and amendments effective for the first time from 1 March 2019 have had a material effect on the financial statements.

**Revenue recognition***Recognition*

The Company earns revenue from the sale of revenue from the sale of food, beverages and merchandise is recognised at the point of sale, with the exception of wholesale transactions which are recognised on delivery. This revenue is recognised in the accounting period when control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The following 5 step principles are applied to revenue recognition:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### *Sale of food and beverage*

The contract is established when the customer orders the food or drink item and the performance obligation is the provision of food and drink by the outlet. The performance obligation is satisfied when the food and drink is delivered to the customer, and revenue is recognised at this point at the price for the items purchased. Payment is made on the same day and consequently there are no contract assets or liabilities.

##### *Franchise fees, territory fees*

The contract is the signed franchise agreement with the franchise partner. The performance obligation is the agreement not to open other stores within the territory and the right to use Costa intellectual property, and the fee % agreed in the contract is the transaction price. The performance obligation is satisfied and invoiced on a monthly basis.

##### **Finance income and finance costs**

Finance income is recognised as the interest accrues, using the effective interest method.

Finance costs are recognised as an expense in the period in which they are incurred; except for gross interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

##### **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

##### **Tax**

The income tax charge represents both the income tax payable, based on profit for the year and deferred income tax.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

Deferred income tax is recognised in full, using the liability method, in respect of temporary differences between the tax base of the Company's assets and liabilities and their carrying amounts that have originated but have not been reversed by the balance sheet date. No deferred tax is recognised if the temporary difference arises from goodwill, or the initial recognition of an asset or liability, in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, except 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.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

#### **Intangible assets**

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Research and development costs are incurred through the development of software used within 'the Costa Group'. These costs are capitalised as internally generated software development costs within intangible assets and are amortised over its estimated useful life of five years.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable, or arises from contractual or other legal rights, and its fair value can be measured reliably.

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

- trading licenses have an indefinite life;
- reacquired franchise rights are amortised over the life of the acquired franchise agreement;
- IT software and technology is amortised over periods of three to ten years;
- acquired customer relationships are amortised over 15 years; and
- operating rights agreements are amortised over the life of the contract.

#### **Amortisation**

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Internally generated software development costs	Over estimated useful life of five years
Trademarks	Indefinite useful life hence not amortised

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Gross interest costs incurred on the financing of qualifying assets are capitalised until the time that the assets are available for use.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the values of property, plant and equipment is charged to the income statement.

Profits and losses on disposal of property, plant and equipment reflect the difference between net selling price and carrying amount at the date of disposal and are recognised in the income

Payments made on entering into, or acquiring, leaseholds that are accounted for as operating leases are amortised on a straight-line basis over the lease term.

#### **Depreciation**

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as shown below. The residual values are reviewed annually.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

<b>Asset class</b>	<b>Depreciation method and rate</b>
Land & buildings	Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years
Furniture, fittings & equipment	Over 3 to 30 years
Short-term leasehold property	Over the period of the lease
Plant and equipment	Over 4 to 7 years

#### **Provision for liabilities**

Trade Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade Payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

#### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **Provisions**

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to 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 liability. The amortisation of the discount is recognised as a finance cost.

#### **Leases prior to 1 March 2019**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental costs over the lease term.



## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Leases effective 1 March 2019**

###### *Definition*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At the commencement date a lessee recognises a right-of-use asset and a lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

###### *Initial recognition and measurement*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Initial recognition and measurement (continued)**

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are separately identifiable on the statement of financial position, the detail of which is in note 13.

##### *Subsequent measurement*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses.

##### *Sub leases*

If an underlying asset is re-leased by the Company to a third party and the Company retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The Company continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to Lessor Accounting in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease). After classification lessor accounting is applied to the sublease.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment**

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped, for impairment assessment purposes, at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units or CGUs). If such indication of impairment exists, or when annual impairment testing for an asset group is required, the Company makes an estimate of the recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 9 (Year ending 28 February: 2019:10.4). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.29%, (Year ending 28 February: 7.00%) which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined with reference to the CGU to which the asset belongs or an impairment is recognised if the asset is no longer in use. Impairment losses are recognised in the consolidated income statement within operating costs.

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 an indication exists, the CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimated future cashflows 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 income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's carrying amount, less any residual value, on a straight-line basis over its remaining useful life.

For the purposes of impairment testing, all centrally held assets are allocated in line with IAS 36 to CGUs based on management's view of the consumption of the asset. Any resulting impairment is recorded against the centrally held asset.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Dividends**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

##### **Defined contribution pension obligation**

Employees of the Company are entitled to participate in a contracted-in defined contribution pension scheme operated by the Company. Contributions to the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are managed independently to the finances of the Company.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial instruments**

###### **Initial recognition**

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding Property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the Company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

###### **Classification and measurement**

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the Company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

##### **Financial assets at fair value through the profit or loss (FVTPL)**

Financial assets not otherwise classified above are classified and measured as FVTPL.

##### **Financial liabilities at amortised cost**

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

##### **Financial liabilities at fair value through the profit or loss**

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

#### **Modification of financial assets and financial liabilities**

##### *Financial assets*

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### *Financial liabilities*

If the terms of a financial liabilities are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the Company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

##### **Impairment of financial assets**

###### *Measurement of Expected Credit Losses*

The Company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition, but they are not credit-impaired, the Company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the Company recognises the lifetime ECL.

The Company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company or economic conditions that correlate with defaults in the Company

For trade receivables, the Company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Derivatives and hedging**

The Company enters into derivative transactions to manage its exposure to foreign exchange risks.

Derivatives are recognised initially at fair value on the date the contract is entered into and subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designed and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both the legal right and intention to offset.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Company designates hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. The Company documents whether the hedging instrument is effective in offsetting the hedged risk, by confirming that:

- There is an economic relationship between the hedged item and the hedging instrument
- The effect of credit risk does not dominate the value changes that result from that economic relationship
- The planned ratio of hedge: hedge item is the same as the actual ratio of hedge: hedge item

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognised in other comprehensive income and accumulated under the cash flow hedging reserve. Any gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss.

The Company discontinues hedge accounting when the hedge relationship ceases to meet the qualifying criteria, or when the hedging instrument expires, is sold, terminated or exercised.

Any gain or loss recognised in other comprehensive income and the accumulated cash flow hedge reserve remains in equity and is reclassified to profit or loss.

Gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

##### **Intangible assets**

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable, or arises from contractual or other legal rights, and its fair value can be measured reliably.



## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Cost is the fair value of the consideration given, including acquisition charges associated with the investment.

##### **Trade and other Receivables**

Trade Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as Non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Impairment of trade receivables is accounted for as per the requirements of IFRS9.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs to sell.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported as assets and liabilities at the balance sheet date and the amounts reported as revenues and expenses during the year. Although these amounts are based on management's best estimates, events or actions may mean that actual results ultimately differ from those estimates, and these differences may be material. The estimates and the underlying assumptions are reviewed regularly.

The following are the key judgements, apart from those involving estimations (dealt with separately below) that management have made in the process of applying the Company's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Impairment**

Impairment tests of property, plant and equipment, intangible assets, investments in subsidiaries and amounts owed by related parties are conducted each financial period. In these impairment tests, the carrying value of assets are compared with estimates of their value in use or recoverable amount. In forming these valuation estimates assumptions are applied, in particular in assessing future cash flow generation from value in use, discounting those future cash flow estimates and FVLCTS.

The judgements and estimates underlying impairment testing have resulted in property, plant and equipment being impaired by £1,150,000 in the period (52 weeks ended 28 February 2019: £5,315,000); intangibles assets being impaired by £284,000 in the period (52 weeks ended 28 February 2019: £Nil); investments in subsidiaries being impaired by £32,249,000 in the period (52 weeks ended 28 February 2019: £935,000); and provisions against amounts owed by related parties of £36,290,000 being recognised in the period (52 weeks ended 28 February 2019: £Nil).

##### **Onerous contracts provisions**

Judgement involving estimates issued in determining the value of provisions carried for onerous contracts. This is primarily based around assumptions on rent and property-related costs for the period the property is vacant as well as assumptions of future rental incomes or potential reverse lease premiums paid. Note 20 provides details of the value of the provisions carried.

##### **Determining the lease term of contracts with renewal and termination options**

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****4 Revenue**

The analysis of the Company's turnover for the period from continuing operations is as follows:

	<b>Year ended 31 December 2019 £ 000</b>	<b>Year ended 28 February 2019 £ 000</b>
Sale of goods	852,955	966,786
Franchise fees	27,632	32,840
	<u>880,587</u>	<u>999,626</u>

All revenue is generated within the UK.

**5 Operating profit**

Arrived at after charging/(crediting)

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Depreciation expense	43,363	46,479
Right-of-use motor vehicle asset depreciation	2,225	-
Right-of-use property asset depreciation	67,932	-
Impairment of property, plant and equipment	1,150	5,315
Impairment of right-of-use assets	2,297	-
Impairment of intangible assets	284	-
Foreign exchange (gains)/losses	(140)	264
Amortisation expense	4,860	4,378
Provision charges	-	939
Impairment of investments	32,249	935
Operating lease expense - short term leases	8,728	-
Operating lease expense - property	-	102,665
Operating lease expense - plant and machinery	-	993
Sub lease income(Profit)/Loss on disposal of property, plant and equipment	-	(165)
(Profit)/Loss on disposal of property, plant and equipment	(830)	(193)
(Profit)/Loss on disposal of intangible assets	-	(94)
Provision for amounts owed by related parties	<u>46,962</u>	<u>-</u>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****6 (a) Staff costs**

The aggregate payroll costs (including directors' remuneration) were as follows:

	<b>43 weeks ended</b>	<b>52 weeks ended</b>
	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
Wages and salaries	218,680	247,210
Social security costs	13,867	15,049
Pension costs, defined contribution scheme	4,191	3,393
	<b>236,738</b>	<b>265,652</b>

The average number of persons employed by the Company (including directors) during the year was as follows:

	<b>Year ended 31 December 2019 No.</b>	<b>Year ended 28 February 2019 No.</b>
Number of employees	<b>16,932</b>	<b>16,647</b>

**6 (b) Directors Remuneration**

	<b>43 Weeks Ended</b>	<b>52 Weeks Ended</b>
	<b>31 December 2019 £'000</b>	<b>28 February 2019 £'000</b>
Directors remuneration	2,933	3,965
Defined contribution scheme and cash in lieu of pension contributions	228	387
Share based awards	-	5,772
	<b>3,161</b>	<b>10,124</b>
The highest paid key management personnel received	<b>975</b>	<b>1,744</b>

No share-based award payments were made in the period, however employee share plan charges £2,715,000, (28 February 2019: £nil) were charged to equity in the period

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****7 Finance income**

	<b>43 weeks ended 1 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Interest income on bank deposits	1,508	21
Other interest receivable	52	5,368
	<b>1,560</b>	<b>5,389</b>

Interest has not accrued on amounts owed by group undertakings since 3 January 2019, as further detailed in note 16

**8 Finance costs**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Other finance costs	-	76
Interest expense on leases	8,409	-
	<b>8,409</b>	<b>76</b>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****9 Auditors' remuneration**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Audit of the financial statements	<u>1,429</u>	<u>31</u>

**10 Taxation**

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Tax charged/(credited) in the income statement		
<b>Current taxation</b>		
UK corporation tax	21,239	24,905
UK corporation tax adjustment to prior periods	<u>(84)</u>	<u>(106)</u>
	<u>21,155</u>	<u>24,799</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(1,378)	(122)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>233</u>	<u>192</u>
Total deferred taxation	<u>(1,145)</u>	<u>70</u>
<b>Tax expense in the income statement</b>	<u><b>20,010</b></u>	<u><b>24,869</b></u>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****10 Taxation (continued)**

The tax on profit before tax for the period is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	<b>43 weeks ended 31 December 2019 £ 000</b>	<b>52 weeks ended 28 February 2019 £ 000</b>
Profit before tax	5,336	101,139
Corporation tax at standard rate	1,014	19,216
Increase from effect of expenses not deductible in determining taxable profit	4,269	5,553
Increase from effect of provisions against loans to group companies	8,876	-
Increase from impairment from investments in subsidiaries	5,520	-
Decrease in current tax and deferred tax from adjustment for prior periods	149	87
Increase in closing deferred tax to average rate of 19.00%	182	14
<b>Total tax charge</b>	<b>20,010</b>	<b>24,869</b>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****10 Taxation (continued)****Deferred tax**

Deferred tax movement during the prior period:

	<b>At 2 March 2018 £ 000</b>	<b>Recognised in income £ 000</b>	<b>At 28 February 2019 £ 000</b>
Accelerated tax depreciation	5,383	(70)	5,313
Revaluation of cash flow hedges	59	-	59
	<u>5,442</u>	<u>(70)</u>	<u>5,372</u>

Deferred tax movement during the current period:

	<b>At 1 March 2019 £ 000</b>	<b>Recognised in income £ 000</b>	<b>Recognised in other comprehensive income £ 000</b>	<b>Recognised in equity £ 000</b>	<b>At 31 December 2019 £ 000</b>
Accelerated tax depreciation	5,313	398	-	-	5,711
Revaluation of cash flow hedges	59	-	(127)	-	(68)
Share-based payments	-	745	-	177	922
Net tax assets/(liabilities)	<u>5,372</u>	<u>1,143</u>	<u>(127)</u>	<u>177</u>	<u>6,565</u>

The main UK corporation tax rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent. This change was enacted after the balance sheet date. The effect of this change is to increase the net deferred tax asset balance from £6,565,637 to £7,338,066.



**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****11 Intangible assets**

	<b>Trademarks £ 000</b>	<b>Internally generated software £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>			
At 1 March 2019	40	33,514	33,554
Additions	-	6,630	6,630
Disposals	-	(4,416)	(4,416)
At 31 December 2019	40	35,728	35,768
<b>Amortisation</b>			
At 1 March 2019	-	10,470	10,470
Amortisation charge	-	4,860	4,860
Impairment	-	284	284
Eliminated on disposals	-	(4,414)	(4,414)
At 31 December 2019	-	11,200	11,200
<b>Carrying amount</b>			
At 31 December 2019	40	24,528	24,568
At 28 February 2019	40	23,044	23,084
<b>Cost or valuation</b>			
At 1 March 2018	871	24,920	25,791
Additions	-	10,806	10,806
Disposals	(831)	(2,212)	(3,043)
At 28 February 2019	40	33,514	33,554
<b>Amortisation</b>			
At 1 March 2019	816	8,413	9,229
Amortisation charge	-	4,378	4,378
Impairment	-	-	-
Eliminated on disposals	(816)	(2,321)	(3,137)
At 28 February 2019	-	10,470	10,470
<b>Carrying amount</b>			
At 28 February 2019	40	23,044	23,084
At 28 February 2018	55	16,507	16,562

The impairment of £284,000 relates to internally generated software which reduces their carrying value of these assets to their recoverable amount.

Included within internally generated software costs at 31 December 2019 was an amount of £2,838,824 (28 February 2019: £1,406,843) relating to internally generated software and development costs in the course of construction.

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****12 Property, plant and equipment**

	<b>Land and buildings £ 000</b>	<b>Furniture, fittings and equipment £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>			
At 1 March 2019	128,256	279,733	407,989
Additions	12,044	40,271	52,315
Disposals	(947)	(2,372)	(3,319)
Transfers	2,019	(2,019)	-
At 31 December 2019	141,372	315,612	456,984
<b>Depreciation</b>			
At 1 March 2019	49,988	135,854	185,842
Charge for the period	12,122	31,241	43,363
Eliminated on disposals	(886)	(2,102)	(2,988)
Impairment	8	1,142	1,150
Transfers	424	(424)	-
At 31 December 2019	61,656	165,711	227,367
<b>Carrying amount</b>			
At 31 December 2019	79,716	149,901	229,617
At 28 February 2019	78,268	143,879	222,147
<b>Cost or valuation</b>			
At 1 March 2018	132,365	239,935	372,300
Additions	17,047	47,726	64,773
Disposals	(8,267)	(20,817)	(29,084)
Transfers	(12,889)	12,889	-
At 28 February 2019	128,256	279,733	407,989
<b>Depreciation</b>			
At 1 March 2018	44,719	115,832	160,551
Charge for the period	9,854	36,625	46,479
Eliminated on disposals	(4,585)	(21,918)	(26,503)
Impairment	-	5,315	5,315
At 28 February 2019	49,988	135,854	185,842
<b>Carrying amount</b>			
At 28 February 2019	78,268	143,879	222,147
At 28 February 2018	87,645	124,104	211,749

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****12 Property, plant and equipment (continued)**

The £8,000 impairment of land and buildings and £696,000 of the furniture fittings and equipment relates to assets that are no longer in use. The remaining £446,000 results from the assessment CGUs in which the recoverable amount of the CGU is the greater of its fair value less the costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 9 (Year ending 28 February 2019: 10.4). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.29% (Year ending 28 February 2019: 7.00%).

Included within property, plant and equipment at 31 December 2019 was an amount of £12,959,856 (28 February 2019: £31,761,966) relating to expenditure for leasehold improvements and new store openings in the course of construction.

<b>13 Right-of-use assets</b>	<b>Motor vehicles £ 000</b>	<b>Property £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>			
At 1 March 2019	6,064	468,826	474,890
Additions	1,370	68,377	69,747
Disposals	-	(1,327)	(1,327)
At 31 December 2019	7,434	535,876	543,310
<b>Depreciation</b>			
Charge for the period	2,225	67,932	70,157
Eliminated on disposal	-	(323)	(323)
Impairment	-	2,297	2,297
At 31 December 2019	2,225	69,906	72,131
<b>Carrying amount</b>			
At 31 December 2019	5,209	465,970	471,179

The impairment of £2,297,000 results from the assessment of CGUs (determined as being a leased property) in which the recoverable amount of the CGU is the greater of its fair value less the costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 9 (Year ending 28 February 2019: 10.4). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.29% (Year ending 28 February 2019: 7.00%).

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****14 Investments**

<b>Investments in Subsidiaries</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>	
At 2 March 2018	118,598
Additions	27,509
Impairment charge	(935)
<b>At 28 February 2019</b>	<b>145,172</b>
Additions	1,490
Impairment charge	(32,249)
<b>At 31 December 2019</b>	<b>114,413</b>

In the prior financial period, the Company increased its investment in Costa International Limited to fund the buy-out of the joint venture operation in Shanghai and provide additional funding to its overseas subsidiaries.

In the current financial period, the Company acquired the entire issued share capital of Cuppa-Cino Trading Limited for a consideration of £1,490,000.

In the current financial period, the Company recognised impairment charges against its investments in Coffeeheaven International Limited, Costa Coffee Polska S.A. and Costa Express GmbH amounting to £32,249,000.

In the prior financial period, the Company recognised impairment charges against its investments in Costa Singapore Private Limited and Costa Express Canada Limited amounting to £935,000.

Details of the directly held investments in subsidiaries as at 31 December 2019 are as follows:

<b>Name of subsidiary</b>	<b>Principal activity</b>	<b>Country of incorporation, principal place of business and registered office</b>	<b>Proportion of ownership interest and voting rights held</b>	
			<b>31 December 2019</b>	<b>February 2019</b>
Coffeeheaven International Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%
Costa Catering Management (Shanghai) Co. Ltd	Catering Management	China Room 3002, ICP, No 1318 North Sichuan Road, Hongkou District, Shanghai, 200080, China.	100%	100%

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)**

Life Coffee Cafes Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%
Costa Coffee India Private Limited	Franchise business	India Unit No. 216, Second floor at Square one, c-2 district centre, Saket, New Delhi, 110017, India	100%	100%
Costa Coffee Polska SA	Operator of coffee shops	Poland Chłodna 52, 00-872 Warsaw, Poland.	100%	100%
Costa Denmark ApS	Operator of coffee shops	Denmark c/o TMF Denmark A/S, Bredgade 6, 1, 1260 Copenhagen, Copenhagen, Denmark.	0%	100%
Costa Express Holdings Limited	Holding company	England Knaves Beach, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR	100%	100%
Costa Express Malaysia Sdn Bhd.	Operator of branded coffee machines	Malaysia TMF Administrative Services Malaysia Sdn. Bhd., 10th Floor, Menara Hap Seng, No.1 & 3 Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia	100%	100%
Costa France SAS	Operator of coffee shops	France 52 rue de la Victorie 75009, Paris, France	100%	100%
Costa International Limited	Franchise business	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)**

Costa Singapore Private Limited	Operator of coffee shops	Singapore 38 Beach Road, #29-11 South Beach Tower, Singapore, 189767, Singapore	100%	100%
Costa Express GmbH	The installation, supply and distribution of beverage machines of the Costa Coffee Group including the sale of espresso based coffee and other beverages.	Germany Ecos office centre eschborn HS Buro und Service GmbH Mergenthalerallee 10-12 65760 Eschborn Germany	100%	100%
Cuppa-Cino Trading Limited	Leaseholder of train platform kiosks	England Costa House, Houghton Hall Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	100%	0%
Costa Trading (Shanghai) Co. Ltd	Food and beverage management and operation of retail coffee shops	Room 705B, Auxiliary Building, No. 205 South Maoming Road, Shanghai, Huangpu District	100%	0%

**15 Inventories**

	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
Raw materials and consumables	4,328	7,909
Finished goods and goods for resale	14,294	14,397
	<b>18,622</b>	<b>22,306</b>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****16 Trade and other receivables**

	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
Trade receivables	39,749	45,600
Provision for impairment of trade receivables	(482)	(335)
Net trade receivables	39,267	45,265
Amounts owed to related parties	49,356	155,139
Prepayments and accrued income	9,904	11,536
Other receivables	11,886	13,193
<b>Total current trade and other receivables</b>	<b>110,413</b>	<b>225,133</b>
Lease receivables	4,827	-
<b>Total current and non-current receivables and other receivables</b>	<b>115,240</b>	<b>225,133</b>

During the period, the Company recognised a provision against amounts owed by related parties of £46,962,000. Amounts owed by related parties are repayable on demand and, prior to 3 January 2019, were subject to a compounding quarterly interest charge. No interest has been charged on the balances since 3 January 2019, whilst the Costa Group, of which the Company is a member, carries out a review of its intercompany lending arrangements following its acquisition by The Coca-Cola Company.

**17 Derivative financial instruments**

	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
<b>Current financial liabilities</b>		
Derivatives used for hedging - forward coffee contracts	-	(401)

**18 Trade and other creditors**

	<b>31 December 2019 £ 000</b>	<b>28 February 2019 £ 000</b>
Trade payables	43,788	18,796
Accrued expenses	74,378	98,315
Amounts due to related parties	141,287	14,994
Social security and other taxes	34,247	21,394
Other payables	9,756	11,893
	303,456	165,392

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****19 Other provisions**

	<b>Onerous contracts £ 000</b>	<b>Other provisions £ 000</b>	<b>Total £ 000</b>
At 1 March 2019	1,222	1,196	2,418
Provisions used	<u>(1,222)</u>	<u>(1,196)</u>	<u>(2,418)</u>
At 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>

The opening balance at 1 March 2019 has been reduced by £6,232,000 to reflect the impact of adopting IFRS 16, as detailed in note 2.

**Onerous contracts**

Onerous contract provisions relate primarily to property reversions. Provision is made for rent and other property related costs for the period that a sublet or assignment of the lease is not possible. Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium on the assignment.

Onerous leases are discounted using a discount rate of 3.74% (2019: 3.74%) based on an approximation for the time value of money.

**Other provisions**

Other provisions relate to restructuring that has been recognised as a result of the Company's decision to reorganise its support centre operations.



**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****20 Share capital****Allotted, called-up and fully paid shares**

	<b>31 December 2019</b>		<b>28 February 2019</b>	
	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
Ordinary of £1 each of £1 each	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>

**21 Pension and other Schemes – Defined contribution scheme**

The Company operates a contracted-in defined contribution scheme under 'The Costa Coffee Retirement Plan'. Contributions by both employees and Group companies are held in externally invested, trustee-administered funds.

The Company contributes a specified percentage of earnings for members of the above defined contribution scheme, and thereafter has no further obligations in relation to the scheme.

The total cost charged to the income statement in relation to the defined contribution scheme for the period amounted to £4,191,859 (52 weeks ended 28 February 2019: £3,392,950).

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019****21 Share-based payments (continued)**

Following the 3 January 2019 acquisition of the Company by European Refreshments, a wholly owned subsidiary of The Coca-Cola Company, the Compensation Committee of The Coca-Cola Company established performance share and restricted stock plans for some of the Company's senior employees. Under these plans, awards are approved and granted at the discretion of the Compensation Committee of The Coca-Cola Company and on exercising will be entirely equity settled in shares of The Coca-Cola Company with no exercise price payable by employees. The awards are subject to certain performance targets being achieved and the fulfilment of certain employee service periods. Upon vesting the awards are no longer subject to a risk of forfeiture. Most of the awards provide for immediate vesting in the event of death, but not accelerated vesting upon retirement.

The plans fall in to four categories, referred to as "Buyout – Annuals Awards", "Buyout – Restricted Annual Awards", "Retention Share Awards" and "Annual Incentive Awards".

The recharge to the Company from The Coca-Cola Company in respect of the share plans during the financial period ended 31 December 2019 was £4.4m (financial period ended 28 February 2019 £0.0m). The Company is recharged on a straight-line basis over the substantive vesting period of the awards. In determining the recharge, awards are valued at the closing trading value of shares on the date of grant. Whilst the awards are subject to certain performance conditions and the fulfilment of certain employee service periods, these are not market based performance conditions as defined under IFRS 2, and as such are not included in grant date fair value measurement. Instead, these factors are considered by adjusting the number of awards included in the share-based payment recharge, such that by the end of the vesting period the cumulative recharge will account for only the awards that vest. Low forfeiture and death in service rates have so far been assumed up to 31 December 2019.

No awards vested or were exercised in the financial period ended 31 December 2019, and no awards were forfeited through employees leaving or through performance conditions not being met, so the same number of share awards remain outstanding as at 31 December 2019, a summary of the share awards are below:

Share Award	Grant Price	Total Number of Shares	Vesting Period	
Buyout - Annual Award	\$48.38	61,189	50% 50%	2020 2021
Buyout - Restricted Annual Award	\$48.38	114,259	50% 50%	2020 2021
Retention Share Award Plan	\$48.38	61,495	91% 9%	2020 2021
Annual 2019 Award	\$47.44	76,695	100%	2021

All previous share and share option plans established by the Whitbread Remuneration Committee in relation to shares in Whitbread Group PLC were closed following the acquisition by The Coca-Cola Company. The recharge to the Company from Whitbread Group PLC in respect of the share and share option plans it previously had in place for the Company's employees during the financial period ended 31 December 2019 was £Nil (period ended 28 February 2019 £Nil).

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **22 Leases**

The Company has lease contracts for various items of stores, plant, machinery, vehicles and other equipment used in its operations.

Leases of plant, machinery and equipment generally have lease terms of less than 12 months or are low value leases.

Leases of motor vehicles generally have lease terms between 3 and 5 years. Store property leases generally have lease terms up to 22 years. Some of these leases include extension and termination options, variable lease payments, lease incentives and contingent rents.

The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios. The Company does, however, sub-let space in some of its leased property portfolio.

#### **Lease accounting prior to 1 March 2019**

In the prior financial period, the Company's leases and sub-leases were all accounted for as operating leases, where rental payments are charged or credited to operating profit on a straight-line basis over the life of the lease.

The amount recognised as operating lease expense in the prior financial period was £103,658,000 and the amount recognised as sub-lease operating lease income was £164,512, as detailed in note 5.

At 28 February 2019, the Company had the following future minimum lease payment commitments under non-cancellable operating leases:

	<b>As previously stated £ 000</b>	<b>Restatement £ 000</b>	<b>As restated £ 000</b>
Within one year	84,168	6,733	90,901
In two to five years	221,503	20,079	241,582
In over five years	102,015	14,256	116,271
	<u>407,686</u>	<u>41,068</u>	<u>448,754</u>

Following a review of the Company's lease portfolio on transition to IFRS 16 lease accounting, the operating lease commitment disclosed in the prior year was restated to include leases with an undiscounted contractual commitment of £41.1m. The restatement was required to correct previously excluded leased properties and motor vehicles in the operating lease commitment note and as the leasing standard was implemented, the completeness of the lease portfolio was reviewed that resulted in further leases being included

At 31 December 2019, the Company had £nil (Year to 28 February 2019: £1,764,361) of future minimum sub-lease income committed to it under non-cancellable operating leases as payments due from the sublessors are recognised in the lease receivable under IFRS16.

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****23 Leases (continued)****Lease accounting from 1 March 2019**

In the current financial period, the Company has applied IFRS 16 lease accounting.

The Company has applied the 'short-term lease' and 'lease of low-value assets' recognition exemptions under IFRS 16 for its leases of plant, machinery and equipment, which have lease terms of less than 12 months or are low value leases.

Note 13 details the accounting of right-of-use assets in the financial period following their recognition on adoption of IFRS 16 on 1 March 2019.

The accounting of lease liabilities in the financial period following their recognition on adoption of IFRS 16 on 1 March 2019 is as follows:

**Leases liabilities**

	<b>43 weeks ended 31 December 2019 £ 000</b>
As at 1 March 2019	498,089
Additions	69,471
Interest expense	8,409
Payments	(85,346)
Modifications	(1,004)
<b>As at 31 December 2019</b>	<b>489,619</b>
Current portion of long-term lease liabilities	90,562
Long term lease liabilities	399,058

A summary of the amounts recognized in profit and loss in the current financial period following adoption of IFRS 16 on 1 March 2019 is as follows:

**Amounts recognised in profit and loss**

	<b>43 weeks ended 31 December 2019 £ 000</b>
Depreciation of right-of-use property	67,932
Depreciation of right-of-use motor vehicles	2,225
Interest expense on lease liabilities	8,409
Expense on short term leases (included in operating costs)	8,728
Turnover rent	7,736
<b>Total amount recognised in profit and loss</b>	<b>95,030</b>

**COSTA LIMITED****Notes to the Financial Statements for the Financial Period Ended 31 December 2019  
(continued)****23 Leases (continued)****Cashflow**

The Company had total cash outflow of £93,082,000 in relation to leases in the current financial period.

**Variable lease payments based on sales**

Some leases of retail stores contain variable lease payments that are based on sales that the Company makes in store. The following provides information on the Company's variable lease payments, including the magnitude in relation to fixed payments for the period ended 31 December 2019:

£'000	Fixed payments	Variable payments (based on sales)	Total payments
Lease with payments based on sales	15,502	7,736	23,238

The estimated annual impact on total payments of a 5% increase in sales would be of £ 1,402,000.

**Extension and termination option**

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within 5 years £ 000	More than 5 years £ 000	Total £ 000
Extension options expected not to be exercised	-	34	34
Termination options expected to be exercised	30	771	801
	<u>30</u>	<u>805</u>	<u>835</u>

**Leases commencing in the future**

The Company has various lease contracts that will commence after 31 December 2019. The future lease payments for these non-cancellable lease contracts are £1,203,100 within one year, £20,296,257 within five years and £38,371,891 thereafter.

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **24 Related party transactions**

The Company is a wholly owned subsidiary of The Coca-Cola Company, the ultimate controlling entity, and has taken advantage of the exemption given in Financial Reporting Standard 101 (8(k)) not to disclose transactions with other group companies.

#### **25 Parent of group in whose consolidated financial statements the Company is consolidated**

The name of the parent of the group in whose consolidated financial statements the Company's financial statements are consolidated is The Coca-Cola Company.

These financial statements are available upon request from The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

#### **26 Parent and ultimate parent undertaking**

The Company's immediate parent is European Refreshments.

The ultimate parent is The Coca-Cola Company.

#### **Relationship between entity and parents**

The parent of the largest group in which these financial statements are consolidated is The Coca-Cola Company, incorporated in United States of America.

The address of The Coca-Cola Company is:  
Atlanta, Georgia 30301, United States of America

## **COSTA LIMITED**

### **Notes to the Financial Statements for the Financial Period Ended 31 December 2019 (continued)**

#### **27 Events after the balance sheet date**

Shortly after the end of the financial period, the COVID-19 pandemic emerged as a major socio-economic and business event. The Company's strategic response to the pandemic is laid out in the Strategic Report

On 23rd March 2020 all Costa stores temporarily closed except for a small percentage supporting key workers were shut following government announcements. While stores were closed furlough was claimed from the government for those colleagues impacted and additional cost saving measures were put in place across marketing, IT and other discretionary cost lines. During the closure period Costa fitted all stores with protective screens, other appropriate PPE and redesigned stores to meet social distancing requirements. The number of stores that could use collect or delivery from our digital services was also significantly increased.

Our stores opened on a phased basis from May with the majority of stores open by August. Upon resumption of trade our Drive Thru estate showed strong performance as were the easiest channel for our customers to get their Costa products in a way which reflected the current consumer environment. Our participation of collect and delivery also increased from pre-COVID levels. Within the Express channel the majority of our machines traded throughout the lockdown period as petrol stations and convenience stores remained open, the machines traded robustly as one of the few ways to get a quality coffee.

The Group has continued to trade throughout 2020 using its cash reserves. The directors consider COVID-19 to be a non-adjusting event but it could have a material impact on the Group's turnover, asset recoverability and results for the year ending 31 December 2020.

There are no other post balance sheet events that would require an adjustment or disclosure in the financial statements.