

Costa Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2023

Registration number: 01270695

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COSTA LIMITED

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COSTA LIMITED

Company Information

Registered number 01270695

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COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023

The Directors present their Strategic Report on Costa Limited (also referred to as the “Company” or “Costa”) for the year ended 31 December 2023. Where referenced through the Strategic and Directors' Report, Costa Group and Costa Coffee refers to the Company and all its directly and indirectly owned subsidiaries.

Principal activity

The principal activity of the Company during the year continued to be the production and sale of coffee through its omni-channel strategy.

Costa has an international omni-channel strategy with equity and franchise retail stores, away from home propositions, at home and ready to drink products. Costa Coffee is present in the five largest global coffee markets and has access to multiple markets through indirect route to market partners, with away from home and in home propositions.

Business review

Costa Limited delivered full year revenues of £1,223m in financial year 2023, an increase of £105m (+9%) compared to financial year 2022. Costa utilised revenue growth management strategies to drive growth in transactions, pricing and mix along with efficiency programs to offset the impact of inflationary pressures on the cost of goods and operating expenses. The Company continued to invest in new retail stores, renewing existing sites and proposition development.

2023 Performance highlights

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

	2023	2022	Change
	£'000	£'000	%
Revenue (continuing operations)	1,222,856	1,117,450	9%
Operating (loss)/profit	(5,810)	8,262	(170)%
(Loss)/profit for the financial year	(13,847)	243,005	(106)%
Shareholder's equity	276,518	374,260	(26)%
Capex for new store openings	16,573	18,916	(12)%

The growth in revenue, year on year, generated incremental gross margins; however, inflationary pressures on the cost of goods, including energy and payroll, and the impairment of the Company's investments in two of its subsidiaries resulted in an operating loss for the year.

The Company made a loss after tax of £14m driven by the aforementioned operating loss, net finance costs of £5m (2022: £7m), the receipt of dividend income of £1m (2022: £245m) and a tax charge of £4m (2022: £3m).

Shareholder's equity has decreased year on year, due to the aforementioned loss after tax and dividends paid to the Company's parent of £85m (2022: £95m).

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties

Brand perception

Risk: A long-term decline in the consumer perception of the Company's brand impacts its ability to grow and achieve appropriate levels of return.

Mitigation: The Company ensures that its well-known brand is well marketed to consumers. In the core UK market, with a large database of loyalty consumers, perception and performance data is significant and accessible, and drives marketing investment decisions. Across all key markets, regular consumer research is conducted to measure brand sentiment, customer feedback and market share, in order to monitor brand performance. The Company's brand perception is built through multiple touchpoints including retail stores, away from home, at home and ready to drink experiences. Marketing investment is wide-ranging across these varied and diverse environments to build and brand equity. This enables ongoing adjustments to marketing investment to ensure brand and business objectives are met. The impact of this will be monitored through periodic brand tracking research.

Political and economic climate

Risk: Uncertain and/or volatile political and economic climate results in a decline in consumer and business spending and inflation pressure impacting growth plans and, in turn, coffee exports, raw material imports and the availability of labour, causing cost of goods pressures and an increased financial exposure to foreign exchange and duty tariffs. Legislation affects the availability of materials with potentially fewer sources resulting in materials price increases and the risk that some suppliers are not prepared for the proposed timescales.

Mitigation: The Company's mitigations are split between: macro-economic risks relating to consumer attitude and behaviour; micro-economic risks including roasted coffee exports, raw material imports, the hiring and retention of labour; and financial related risks around foreign exchange and duty tariffs. Costa's procurement team works to mitigate short or long-term inflationary pressures and identify additional supply contingency options. The Costa Group has established third party roasting, manufacturing, and warehousing relationships to service its growing international customer base. Costa now has a team of suitably qualified professionals that ensure we are appropriately positioned against an evolving regulatory landscape in the territories in which we operate.

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 and use is made of an independent risk engineering report. In addition to holding sufficient stocks of roasted beans, the Company has a contingency plan that includes roasting coffee elsewhere if required, using a third-party supplier who currently grinds and packs coffee for our business.

Climate Change

To address the evolving requirements of climate change, and as part of the Company's wider response to climate related regulations, during 2023 a cross-functional team from Costa, together with the support of external specialists, carried out a detailed exercise to identify and assess the Company's climate risks and opportunities. Further details on this exercise, and the risks and mitigations can be found in the Mandatory Climate Disclosure section of this Strategic Report.

Staff engagement and retention

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

Mitigation: Team retention is a key component of the Company's review of performance. Team engagement is fundamental. This is monitored closely through our regular engagement surveys, the results of which are reviewed by the Executive Committee, with trends analysed and appropriate actions reviewed and agreed.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

Cyber and data security

Risk: A data breach could result in loss of income, reputational damage, loss in consumer confidence, and regulatory fines.

Mitigation: A series of security controls are in place protecting the Company's IT environment, the principle of secure by design is applied and a suite of information security policies and standards are in place. Controls are tested with penetration testing of critical assets and attack simulations. A continuous security improvement programme is in place to improve and enhance technical controls, and that includes continuous monitoring. The industry recognised NIST Framework is applied, ensuring adequate controls are in place to identify, protect, detect, respond, and recover from a security incident.

Cloud infrastructure and services

Risk: An interruption to the provision of cloud infrastructure and services could result in loss of income, reputational damage, loss in consumer confidence, and regulatory fines.

Mitigation: Architecture policies and cloud governance and design authorities are in place to mitigate the risk of cloud concentration for technology services defined as business critical. Business criticality defines the target recovery time and recovery point objectives for these technology services. Principles of availability and resilience by design, combined with industry best practice standards and patterns for the delivery of technology solutions, provide a level of protection of company systems and assets. Disaster recovery and failover tests are completed periodically to validate the effectiveness of controls. Monitoring and alerting provide the framework through which issues are identified and responses triggered to mitigate business impacts.

Change management

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

Mitigation: The Company has ongoing programmes of change to support its growth that improve the efficiency of end-to-end processes, upgrade digital capability, deliver customer offerings, and facilitate evolving business models. The programmes are led by transformation teams comprising internal and third-party expertise as required, together with governance and regular reporting to the Executive Committee, to ensure successful project delivery and mitigate any risk of them not being executed.

The Wates Corporate Governance Principles

As required by the Companies (Miscellaneous Reporting) Regulations 2018, the Company is required to report on which corporate governance code had been applied in the financial year. In 2019 the Company adopted The Wates Corporate Governance Principles for Large Private Companies (the Principles). Details of how the Company applied the Principles during the year can be found in the Strategic Report.

1. Purpose and leadership

Purpose

The Company's purpose is to reimagine the coffee experience and make a difference for our consumers, customers, communities and employees. These are regularly communicated to its employees, and the Directors believe that the Company operates with a clear sense of purpose and collective vision.

Values and culture

The Company's continued growth and success depends on its shared values of passion, warmth, courage, trust, and discipline. The Company's Code of Conduct captures its business practices and behaviours. Everyone in the Company has a part to play in upholding our values and being committed to delivering the highest standards, by bringing passion and warmth to work, and by respecting our teams, customers and third parties.

The Company advocates passionately for inclusion and diversity and believes that everyone should be able to bring their whole selves to work. From team members to board members, the Company celebrates individuality and encourages a community where everyone is welcomed and free to be themselves.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

The Wates Corporate Governance Principles (continued)

1. Purpose and leadership (continued)

Values and culture (continued)

The Company's Human Rights Policy applies to the Company and expects franchisees and suppliers to uphold the principles and encourages them to adopt similar policies within their own business. Overseen by the Board, the policy is guided by international human rights principles encompassed by the Universal Declaration of Human Rights.

The Company recognises that we are part of the communities in which we operate. We engage with communities on human rights matters that are important to them such as land rights, access to water and health. We also engage with people in those communities, including indigenous people as well as other vulnerable and disadvantaged groups. Our aim is to ensure through dialogue that we are listening to, learning from, and considering their views as we conduct our business. We believe that local issues are most appropriately addressed at the local level. Where appropriate, we engage with a wide range of civil society and stakeholders on human rights issues related to our business. This includes issues in our Company, across our value chain and with our various sponsorships, through which we seek to promote respect for human rights.

The Company strives to make a positive impact in its communities. By supporting the Costa Foundation charity, the Company helps to fund the construction of brand-new schools that give whole communities a better future. Since its creation, the Foundation has funded over 800 classrooms in 10 countries, giving over 120,000 children and young people access to education.

Strategy

The Company's strategy is regularly discussed by its Executive Committee. It focuses on building the Costa brand's global brand preference and differentiating Costa Coffee from its competition as an omni-channel coffee company by virtue of its range of platforms to distribute coffee.

Costa Coffee is a responsible business committed to minimising our impact on the environment, details of which can be found in the Mandatory Climate Disclosure section of this Strategic Report.

2. Board composition

The composition and size of the Board are well-suited for companies of similar size and scope, effectively matching the balance and expertise needed to manage the Costa business efficiently. This structure helps meet the Group's strategic requirements and promotes efficient decision making. The Company has decided to combine the roles of Chair and CEO. The CEO acts as the main contact with the ultimate parent company, maintaining consistent and regular communication with its representatives.

The Company is the parent company of several subsidiaries which operate various Costa branded businesses. The day-to-day management of the Group is delegated to an Executive Committee that include the Board members and comprises the:

- Chief Executive Officer
- Chief Finance Officer
- Chief Digital and Information Officer
- Chief Marketing Officer
- Chief People Officer
- Chief Supply Chain Officer
- General Counsel
- Global Strategy Director
- Global Retail Franchise Director
- Managing Director Europe and Middle East and North Africa
- Managing Director Americas
- Managing Director Asia Pacific
- Managing Director UK and Ireland

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

The Wates Corporate Governance Principles (continued)

2. Board composition (continued)

Balance and diversity

The Company is committed to providing equal opportunities throughout its Board appointments, including the recruitment, training, and development of Board members. The Board is committed to providing equal opportunities and ensures all Board members are aware of their obligations in ensuring that the Company's environment retains a culture which is conducive to good working and high performance.

Board effectiveness

The Company undertakes an annual Board evaluation to consider the effectiveness of the Board. The Board is competent and well run, ensuring high quality decisions that address diverse customer and stakeholder needs. Where necessary, and to enhance knowledge in specific areas, site visits are arranged to enable Board members to see operations first-hand to enhance understanding of all Costa Group platforms and growth in our international business. Further information on how the Board fulfils its duties in relation to stakeholders, including employees, customers, and communities, can be found in our Section 172(1) statement, below.

3. Director responsibilities

The Board considers that the size and structure of the Executive Committee is appropriate to meet the Group's strategic needs and enable effective decision making. The Executive Committee has representation from all the main business units and functions in the Group, and has a broad range of skills, background, experience, and knowledge. It holds regular meetings to review recent trading and current priorities and meets one or two days each month to consider more strategic matters.

Accountability and responsibility for decisions are closely defined in a detailed delegation of authority. The delegation of authority sets out a robust internal control process via the requirement for a "request for approval" for important matters such as capital expenditure; acquisitions and sales of retail property and leases; asset impairments; treasury and financing matters; supply, purchase, and service agreements; marketing commitments; and income generating agreements.

Each of the Group's main business units are subject to a detailed business review meeting each quarter. Certain members of the Executive Committee attend the review and discusses budgets, performance, strategy, and any capital expenditure along with current issues and opportunities of the business.

The Executive Committee receives financial and non-financial information on a regular and timely basis. Financial information is produced from the Company's accounting ledgers and supporting systems, and its production is managed by the finance team who are appropriately qualified to verify its integrity.

4. Opportunity and risk

The Executive Committee receives regular financial reports and data to assist in monitoring the performance of the business and make informed decisions. The Executive Committee regularly considers all opportunities to grow the business and create long term value.

The Company has put in place a risks and controls matrix framework, with control owners required to attest to the effective operation of their controls on a monthly, quarterly, or annual basis.

The Board and Executive Committee regularly review the principal risks and uncertainties of the Company and how these are mitigated, refer to the Principal Risks and Uncertainties section above.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

The Wates Corporate Governance Principles (continued)

5. Remuneration

A Remuneration Committee comprising the Chief Executive Officer, Chief Financial Officer, Chief People Officer, amongst other representatives from the Company's ultimate shareholder company, set the Company's policy towards the remuneration of all 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.

The Company regularly reviews the pay and remuneration of employees in comparable roles in its sector, more broadly in the case of functional roles, and with regard to its gender pay gap. 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.

6. Stakeholder relationships and engagement

The Company and the Directors are committed to fostering strong relationships and engagement with Costa's stakeholders. These are discussed within the Section 172 Statement of the Strategic Report below.

Section 172 statement

The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (A) to (F) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. This includes considering the interest of other stakeholders which will have an impact on the long-term success of the Company.

This Section 172 Statement explains how the Directors have acted in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its member as a whole, and in doing so have regard (among other matters) to:

- the likely consequences of any decision in the long term and the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- employee interests, the need to foster the Company's business relationships with suppliers, customers, and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year.

Ahead of matters being put to the Company's Board for consideration, significant levels of engagement are often undertaken by the broader business ahead of many of Costa's projects or activities.

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

Community and the environment

Community and the environment the Costa Group's corporate sustainability programme is the Company's action plan to help drive positive change in the areas where it can have the greatest impact and that matter most to their teams, suppliers, partners, and consumers. It sets out four global priorities - Coffee, Cups and Packaging, Climate, and Community:

Coffee

The Company continued to invest in a more sustainable coffee supply chain and in 2023 the majority of coffee was sourced from farms certified to the Rainforest Alliance Sustainable Agriculture Standard. In addition, the Company also engaged in a number of coffee sector stakeholder initiatives, primarily to help develop understanding of on-farm carbon emissions in key coffee growing origins.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Section 172 statement (continued)

Community and the environment (continued)

Cups & packaging

The Company acknowledges packaging waste is a complex issue, and in recent years have taken steps to help tackle waste challenges. During 2023, the Company trialled and introduced fibre-based lids in Wales, introduced cup and lid bins into retail stores to help make recycling more convenient, and continued to actively support the National Cup Recycling Scheme, which the Company co-founded in 2018.

Climate

To address the evolving requirements of climate change, and as part of the Company's wider response to climate related regulations, during 2023 a cross-functional team from Costa, together with the support of external specialists, carried out a detailed exercise to identify and assess the Company's climate risks and opportunities. Further details on this exercise, and the risks and mitigations can be found in the Mandatory Climate Disclosure in this Strategic Report.

Community

The Company is proud to be part of local communities, and in taking positive actions to uplift lives and make a difference through community engagement. In 2023, the Company continued to fundraise for The Costa Foundation, and engage in a range of community based initiatives including the award of community grants, participation in Macmillan Cancer Support's annual Coffee Morning and continued support of Switchboard, the UK national LGBTQIA+ support line.

Engagement with employees

The Directors and Executive Committee receive regular updates on matters relating to its workforce, including feedback from employee engagement surveys and health and safety reviews.

The Company's communication and engagement framework will also add to those activities and create even more listening opportunities for our teams to get involved and shape business decisions. Team views and feedback are taken into consideration when considering organisational changes, employee remuneration and rewards and capital investments in retail stores, operational and support service infrastructure. The Company has robust governance in place over all employee remuneration and reward matters, which are overseen by the Costa Remuneration Committee. During 2023, the annual incentive scheme was changed to allow Costa employees to participate in the overall performance of the parent company.

Costa's values of passion, courage, warmth, trust, and discipline are reinforced throughout the Group through our recognition programmes and training. Our independently run 'Speaking out Helpline' allows our employees to confidentially report anything that contravenes the Company's Code of Conduct or that is harmful to our team members, customers, or the reputation of the Company's business.

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. Directors review diversity reporting for leadership roles including gender and ethnicity balance in shortlists and offers.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Section 172 statement (continued)

Customers

As the owner 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 each subsidiary company's product and supply chain planning, loyalty programs, retail store operating models, digital offerings, and other areas. In key markets, the Company regularly conducts a report on brand equity to monitor consumers' views on Costa's mental, physical, and emotional availability, as well as an expression panel with loyalty customers. For new product launches, Costa undertakes research and listens to consumers to understand their views.

Suppliers

Suppliers are regularly assessed for their standards and compliance with the Company's supplier guiding principles, the details of which can be found in the responsible sourcing section of the Company website.

Shareholder's and other capital providers

The Company is a wholly owned subsidiary of The Coca-Cola Company and only has debt with fellow Costa Group subsidiaries, meaning that the interests of all capital providers are aligned.

Principal Decisions

The Company defines Principal Decisions taken by the Board as those decisions in 2023 that are of a strategic nature and / or significant to any of our key stakeholder groups. Our key stakeholders are shareholders, employees / workforce, communities, customers, and strategic partners.

As well as the approval of budgets and strategic plans, the principal decisions made during the year related to the approval of capital expenditure, the renewal of customer agreements, the sale of businesses, and the declaration and payment of a dividend.

Capital expenditure

The Company continued to invest in its retail stores with new store openings, renewing existing sites, proposition development and retail store infrastructure. Investment decisions were also taken regarding enterprise transformation; these focused on finance and supply chain capabilities and the streamlining and automation of their processes, and digital capabilities to support consumer identity, marketing orchestration, personalisation, and loyalty.

Customer Agreements

During the year, the Company renewed several significant customer agreements with long-established third-party relationships, along with a number of new customer agreements in line with our strategy for growth.

Sales of Businesses

On 15 February 2023, Costa Limited sold its entire shareholding in its direct subsidiary Costa Coffee Polska S.A. to Lagadere Travel Retail.

Dividends

On 1 February 2023 the Company paid a dividend of £85 million (£0.93 per share) to its parent, European Refreshments Unlimited Company.

Intercompany Loans

In May 2023, the Company provided a cash loan of £70 million to its parent, European Refreshments Unlimited Company, that was repaid in full in October 2023.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Mandatory Climate Disclosure

The Directors present their mandatory climate disclosure for the Company for the year ended 31 December 2023. As a large UK private company, this section has been prepared in accordance with the climate reporting requirements of the Companies Act 2006 and covers the UK mandatory climate disclosure requirements set out in the Companies (Climate-related Financial Disclosure) Regulations 2022.

In line with the requirements of this legislation, the following sections outline how the Company is responding to climate change in terms of Governance, Risk Management, Strategy and Metrics and Targets.

Governance

The Executive Committee of the Costa Group, as detailed in the Wates Corporate Governance Principles section of this Strategic Report and that includes certain Company Directors, is the highest level authority of the Company that considers and oversees the risk and impact of climate change on business strategy.

At an operating level, the Costa Group's Chief Supply Chain Officer (CSCO) is the Executive Committee member responsible for overseeing Costa's environmental, social and governance (ESG) agenda, including the identification, consideration and management of climate risks and opportunities. The CSCO is supported by the Costa Group's Head of Sustainability and certain representatives/experts from the Company's Networked Leadership Team, an internal management group comprised of cross-functional leaders.

To address the evolving requirements of climate change and the wider social and environmental agenda, during 2023 the Executive Committee received regular updates on the wider ESG agenda and progress updates on the Company's sustainability programme as detailed in the Community and the Environment section of the Section 172 statement of this Strategic Report. This included the review and approval of identified climate risks and opportunities as part of the Company's wider response to climate related regulations and standards, and the approval of actions and progress towards Costa's carbon reduction target.

Costa continues to monitor best practice regarding corporate climate governance. In 2024, the Company intends to enhance internal processes and governance, to assist the Executive Committee and the CSCO in fulfilling their responsibilities in relation to the evolving requirements of climate change and ESG regulations, and to support the Company's response via its climate strategy, targets and progress.

Risk Management

The Executive Committee and operational representatives/experts from the Networked Leadership Team of the Costa Group are responsible for identifying climate-related risk and mitigation opportunities. During 2023, a cross-functional team from Costa, together with the support of external specialists, carried out a detailed and holistic exercise to identify, assess and prioritise its climate risks and opportunities. This included the following stages:

- **Identification:** An initial list of climate risks and opportunities which could impact the Company's directly controlled operations and material areas of its upstream and downstream value chain were identified. This is derived from a range of inputs, including existing risk assessments, insights from Costa stakeholders, external data and trends. Physical risks are environmental events, for example floods or storms; transition risks arise from changes in policy and new technology, for example the growth of renewable energy.
- **Impact Assessment:** Risks and opportunities were assessed based on their qualitative impact to the business and probability of occurrence. Three global warming scenarios were used, specifically increases of less than 2°C and more than 4°C for physical risks and opportunities, and 1.5°C for transition risks and opportunities, such as the growth of carbon price mechanisms or renewable energy technologies.
- **Prioritisation:** A shortlist was created with and approved by key internal stakeholders from across the business and members of the Executive Committee. For the most significant climate risks and opportunities, heat maps and impact pathways were developed to illustrate the causal link between climate events and the resultant potential business and financial impacts. Qualitative scenario analyses were conducted to illustrate how the level of risk is likely to change over different timeframes and scenarios.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Mandatory Climate Disclosure (continued)

Risk management (continued)

Going forward, a regular review of identified and prioritised climate-related risks and opportunities will be conducted, in alignment with the Company Risk Register review, and in accordance with climate disclosure requirements and the Company's climate strategy and enhanced governance process.

Strategy

Based on the identification, impact assessment and prioritisation exercise, six principal climate risks and one transition related opportunity have been identified together with an analysis of the resilience and mitigations of Costa's business model and strategy.

Climate risks and opportunities have been analysed under three time horizons from which the risk/opportunities could begin to have impact -short term (0-3 year), medium term (3-10 years) and long term (10 years +).

The global warming scenarios were considered aligned with the Intergovernmental Panel on Climate Change's Shared Socioeconomic Pathways (SSP):

- The <2°C warming scenario is aligned with SSP1-2.6, in which there is a high likelihood that average global temperatures will not exceed more than 2°C over pre-industrial levels by 2100. It assumes that proactive and sustained action is undertaken and that education and health investments accelerate the demographic transition.
- The >4°C warming scenario is aligned with SSP5-8.5. This places a greater emphasis on competitive markets, innovation and participatory societies to produce rapid technological progress towards sustainable development. In this scenario, globalisation and the exploitation of fossil fuels continue.
- For transition only, the 1.5°C scenario was considered, aligned with SSP1-1.9, or sometimes termed Paris ambition. This is the most optimistic scenario/where Net Zero is met by 2050 globally. This tends to come with more associated transition risk such as strict policy and regulation from governments, societal behaviour changes to more sustainable ways of living.

The impact rating of each climate-related risk and opportunity is a combined view based on the financial and operational consequence and the probability of occurrence within the given global warming scenarios. This ranges from 'Minor' (rare or unlikely risk with small impact to business operations and management time), through 'Moderate' and 'Major' (increasing impacts to business operations and management time) to 'Critical' (substantial impacts to business operations and management time).

The output of this assessment indicates there are some increasing impacts (Moderate to Major) from physical risks, under both <2°C and >4°C warming scenario. Similarly, the 1.5°C warming scenario also highlighted increasing impacts (Moderate to Major) of transition-related risks and opportunities in the same time horizon.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Mandatory Climate Disclosure (continued)

Risk/Opportunity Type	Principal Risk/Opportunity	Time Horizon	Potential Impacts	Strategy, Resilience and Mitigation
Increased severity of extreme weather events (Physical risks - acute)	1. Employees/workers in Costa's supply chain are unable to get to work or perform adequately at work.	Medium	Increased costs may result from operating delays and inefficiencies to stores, logistics and disruption in supply chains affecting the flow of goods.	Business continuity plans are in place, and the Company adopts a risk-based procurement approach through diversity of supply base, inventory and warehousing of materials.
	2. Damage and disruption from extreme weather events to stores, and critical production infrastructure in the supply chain.	Medium	Physical damage to assets, impairment or relocation costs, may impact capital and operating costs.	National presence enables customer access and national supply chain network optimises inventory and warehousing
Long term changes in climate including rising average temperatures and changes in precipitation patterns. (Physical risk - chronic)	3. Reduced coffee production yields and availability of suitable quality coffee, and increased purchase pricing.	Medium	Increasing availability challenges may impact customer satisfaction and perceptions of the brand, distorting qualities and may impact procurement costs and growth strategies.	Risk based procurement and inventory strategies, and flexible formulation specifications enable signature quality standards to be maintained.
	4. Key agricultural raw materials/inputs are subject to fluctuations in availability and market price.	Medium		Engagement with suppliers and sector stakeholders to better understand climate related risk and resilience in critical agricultural supply chains.
Carbon pricing and taxation. (Transition risk - policy & legal)	5. Carbon price enforcement in the UK and other important geographies is likely to increase, related to carbon emissions in own operations and supply chain.	Medium	Related cost impacts may be associated with higher-carbon business operations and supply chain costs if decarbonisation efforts are not realised.	Continued measurement and monitoring of carbon emissions related to own operations and supply chain, supported by business actions in line with Costa's overall 2030 carbon emission reduction targets.
Increased stakeholder concern and shifts in consumer preferences. (Transition risk - reputational)	6. Failure to meet increasing sustainability expectations from business and retail customers	Medium	Reduction in demand and/or loss of corporate contracts may impact growth strategies and have wider reputational damage.	Engagement and collaboration with customers who have mutual challenges and interests regarding Scope 3 emissions and the wider sustainability agenda.
Climate resistant varieties of coffee and key ingredients. (Transition opportunity - resilience)	7. Increased access and diversification towards more climate resistant varieties of key ingredients.	Medium	Greater resilience in supply chains which may otherwise be vulnerable to climate shocks.	Engagement with suppliers and sector stakeholders to consider climate resistant varieties of key ingredients, alongside risk-based procurement strategies and innovation / new product development processes.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2023 (continued)

Metrics and Targets

In 2022, the Costa Group published short term science-based carbon reduction targets validated by the Science Based Targets Initiative. The Costa Group greenhouse gas emissions are measured using the GHG Protocol, using a 2019 baseline, and applying approved emission factors to calculate carbon emissions related to its activities.


The overall goal of Costa's global climate strategy is to reduce emissions per coffee serving by 50% by 2030 (vs 2019 levels), specifically:

- By 2030, reduce absolute Scope 1 and 2 emissions by 50% vs the 2019 baseline - related to stationary & mobile combustion, and fugitive emissions (Scope 1) and purchased electricity (Scope 2) emissions of Costa's directly controlled global operational activities, such as owned stores and roastery.
- By 2030, reduce the intensity of Scope 3 emissions by 50% vs the 2019 baseline - emissions related to Costa's global value chain activities in the Scope 3 categories which are most material, such as purchased goods and services, franchisee energy use, and upstream and downstream transportation.

During 2023, Costa Group continued to measure and monitor its carbon emissions, updating the GHG scope 1, 2 and 3 emission inventory (based on FY 2022), and develop carbon reduction strategies for key hotspots. For Costa Limited, details of annual carbon emissions can be found in the Streamlined Energy and Carbon Reporting section of the Directors' Report. This details an 8% tCO₂e intensity reduction versus 2022 that was primarily achieved within Scope 2 from a reduction in purchased electricity for UK operations.

Going forward, the Costa Group will review its global climate strategy and targets in line with latest guidance from the Science Based Targets Initiative and identify and implement relevant metrics which will allow the Group to track and disclose its progress in mitigating the climate-related risks that it has identified.

Approved by the Board on 12 September 2024 and signed on its behalf by:

Signed by:

.....315985CFFDA64B0.....
J Carlin
Director

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2023

Registered No. 01270695

The Directors present their report and the financial statements financial statements for the year ended 31 December 2023.

Principal activity

The principal activity of the Company during the year continued to be the production and sale of coffee through its omni-channel strategy. The Company's purpose is to reimagine the coffee experience and make a difference for our consumers, customers, communities, and employees.

Costa has an international omni-channel strategy with equity and franchise retail stores, away from home propositions, at home and ready to drink products. Costa Coffee is present in the five largest global coffee markets and has access to approximately fifty markets through indirect route to market partners, with away from home and in home propositions.

Directors and the secretary of the Company

The Directors who held office during the year and to the date of this report (except as noted) are:

J Carlin (appointed 10 February 2023)

J Crookall

A Cook (resigned 20 October 2023)

N Lake (Australian) (resigned 31 January 2023)

G Mowat (resigned 29 February 2024)

N Orrin (appointed 6 April 2023)

P Schaillee (Belgian) (appointed 11 April 2023)

The secretary who held office during the year and to the date of this report is:

S Savjani

Corporate governance

As required by the Companies (Miscellaneous Reporting) Regulations 2018, the Company is required to report on which corporate governance code had been applied in the financial year. In 2019 the Company adopted The Wates Corporate Governance Principles for Large Private Companies (the Principles). Details of how the Company applied the Principles during the year can be found in the Strategic Report.

Dividends

On 1 February 2023, the Company paid a dividend of £85 million to its parent, European Refreshments Unlimited Company (2022: £95 million).

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.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2023 (continued)

Employee involvement

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

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

There are mandatory training modules 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 it engages with suppliers and other third-party contractors to prevent bribery.

Modern Slavery Act

The Company's Modern Slavery Act 2015 statement is published on the Costa 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

On 27 March 2024, the Company received a dividend of £20m from its wholly owned subsidiary, Costa International Limited.

On 28 March 2024, the Company received a dividend of £65m from its wholly owned subsidiary, Costa Express Holdings Limited.

On 11 April 2024, the Company subscribed £48.6m for 48,646,000 ordinary shares in its wholly owned subsidiary, Costa International Limited, who in turn invested these funds via its wholly owned subsidiary, Costa China Holdings Limited, into Costa Coffee (Shanghai) Co Limited.

On 12 April 2024, the Company paid a dividend of £80m to its parent, European Refreshments Unlimited Company.

There were no other significant events between the balance sheet date and the date of signing of the financial statements affecting the Company which requires adjustment or further disclosure in the financial statements.

Disclosure of information to the auditor

The Directors confirmed that, as far as they were aware, there was no relevant audit information of which the Company's auditor was unaware. They also stated that they had taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor was aware of that information. This confirmation was given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2023 (continued)

Streamlined Energy and Carbon Reporting (SECR)

The Company has gathered data regarding scope one and scope two carbon emissions, and mandatory scope three carbon emissions, (as defined by the GHG Protocol) for the financial year spanning 1 January 2023 to 31 December 2023 from its UK operations for inclusion in Company Reporting (2023) as defined by the requirements of the Streamlined Energy and Carbon Reporting (SECR) legislation.

The total carbon emissions for the period were recorded at 26,779 tCO₂e. This is an increase of 1% over the previous reporting period. The increases are primarily from transport related emissions.

The intensity rate for the period is calculated at 0.022 tCO₂e per £100,000 of revenue from the Company's group operations. This is a reduction of 8% over the period.

Greenhouse gas emissions and energy use data

	31 December 2023	31 December 2022	Change (%)
Energy consumption used to calculate emissions (kWh)*	130,476,144	137,052,445	(5)%
Emissions from scope one fuels (tCO ₂ e)	2,360	2,190	8%
Emissions from scope two purchased electricity (tCO ₂ e)	23,880	23,922	-%
Emissions from mandatory scope three (tCO ₂ e)	539	401	34%
Total gross emissions (tCO₂e)	26,779	26,513	1%
Intensity ratio (tCO ₂ e) per £100,000 of turnover	0.022	0.024	(8)%
Methodology	GHG Protocol	GHG Protocol	

The overall goal of Costa's global climate strategy is to reduce emissions per coffee serving by 50% by 2030 (vs 2019 levels).

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposure to risk are described in the Strategic Report.

The financial statements have been prepared on a going concern basis as, having reviewed the current position and cash flow projections of the Company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The Company has received a letter of support from its ultimate parent company, The Coca-Cola Company, that commits to making support available if it is required at a point in time covering a period of twelve months from the date of approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

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

Price risk

Price risk is the risk that the movement in the price of key materials will adversely affect the profitability of the business. The Company minimises its exposure to price risk by entering in to forward contracts for its coffee beans and energy.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2023 (continued)

Price risk, credit risk, liquidity risk and cash flow risk (continued)

Credit risk and impairment

Credit risk is the risk that one party to a financial instrument will cause a financial loss of the other party by failing to discharge an obligation. 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 who demonstrate an appropriate payment history and/or with good credit ratings and who satisfy the Company's credit worthiness procedures. The amounts included in the statement of financial position are net of expected credit losses, which have been estimated by management based on prior experience and any known factors at the reporting date. The Company's maximum exposure on its trade and other receivables is the carrying amount as disclosed in Note 18.

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.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's liquidity risk arises primarily from its day-to-day operations. The Company's ability to manage liquidity risk is influenced by various factors including cash flow projections, continuous monitoring of liquidity metrics, and access to inter group funding. Excess cash used in managing liquidity is placed on interest-bearing deposits and managed by The Coca-Cola Company Group Treasury team under the Group Treasury policy.

Cash flow risk

Cash flow risk is the risk of exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability. The Company mitigates cash flow risk through various measures including regularly updating business plans, conducting market research, tighter debt control and conducting cash flow analysis and forecasts.

Foreign exchange risk

Foreign exchange risk is the risk that fluctuations in foreign exchange rates may impact the Company's financial position, cash flows, and results of operations. Exposure to foreign exchange risk is actively monitored by management. Foreign exchange risk is currently not significant to the Company and arises primarily from its purchase of green coffee beans in USD and purchase of coffee machines from Switzerland in CHF. The Company manages its foreign exchange risk through a hedging strategy primarily using forward contracts based on projected volumes purchased. Costa also leverages natural hedges to reduce exposure on foreign exchange risk primarily with the EUR.

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 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 its growth targets.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2023 (continued)

Price risk, credit risk, liquidity risk and cash flow risk (continued)

Litigation risk

Litigation or legal proceedings could expose the Company to significant liabilities and damage its reputation. The Company evaluates any litigation, claims and legal proceedings to assess the likelihood of unfavourable outcomes and to estimate, if possible, the amount of potential losses and put in place procedures to mitigate such losses.

Laws and regulations

Changes in, or failure to comply with, the laws and regulations applicable to our business operations could increase our costs or reduce our net operating revenues. The Company will review any changes in laws and regulations that might impact the business to mitigate any such impacts.

Charitable and political donations

During the year, the Company made a corporate donation to The Costa Foundation of £20,000, along with matched funding of £178,000 totalling £198,000 (2022: corporate donation of £80,000 and matched funding of £Nil). During the year, the Company did not make donations to any political party or other political organisation and did not incur any political expenditure within the meanings of sections 362 to 379 of the Companies Act 2006 (2022: £Nil).

Directors' liabilities

A qualifying indemnity provision (as defined in section 236(1) of the Companies Act 2006) is in force for the benefit of the Directors and remains in place at the date of this report.

Reappointment of auditor

The Company reviews and makes recommendations each year in accordance with section 485 of the Companies Act 2006 with regard to the appointment of an external auditor. During the year, Ernst & Young LLP resigned as auditor and was replaced by Ernst & Young, Chartered Accountants. The auditor, Ernst & Young Chartered Accountants, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 12 September 2024 and signed on its behalf by:

Signed by:

.....915985CFFDA64B0.....
J Carlin
Director

COSTA LIMITED

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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.

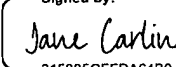
In preparing these financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report, that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Approved by the Board on 12 September 2024 and signed on its behalf by:

Signed by:

.....315985CFFDA6480.....
J Carlin
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COSTA LIMITED

Opinion

We have audited the financial statements of Costa Limited for the year ended 31 December 2023 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 30, including material accounting policy information. 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 Company's affairs as at 31 December 2023 and of its loss for the year 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. 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 as applied to other entities of public interest, 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We obtained and evaluated management's going concern assessment which covers twelve months from the date of signing this audit opinion. The assessment included the Company's cashflow forecast for the going concern assessment period.
- We considered the appropriateness of the methods used to calculate the Company's cash flow forecasts and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the Company.

.../continued

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

Conclusions relating to going concern (continued)

- We obtained and reviewed the letter of support that the Company has received from its ultimate parent undertaking, The Coca-Cola Company, a company incorporated in the state of Delaware, United States of America. Financial support, if required, would be provided by the Company's immediate parent and subsidiary of The Coca-Cola Company, European Refreshments Unlimited Company ("European Refreshments"), a company incorporated in the Republic of Ireland. We assessed the financial capability of European Refreshments to provide this support and we noted no issue.
- We reviewed the Company's going concern disclosures included in the financial statements to assess that the disclosures were appropriate and in conformity with the reporting standards and we noted them to be in order.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the 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.

.../continued

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

Matters on which we are required to report by exception (continued)

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 Directors' Responsibilities Statement set out on page 19, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are FRS101, Companies Act 2006, UK tax legislations, GDPR, UK Bribery Act, The Equality Act, Competition laws, Consumer rights laws, Environmental regulations, Health and Safety Laws, Employment regulations, Modern Slavery Act, Foods Standards Agency requirements, Government food labelling requirement.
- We understood how the Company is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We consider management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.

.../continued

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved:
 - Inquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed;
 - Inquiry of management, those charged with governance and the entity's in-house legal team around actual and potential litigation and claims;
 - Inquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities;
 - Reading minutes of meetings of those charged with governance;
 - Inquiry of management over reports to whistleblowing hotlines;
 - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
 - Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness agreeing back to source documentation or independent confirmations;
 - Using data analytics to highlight potentially anomalous transactions in areas of the business which are determined to have an elevated fraud risk;
 - Evaluating the business rationale of significant transactions outside the normal course of business; and
 - Challenging judgements made by management. This included corroborating the inputs and considering contradictor evidence.

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.

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

Louise Whyte (Senior statutory auditor)
for and on behalf of Ernst & Young, Statutory Auditor
Dublin
Date: 18 September 2024

COSTA LIMITED

Income Statement for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Revenue	4	1,222,856	1,117,450
Other operating income	5	156	-
Operating costs		(1,206,846)	(1,127,615)
Net (impairment)/reversal of impairment of property, plant and equipment	14	(1,822)	4,764
Net (impairment)/reversal of impairment of right-of-use assets	15	(1,027)	9,736
Net (impairment)/reversal of impairment of investments	16	<u>(19,127)</u>	<u>3,927</u>
Operating (loss)/profit	6	(5,810)	8,262
Finance income	9	7,458	3,290
Finance costs	10	(12,048)	(10,486)
Income from shares in group undertakings		<u>768</u>	<u>244,884</u>
(Loss)/profit before tax		(9,632)	245,950
Tax charge	12	<u>(4,215)</u>	<u>(2,945)</u>
(Loss)/profit for the year		<u>(13,847)</u>	<u>243,005</u>

The above results were derived from continuing operations.

COSTA LIMITED

Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
(Loss)/profit for the year		<u>(13,847)</u>	<u>243,005</u>
Items that may be reclassified subsequently to profit or loss			
Unrealised gain/(loss) on cash flow hedges before tax		1,149	(3,060)
Deferred tax on cash flow hedges		<u>(287)</u>	<u>765</u>
		<u>862</u>	<u>(2,295)</u>
Total comprehensive (loss)/income for the year		<u><u>(12,985)</u></u>	<u><u>240,710</u></u>

COSTA LIMITED

Statement of Financial Position as at 31 December 2023

Company number 01270695

Assets	Note	2023 £ 000	2022 £ 000
Non-current assets			
Intangible assets	13	15,632	11,888
Property, plant and equipment	14	218,524	223,959
Right-of-use assets	15	360,911	378,088
Investments in subsidiaries	16	160,550	165,749
Deferred tax assets	12	-	3,078
Lease receivables	18	24,566	21,476
		<u>780,183</u>	<u>804,238</u>
Current assets			
Inventories	17	34,010	31,713
Trade and other receivables	18	95,315	136,289
Income tax receivable	12	17,034	20,882
Cash and cash equivalents		243,669	230,519
		<u>390,028</u>	<u>419,403</u>
Current liabilities			
Current portion of long-term lease liabilities	26	(82,863)	(84,399)
Trade and other payables	20	(454,584)	(394,812)
Provisions	22	(4,778)	(5,130)
Derivative financial instruments	19	(73)	(3,696)
		<u>(542,298)</u>	<u>(488,037)</u>
Net current liabilities		<u>(152,270)</u>	<u>(68,634)</u>
Total assets less current liabilities		<u>627,913</u>	<u>735,604</u>
Non-current liabilities			
Long-term lease liabilities	26	(346,172)	(361,344)
Deferred tax liabilities	12	(5,223)	-
		<u>(351,395)</u>	<u>(361,344)</u>
Net assets		<u>276,518</u>	<u>374,260</u>
Equity			
Called-up share capital	23	91,258	91,258
Other reserves		123,531	122,426
Retained earnings		61,729	160,576
Total equity		<u>276,518</u>	<u>374,260</u>

The notes on pages 29 to 69 form an integral part of these financial statements.

COSTA LIMITED

Statement of Financial Position as at 31 December 2023 (continued)

Company number 01270695

Approved by the Board on 12 September 2024 and signed on its behalf by:

Signed by:
Jane Carlin
.....
315085CFFDA64B0...
J Carlin
Director

COSTA LIMITED

Statement of Changes in Equity for the Year Ended 31 December 2023

	Called-up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	91,258	123,777	12,571	227,606
Profit for the year	-	-	243,005	243,005
Other comprehensive loss	-	(2,295)	-	(2,295)
Total comprehensive income	-	(2,295)	243,005	240,710
Dividends paid	-	-	(95,000)	(95,000)
Employee share-based payments charge	-	941	-	941
Tax on employee share-based payments	-	3	-	3
At 31 December 2022	91,258	122,426	160,576	374,260

	Called-up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2023	91,258	122,426	160,576	374,260
Loss for the year	-	-	(13,847)	(13,847)
Other comprehensive income	-	862	-	862
Total comprehensive loss	-	862	(13,847)	(12,985)
Dividends	-	-	(85,000)	(85,000)
Employee share-based payments charge	-	250	-	250
Tax on employee share-based payments	-	(7)	-	(7)
At 31 December 2023	91,258	123,531	61,729	276,518

The notes on pages 29 to 69 form an integral part of these financial statements.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023

1 General information

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

The address of its registered office is:

3 Knaves Beech Business Centre,
Davies Way, Loudwater,
High Wycombe,
Buckinghamshire,
HP10 9QR,
United Kingdom.

These financial statements were authorised for issue by the Board on 12 September 2024.

2 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, except that as disclosed in the accounting policies, certain items are shown at fair value, and on the going concern basis.

The Company claims the exemption from preparing consolidated group 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). These financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

The financial statements are prepared in pounds sterling (£), which is the functional currency, and all amounts are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

The financial statements have been prepared on a going concern basis as, having reviewed the current position and cash flow projections of the Company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The Company has received a letter of support from its ultimate parent company, The Coca-Cola Company, that commits to making support available if it is required at a point in time covering a period of twelve months from the date of approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, the Company has taken advantage of the exemptions available under FRS 101 in respect of the following disclosures:

- (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;
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (e) the requirements of paragraphs 10(d), 10(f), 39(c), 40(a), 40(d), 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 the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- (j) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- (k) 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;
- (l) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and
- (m) 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; and
- (n) The following paragraphs of IAS 1 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).

These exemptions which the Company has availed of are disclosed in the consolidated financial statements of the ultimate parent company, The Coca-Cola Company.

Summary of material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Changes in accounting policies

There were a number of amendments to standards and interpretations effective for the Company from 1 January 2023, none of which had a material effect on the results or financial performance of the Company.

In respect of amendments to *IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 - Disclosure of Accounting Policies*: no additional disclosures were required and we have refined our accounting policy information to remove certain information which referenced to non-material items in the financial statements.

Revenue recognition

Recognition

The Company earns revenue from the sale of food, beverages and merchandise. Revenue 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

Sale of food and beverage

For retail, 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.

For the sale of Costa manufactured products, the contract is established when an order has been placed for the supply of manufactured goods by the customer, the performance obligation is the promise in the contract by the Company to manufacture distinct products for the customer for an agreed transaction price. The revenue is recognised when the title of ownership transfers from the Company to the customer.

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate prevailing at the reporting date. Non-monetary items that are measured at fair value and denominated in foreign currencies are retranslated using the exchange rate at the date when the fair value was determined.

Non-monetary items that are measured at 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 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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Intangible assets

Internally generated intangible assets

Internally generated 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.

Development costs are incurred through the development of software used within the Costa Group. Costs incurred that are directly associated with designing or developing software are capitalised as internally generated software development costs within intangible assets and are amortised on a straight-line basis over its estimated useful life of three to ten years. Expenditure on internally generated software development costs will be capitalised if it can be demonstrated that:

- It is technically feasible to develop the software;
- Adequate resources are available to complete the software development;
- There is an intention to complete the software development for internal use;
- Expenditure on the project can be reliably measured.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Amortisation

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

Asset class	Amortisation method and rate
Internally generated software development costs	Over estimated useful life of two to seven years
Trademarks	Indefinite useful life hence not amortised

Externally acquired intangible assets

Externally acquired intangible assets, acquired separately from a business, are carried initially 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. 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:

- Trademark, patents and licences have an indefinite life;
- IT software and technology is amortised over periods of two to seven years; and
- Operating rights agreements are amortised over the life of the contract.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

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 statement.

Payments made on entering into, or acquiring, leasehold buildings 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.

Asset class

Land & buildings

Furniture, fittings & equipment

Short-term leasehold property

Plant and equipment

Depreciation method and rate

Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 40 years

Over 1 to 25 years

Over the period of the lease

Over 4 to 7 years

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Leases (continued)

Initial recognition and measurement

At the commencement date of the lease (i.e. the date the underlying asset is available for use) the Company 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.

Right-of-use assets are initially measured at cost. Lease liabilities are 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. 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 date, less any lease incentives received and any initial direct costs.

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 as follows:

- Properties 1 to 35 years
- Motor vehicles 3 to 7 years

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 15.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Leases (continued)

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.

IFRS 16 Leases – COVID-19-Related Rent Concessions

The COVID-19-Related Rent Concessions amendment to IFRS 16 Leases was adopted by the IASB on 28 May 2020. The amendment applies to accounting periods from 1 January 2020. The amendment allows for a simplified approach to accounting for rent concessions occurring as a direct result of COVID-19 and for which the following criteria are met:

- The revised consideration is substantially the same, or less than, the consideration prior to the change;
- The concessions affect only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

Lessees are not required to assess whether eligible rent concessions are lease modifications, allowing the lessee to account for eligible rent concessions as if they were not lease modifications.

During the period, the Company has agreed rent concessions in the form of rent forgiveness where the landlord has agreed to forgive all or a portion of rents due with no obligation to be repaid in the future. The Company has chosen to account for eligible rent forgiveness as negative variable lease payments. The rent concession has been recognised once a legally binding agreement is made between both parties by derecognising the portion of the lease liability that has been forgiven and recognising the benefit in the income statement. As a result, the Company has recognised £59,000 (2022: £1,420,000) in COVID-19-related rent concessions in the income statement within "Operating costs" in the current period.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Impairment of non-financial assets

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 a CGU is determined as the higher of its fair value less costs to sell and its value in use. If the carrying amount of the CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Fair value less costs to sell is estimated using a market multiple approach, while value in use is estimated using a discounted cash flows model.

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

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders. Final dividends are recognised when approved by the shareholders at an Annual General Meeting (AGM), while interim dividends are recognised when declared by the Board of Directors.

Dividends are recognised in equity as a reduction of retained earnings when they are approved or declared. Dividends proposed or declared after the reporting date are not recognised as a liability at the reporting date but are disclosed in the notes to the financial statements.

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 Year Ended 31 December 2023 (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, right of use assets, intangible assets, deferred tax assets, prepayments and deferred tax liabilities.

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 marketplace.

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 Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial instruments (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.

The Company's financial assets at amortised costs include trade debtors, amounts owed from group companies and other receivables.

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.

The Company's financial assets at amortised costs include trade payables, amounts owed from group companies and other payables.

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Derecognition

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the income statement.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in the income statement on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

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 income statement.

Financial liabilities

If the terms of a financial liabilities are modified, the Company evaluates whether the cash flows of the modified liabilities 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 income statement.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

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 probable within 12 months from the reporting date.

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

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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 months before 31 December 2023 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.

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (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 IFRS 9.

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. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written off through the inventory counting procedures conducted by internal and external parties for all warehousing locations. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales less selling costs using factors existing at the reporting date.

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 and estimates 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 Year Ended 31 December 2023 (continued)

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

Impairment

The Company assesses, at the end of each reporting period, whether there is objective evidence that its assets, including property, plant and equipment, intangible assets, right of use assets, and investments in subsidiaries, are impaired. An asset is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment charge is recognised in the income statement.

An assessment is also made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior periods. Impairment reversal is recognised in the income statement.

The Company employs various methods to estimate the recoverable value of its assets. Fair value less costs to sell is determined using a market multiple approach, where applicable, while value in use is calculated through a discounted cash flow model.

For retail stores owned by the Company, which include property, plant, equipment, intangible assets, and right-of-use assets, fair value less costs to sell is estimated by applying a market multiple based on net sales revenue. This market multiple was derived from comparable transactions undertaken by the Company in recent years. This approach remains consistent with the Company's methodology from the prior year. However, for investment in subsidiaries, the Company does not have a reliable estimate for the fair value less costs to sell, and thus, this method was not applied to determine the recoverable value of those investments.

When evaluating value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions, including the time value of money and asset-specific risks. The value in use is highly sensitive to factors such as accurate cash flow forecasts, the long-term growth rate of the Company (or its subsidiaries for investment impairment assessments), and terminal values. This calculation method remains consistent with that of the prior year.

These estimates and assumptions are subject to change based on evolving economic conditions and the operating results of the Company.

The judgements and estimates underlying impairment testing have resulted in an impairment charge for property, plant and equipment of £1,822,000 (2022: net impairment reversal of £4,764,000); impairment charge for intangible assets of £5,000 (2022: impairment reversal of £130,000), impairment charge for right of use assets of £1,027,000 (2022: net impairment reversal of £9,736,000), and impairment charge for investments in subsidiaries of £19,127,000 (2022: net impairment reversal of £3,927,000).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

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

Loyalty points estimation

The Costa Loyalty Scheme awards beans to customers when purchasing any drink from a menu-board in-store or Costa Express Machine. The Company evaluates the loyalty provision based on the fair value of beans and vouchers outstanding at the end of any financial period. The fair value is calculated using the estimated redemption rate and spend per voucher, estimates for which are based on historic run-rates. Because these are dependent on uncertain customer activity, the Company relies on using a level of judgement surrounding the timing of revenue recognition. During the year, the Company increased its estimated spend per voucher, based on historical redemption analysis and resulting in a £0.8m increase in the provision required. The Company also took into account changes to the scheme, decreasing the provision by £1.1m.

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).

The Company considers whether the supplier has substantive substitutional rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease. In determining whether the Company obtains substantially all the economic benefits from use of the asset, the Company considers only the economic benefits that arise from use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Company has the right to direct use of the asset, the Company considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Company considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Company applies other applicable IFRS rather than IFRS 16.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

4 Revenue

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

	2023 £ 000	2022 £ 000
Sale of goods	1,187,893	1,084,382
Franchise fees	34,963	33,068
	<u>1,222,856</u>	<u>1,117,450</u>

The analysis of the Company's turnover for the year by geographical location is as follows:

	2023 £ 000	2022 £ 000
UK	1,177,032	1,090,643
Rest of world	45,824	26,807
	<u>1,222,856</u>	<u>1,117,450</u>

5 Other operating income

The analysis of the Company's other operating income for the year is as follows:

	2023 £ 000	2022 £ 000
Research and development expenditure credits	<u>156</u>	<u>-</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

6 Operating (loss)/profit

Arrived at after charging/(crediting)

	Note	2023 £ 000	2022 £ 000
Inventory consumed		394,941	349,750
Right-of-use assets depreciation - property	15	70,203	69,842
Right-of-use assets depreciation - motor vehicles	15	5,741	5,479
Property, plant and equipment depreciation	14	49,160	50,644
Intangible asset amortisation	13	7,727	10,374
Restructuring costs*		4,636	10,016
Net impairment/(reversal of impairment) of intangible assets	13	5	(130)
Foreign exchange gain		(5,884)	(2,232)
Loss/(profit) on disposal of property, plant and equipment		<u>1,307</u>	<u>(7,654)</u>

* Relates to redundancy costs in respect of announced head office restructuring.

		2023 £ 000	2022 £ 000
Impairment of property, plant and equipment		1,822	803
Reversal of prior periods impairment of property, plant and equipment		<u>-</u>	<u>(5,567)</u>
Net impairment/(reversal of impairment) of property, plant and equipment	14	<u>1,822</u>	<u>(4,764)</u>

		2023 £ 000	2022 £ 000
Impairment of right-of-use assets		1,027	1,190
Reversal of prior periods impairment of right-of-use-assets		<u>-</u>	<u>(10,926)</u>
Net impairment/(reversal of impairment) of right-of-use assets	15	<u>1,027</u>	<u>(9,736)</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

6 Operating (loss)/profit (continued)

		2023	2022
		£ 000	£ 000
Impairment of investments		19,127	560
Reversal of impairment of investments		-	(4,487)
Net impairment/(reversal of impairment) of investments	16	<u>19,127</u>	<u>(3,927)</u>

7 Staff costs

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

	2023	2022
	£ 000	£ 000
Wages and salaries	342,173	304,220
Social security costs	22,242	22,235
Pension costs defined contribution scheme	8,145	7,534
	<u>372,560</u>	<u>333,989</u>

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

	2023	2022
	No.	No.
Roastery and production facility employees	32	37
Head office and support function employees	1,256	1,355
Store employees	16,521	15,952
	<u>17,809</u>	<u>17,344</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Directors' remuneration

	2023 £ 000	2022 £ 000
Directors remuneration	2,793	2,662
Defined contribution scheme and cash in lieu of pension contributions	166	243
Directors remuneration for loss of office	362	-
Total Directors' remuneration	<u>3,321</u>	<u>2,905</u>
The highest paid key management personnel received	<u>853</u>	<u>820</u>

During the year 4, Directors exercised and received shares under incentive schemes (2022: 5 Directors).

There were 7 Directors in the defined contribution pension scheme in the year (2022: 1 Director).

During the year, the highest paid Director had pension payments totalling £20,000 (2022: £92,000) and they did not exercise or receive any shares.

During the year, 3 directors received compensation for loss of office totalling £362,000 (2022: £Nil).

During the year, the Company paid Directors' remuneration for Costa Express Limited and Costa International Limited of £1,056,000 (2022: £1,733,000) and £304,000 (2022: £35,000) respectively.

9 Finance income

	2023 £ 000	2022 £ 000
Interest income on bank deposits	6,521	2,340
Other interest receivable	937	950
	<u>7,458</u>	<u>3,290</u>

10 Finance costs

	2023 £ 000	2022 £ 000
Interest expense on other financing liabilities	32	-
Interest expense on leases	26	10,486
	<u>12,016</u>	<u>10,486</u>
	<u>12,048</u>	<u>10,486</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

11 Auditor's remuneration

	2023 £ 000	2022 £ 000
Audit of the group financial statements	<u>1,699</u>	<u>1,815</u>

Audit fees of £424,000 was borne by the Company in the year on behalf of its subsidiaries (2022: £424,000). There were no non-audit services provided by the statutory auditor in the current or preceding year.

12 Taxation

Tax charged/(credited) in the income statement

	2023 £ 000	2022 £ 000
Current taxation		
UK corporation tax	1,035	126
Group relief receivable	(5,754)	(5,529)
UK corporation tax adjustment to prior periods	<u>560</u>	<u>(884)</u>
	(4,159)	(6,287)
Foreign tax adjustment to prior periods	294	-
Foreign tax	<u>73</u>	<u>-</u>
Total current income tax	<u>(3,792)</u>	<u>(6,287)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	10,045	7,530
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>(2,038)</u>	<u>1,702</u>
Total deferred taxation	<u>8,007</u>	<u>9,232</u>
Tax expense in the income statement	<u>4,215</u>	<u>2,945</u>

The UK corporation tax rate in effect for the year ended 31 December 2023 is 23.5%, a blended rate for the year (from January to March 19% and from April to December 25%) (2022: 19%). An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. The tax on profit before tax for the year is different to the standard rate of corporation tax in the UK of 23.5% (2022: 19%).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

12 Taxation (continued)

The differences are reconciled below:

	2023 £ 000	2022 £ 000
(Loss)/profit before tax	<u>(9,632)</u>	<u>245,950</u>
Corporation tax at standard rate	(2,264)	46,731
Fixed asset differences	(388)	(507)
Income not taxable	(4,158)	(7,258)
Increase from effect of expenses not deductible in determining taxable profit	11,185	8,076
Decrease/(increase) in current tax and deferred tax from adjustment for prior periods	(1,184)	818
Increase in closing deferred tax to average rate	558	1,862
Non-taxable dividend income	(181)	(46,528)
Other tax movements	(38)	(19)
Deferred tax (charged)/credited directly to OCI	(287)	765
Deferred tax (charged)/credited directly to equity	(7)	3
Deferred tax on derivatives	906	(998)
Increase from foreign tax	<u>73</u>	<u>-</u>
Total tax charge	<u>4,215</u>	<u>2,945</u>

The corporation tax balance is a receivable of £17,034,000 (2022: receivable of £20,882,000).

The Costa Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in various jurisdictions. Since the Costa Group's effective tax rate is above 15% in all jurisdictions in which it operates and it has determined that it is not subject to Pillar Two "top-up" taxes. Therefore, the financial statements do not include information required by paragraphs 88A-88D of IAS 12.

Deferred tax

The deferred tax balance consists of the following:

2023	Liability £ 000
Pension benefit obligations	381
Provisions	77
Accelerated tax depreciation	(6,385)
Revaluation of cash flow hedges	19
Share-based payment	<u>685</u>
Net tax liability	<u>(5,223)</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

12 Taxation (continued)

	Asset £ 000
2022	
Pension benefit obligations	333
Provisions	164
Accelerated tax depreciation	1,139
Revaluation of cash flow hedges	924
Share-based payment	518
Net tax asset	<u>3,078</u>

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 31 December 2023 £ 000
Accelerated tax depreciation	1,139	(7,524)	-	-	(6,385)
Pension benefit obligations	333	48	-	-	381
Share-based payment	518	174	-	(7)	685
Provisions	164	(87)	-	-	77
Revaluation of cash flow hedges	924	(618)	(287)	-	19
	<u>3,078</u>	<u>(8,007)</u>	<u>(287)</u>	<u>(7)</u>	<u>(5,223)</u>

Deferred tax movement during the prior year:

	At 1 January 2022 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	7,254	(6,115)	-	-	1,139
Pension benefit obligations	267	66	-	-	333
Share-based payment	403	112	-	3	518
Provisions	-	164	-	-	164
Revaluation of cash flow hedges	(75)	234	765	-	924
Tax credits and loss carried forward	3,693	(3,693)	-	-	-
	<u>11,542</u>	<u>(9,232)</u>	<u>765</u>	<u>3</u>	<u>3,078</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

13 Intangible assets

	Trademarks, patents, licenses and customer relationships £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation			
At 1 January 2023	40	50,348	50,388
Additions	-	11,761	11,761
Disposals	-	(285)	(285)
At 31 December 2023	<u>40</u>	<u>61,824</u>	<u>61,864</u>
Amortisation			
At 1 January 2023	-	38,500	38,500
Charge for year	-	7,727	7,727
Net impairment charge	-	5	5
At 31 December 2023	<u>-</u>	<u>46,232</u>	<u>46,232</u>
Carrying amount			
At 31 December 2023	<u><u>40</u></u>	<u><u>15,592</u></u>	<u><u>15,632</u></u>
At 31 December 2022	<u>40</u>	<u>11,848</u>	<u>11,888</u>

The net impairment charge of £5,000 (2022: net impairment reversal of £130,000) in respect of internally generated software development costs was due to the recoverable amount of the CGU (i.e., each retail store), which was the higher of its fair value less the costs of disposal and value in use, being lower than the CGU's carrying amount. The impairment charge recognised during the year relates to stores that are already planned to be closed in the next twelve months.

The impairment reversals recognised in the prior year were driven by improved trading performance in certain stores during 2022, leading to the reversal of previous asset impairments. Unless these stores are now planned for closure, no additional impairment charges have been recognised on these assets with prior year impairment reversals. Additionally, no further impairment reversals were recognised in the current year.

Included within internally generated software costs at 31 December 2023 was an amount of £4,693,000 (2022: £731,000) relating to internally generated software and development costs in the course of construction. Amortisation does not commence until assets are complete and available for use.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

14 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2023	146,499	354,086	500,585
Additions	14,374	32,998	47,372
Disposals	(4,021)	(10,104)	(14,125)
At 31 December 2023	<u>156,852</u>	<u>376,980</u>	<u>533,832</u>
Depreciation			
At 1 January 2023	72,750	203,876	276,626
Charge for the year	11,126	38,034	49,160
Eliminated on disposal	(3,450)	(8,850)	(12,300)
Net impairment charge	-	1,822	1,822
At 31 December 2023	<u>80,426</u>	<u>234,882</u>	<u>315,308</u>
Carrying amount			
At 31 December 2023	<u><u>76,426</u></u>	<u><u>142,098</u></u>	<u><u>218,524</u></u>
At 31 December 2022	<u>73,749</u>	<u>150,210</u>	<u>223,959</u>

An impairment charge of £1,822,000 was recognised during the year in respect of furniture, fittings and equipment (2022: net impairment reversal of £241,000 and £4,523,000 recognised on land and buildings and furniture, fittings and equipment, respectively). The impairment recognised was due to the recoverable amount of the CGU (i.e., each retail store), which was the higher of its fair value less the costs of disposal and value in use, being below the CGU's carrying amount. The impairment charge recognised during the year relates to stores that are already planned to be closed in the next twelve months. The fair value less costs of disposal is calculated using a multiple of 2.1 of the store's net sales revenue (2022: net sales revenue multiple of 2.1). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.8% (2022: 7.1%).

The impairment reversals recognised in the prior year were driven by improved trading performance in certain stores during 2022, leading to the reversal of previous asset impairments. Unless these stores are now planned for closure, no additional impairment charges have been recognised on these assets with prior year impairment reversals. Additionally, no further impairment reversals were recognised in the current year.

Included within property, plant and equipment was an amount of £13,397,000 (2022: £11,980,000) relating to expenditure for leasehold improvements and new store openings in the course of construction. Depreciation does not commence until assets are complete and available for use.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Right-of-use assets

	Motor vehicles £ 000	Property £ 000	Total £ 000
Cost or valuation			
At 1 January 2023	26,307	602,303	628,610
Additions	4,437	54,783	59,220
Modifications	(114)	814	700
Disposals	(2,588)	(46,253)	(48,841)
Transfer to lease receivable	-	(2,331)	(2,331)
At 31 December 2023	<u>28,042</u>	<u>609,316</u>	<u>637,358</u>
Depreciation			
At 1 January 2023	11,095	239,427	250,522
Charge for the year	5,741	70,203	75,944
Eliminated on disposal	(2,588)	(46,253)	(48,841)
Transfer to lease receivable	-	(2,205)	(2,205)
Net impairment charge	-	1,027	1,027
At 31 December 2023	<u>14,248</u>	<u>262,199</u>	<u>276,447</u>
Carrying amount			
At 31 December 2023	<u>13,794</u>	<u>347,117</u>	<u>360,911</u>
At 31 December 2022	<u>15,212</u>	<u>362,876</u>	<u>378,088</u>

An impairment charge of £1,027,000 was recognised during the year in respect of leased properties (2022: net impairment reversal of £9,603,000 and £133,000 recognised on leased properties and eased motor vehicles, respectively). The impairment recognised was due to the recoverable amount of the CGU (i.e., each retail store), which was the higher of its fair value less the costs of disposal and value in use, being below the CGU's carrying amount. The impairment charge recognised during the year relates to stores that are already planned to be closed in the next twelve months.

The fair value less costs of disposal is calculated using a multiple of 2.1 of net sales revenue (2022: net sales revenue multiple of 2.1). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.8% (2022: 7.1%).

The impairment reversals recognised in the prior year were driven by improved trading performance in certain stores during 2022, leading to the reversal of previous asset impairments. Unless these stores are now planned for closure, no additional impairment charges have been recognised on these assets with prior year impairment reversals. Additionally, no further impairment reversals were recognised in the current year.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Investments

Investments in Subsidiaries	Total £ 000
Cost or valuation	
At 1 January 2023	165,749
Additions	15,254
Impairment charge	(19,127)
Disposals	(1,326)
At 31 December 2023	160,550

In 2023, the Company invested an additional £15,254,000 into Costa Express Malaysia Sdn. Bhd in exchange for ordinary shares.

In 2023, the Company recognised impairment charges for the investments in Coffeeheaven International Limited (£178,000), Costa Europe sp zo.o.o. (£534,000), Costa Express Malaysia Sdn Bhd. (£18,414,000), and Costa Europe Services sp z.o.o. (£1,000). In 2023, the Company did not reverse any prior year impairment charges.

In 2023, the Company sold Costa Coffee Polska S.A., and SIA Coffee Nation (an indirect subsidiary) to Lagadere Travel Retail. The carrying value of these investments was £1,326,000.

The impairment recorded on the Company's investment in Costa Express Malaysia Sdn Bhd. was due to challenging macro-economic factors in Malaysia. This has contributed to lower consumer spending within the Malaysia market resulting in the entity not meeting its forecasted profitability. The Company calculated the recoverable value of its investment in Costa Express Malaysia Sdn Bhd. using a discounted cash flow method to estimate the investment's value-in-use. The estimated future cash flows of Costa Express Malaysia Sdn Bhd. are discounted to their presented value using a post-tax discount rate of 7.52%.

Details of investment in subsidiaries as at 31 December 2023 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2023	2022
Coffeeheaven International Limited	Operator of coffee shops	England 3 Knaves Beach Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa Catering Management (Shanghai) Co. Ltd	Catering management	China Room 3002, ICP, No 1318 North Sichuan Road, Hongkou District, Shanghai, 200080.	100%	100%

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2023	2022
Coffee Corporate Services Limited	Provision of research and development services	England 3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	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.	99.9%	99.9%
Costa Coffee Polska S.A.	Operator of coffee shops	Poland Chłodna 52, 00-872 Warsaw.	-%	100%
Costa Express Holdings Limited	Holding company	England Knives 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.	100%	100%
Costa France S.A.S.	Operator of coffee shops	France 52 rue de la Victorie 75009, Paris.	100%	100%
Costa International Limited	Franchise business	England 3 Knives Beach Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa Singapore Private Limited	Franchise business support	Singapore 38 Beach Road, #29-11 South Beach Tower, Singapore, 189767.	100%	100%

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2023	2022
Costa Express GmbH	Provision of marketing support services	Germany Ecos Office Centre Eschborn Alfred-Herrhausen-Allee 3-5 65760 Eschborn.	100%	100%
Cuppa-Cino Trading Limited	Leaseholder of train platform kiosks	United Kingdom 3 Knaves Beach Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa Trading (Shanghai) Co., Ltd	Food and beverage management and operation of retail coffee shops.	Shanghai Room 705B, Auxiliary Building, No. 205 South Maoming Road, Shanghai, Huangpu District.	100%	100%
Costa Europe Services sp z.o.o.	Franchise business support, and warehousing and distribution services	Poland Chlodna 52, Warsaw, 00-872.	100%	100%
Costa Europe sp z.o.o.	Sales, marketing and distribution; administrative, management or support services	Poland Chlodna 52, Warsaw, 00-872.	100%	100%
Costa Express Canada Limited	Operator of branded coffee machines	Canada C/o Accu-Search Inc, 215 10205-101, Street Edmonton. AB T5J 2Y9, Canada	100%	100%
Costa USA LLC	Provision of management services	USA One Coca-Cola Plaza, Atlanta, GA, 30313.	-%	100%
Costa Coffee Bulgaria EOOD	Provision of digital engineering services	Bulgaria Racho Petkov - Kazandzhiala No.8, Sofia, 1766.	100%	100%

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2023	2022
Costa Express Limited*	Operator of branded coffee machines	England 3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, England, HP10 9QR.	100%	100%
Coffee Heaven Holdings Limited*	Holding company	England 3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa China Holdings Limited*	Holding company	England 3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa Coffee MENA DMCC Limited*	Franchise business	Dubai Unit No. Almas-33-A, Almas Tower, Plot No. LT-2, Jumeirah Lakes Towers.	100%	100%
Costa Beijing Limited*	Holding company	England 3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%
Costa Coffee (Shanghai) Co Limited*	Operation of Costa coffee shops	China Science and Technology Centre, Room B1, Block F, No. 666 East Beijing Road, Shanghai, 200080.	100%	100%

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2023	2022
Costa Coffee (Beijing) Co Limited*	Coffee retailer	China Room 524, 5F, Sichuan Building East, No.1 Fu Wai da Jie, Xicheng District, Beijing.	100%	100%
SIA Coffee Nation*	Operator of coffee shops	Latvia Leriku iela 3, Riga, LV-1084.	100%	-%
CHI Hungary Kft*	Dormant	Hungary Ugocsa utca 4.B.ep., 1226-Budapest.	100%	100%
PSU2 Kft*	Dormant	Hungary Ugocsa utca 4.B.ep., 1226-Budapest.	100%	100%

* Held by a subsidiary undertaking.

17 Inventories

	2023	2022
	£ 000	£ 000
Raw materials and consumables	11,845	9,579
Finished goods and goods for resale	22,165	22,134
	<u>34,010</u>	<u>31,713</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Trade and other receivables

	2023	2022
	£ 000	£ 000
Current		
Trade receivables	44,247	47,370
Provision for impairment of trade receivables	<u>(485)</u>	<u>(1,120)</u>
Net trade receivables	43,762	46,250
Amounts owed from group companies	10,398	53,033
Prepayments	17,126	17,882
Other receivables	21,306	16,934
Current lease receivables	<u>2,723</u>	<u>2,190</u>
Total current trade and other receivables	95,315	136,289
Non-current lease	<u>24,566</u>	<u>21,476</u>
Total current and non-current receivables and other receivables	<u>119,881</u>	<u>157,765</u>

Amounts due from group companies are interest free and repayable on demand. Included in trade receivables are balances related to related parties of £2,152,000 (2022: £450,000), who are not 100% wholly-owned subsidiaries of The Coca-Cola Company. Included in other receivables is a balance of £Nil relating to subsidiaries of Coca-Cola Europacific Partners (CCEP), with CCEP being a related party that is not wholly owned by The Coca-Cola Company (2022: £418,000 relating to subsidiaries of CCEP and Coca-Cola Hellenic Bottling Company (CCH), with both CCEP and CCH being related parties that are not wholly owned by The Coca-Cola Company).

During the period, the Company reversed a provision against amounts owed from group companies of £886,000 (2022: impairment charge of £3,925,000).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 Derivative financial instruments

	2023 £ 000	2022 £ 000
Current financial liabilities		
Derivatives used for hedging - forward coffee contracts	<u>73</u>	<u>3,696</u>

20 Trade and other payables

	2023 £ 000	2022 £ 000
Trade payables	170,645	138,146
Accrued expenses	95,708	102,289
Deferred income	21,625	22,331
Amounts due to group companies	136,217	90,511
Social security and other taxes	26,331	27,244
Other payables	<u>4,058</u>	<u>14,291</u>
	<u>454,584</u>	<u>394,812</u>

Amounts due to group companies are interest free and repayable on demand. Deferred income includes unredeemed loyalty points and gift cards.

Included in trade payables is a balance of £405,000 (2022: £Nil) relating to Coca Cola Europacific Partners (CCEP), who are not a 100% wholly-owned subsidiary of The Coca-Cola Company.

Included in accrued expenses is a balance of £10,236,000 (2022: £14,030,000) relating to subsidiaries of CCEP and CCH, with both CCEP and CCH being related parties that are not wholly owned by The Coca-Cola Company.

To improve working capital efficiency, in the prior year, the Company revised payment terms with suppliers to 60 or 120 days. Two global financial institutions offer a voluntary supply chain finance (SCF) program, allowing suppliers to sell receivables to these institutions on a non-recourse basis, leveraging the Company's credit rating. Participation in the SCF program is solely at the supplier's discretion and does not affect the agreed payment terms or the Company's obligations. Supplier participation in SCF is reflected under "Trade and other payables" in the financial statements. As of 31 December 2023, supplier balances under the SCF program totalled £93.4m (2022: £89.5m).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

21 Capital commitments

As at 2023 year end the Company had the following capital commitments:

Nature of services procured	2024	2025	Total
	£'000	£'000	£'000
Global IT service desk management and support	3,813	3,147	6,960

Separately, and as part of the contract with the supplier of the above, an early termination charge is in force and amounts to £598,000 as at December 2023 (2022: £598,000).

22 Provisions

	Restructuring	Insurance	VAT	Total
	£ 000	Claims	£ 000	£ 000
	£ 000	£ 000	£ 000	£ 000
At 1 January 2023	2,772	1,885	473	5,130
Additional provisions	1,321	858	1,116	3,295
Provisions used	(1,725)	(516)	-	(2,241)
Unused provision reversed	-	(294)	(1,112)	(1,406)
At 31 December 2023	<u>2,368</u>	<u>1,933</u>	<u>477</u>	<u>4,778</u>

Restructuring Provision

Relates to dilapidation costs in respect of announced store closures with expected cash outflows over the next 12 months.

Insurance Claims

Relates to current and potential future claims from customers with expected cash outflows over the statute of limitation period.

VAT Provision

Relates to the input VAT not yet claimed due to rental payments being paid to landlords, but VAT invoices not yet received and with an ageing of at least 6 months.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

23 Called-up share capital

Allotted, called-up and fully paid shares

	2023 (000's)		2022 (000's)	
	No.	£	No.	£
Ordinary of £1 each	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>

Equity

Called-up share capital

Share capital comprises the nominal value of the Company's ordinary shares of £1 each.

Retained earnings

Retained earnings comprises the accumulated net profits and losses retained after dividends and other distributions.

Other reserves

Other reserves comprise the hedge reserve on financial derivatives, share-based payments and capital contributions which arose upon acquisition by The Coca-Cola Company in 2019.

24 Pension and other schemes

Defined contribution pension 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 year amounted to £8,145,000 (2022: £7,534,000). The amount outstanding at year end was £1,628,000 (2022: £1,509,000) and is included in other payables.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

25 Share-based payments

The Compensation Committee of The Coca-Cola Company have 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 the fulfilment of certain employee service periods, with some reliant on certain performance targets also being achieved. 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 recharge to the Company from The Coca-Cola Company in respect of the share-based plans during the financial year ended 31 December 2023 was a charge of £250,000 (2022: £941,000). Of the £250,000 share-based payment charge in the period, £565,000 relates to charges in the year and credit of £315,000 relates to FX movements. Of the £565,000 charge in the year, £1,154,000 relates to the RSU schemes, and a credit of £589,000 relates to under-performance of the PSU schemes.

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.

The long-term incentive plan (LTIP) awarded shares to Directors and senior executives of the Company. Vesting of all shares under the scheme depended on continued employment on the vest date and meeting revenue, profit and return on invested capital (ROIC) performance targets over a three-year period (the vesting period). The awards are settled in equity once exercised.

Restricted stock awards

Awards are not subject to performance conditions and vest 1/3 after 2 years and 2/3 after 3 years. Vesting of all the shares under the scheme is subject to continued employment at that date.

26 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 7 years. Store property leases generally have lease terms up to 35 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. The amount recognised as sub-lease income during the year was £716,000 (2022: £546,000).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

26 Leases (continued)

Lease accounting

Note 15 details the accounting of right-of-use assets in the financial year.

The accounting of lease liabilities in the financial year are as follows:

Lease liabilities

	2023 £ 000	2022 £ 000
As 1 January	445,743	476,385
Additions	60,943	74,805
Modifications	111	(20,904)
Interest expense	12,016	10,486
Payments	(89,776)	(95,035)
Exchange rate (gain)/loss	(2)	6
As at 31 December	<u>429,035</u>	<u>445,743</u>

Leases included in creditors:

	2023 £ 000	2022 £ 000
Less than one year	82,863	84,399
Between two to five years	227,123	240,116
Greater than five years	119,049	121,228
Total lease liability	<u>429,035</u>	<u>445,743</u>

	2023 £ 000	2022 £ 000
Current portion of long-term lease liabilities	82,863	84,399
Long-term lease liabilities	<u>346,172</u>	<u>361,344</u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

26 Leases (continued)

Amounts recognised in profit and loss:

	2023 £ 000	2022 £ 000
Depreciation of right-of-use property	70,203	69,842
Depreciation of right-of-use motor vehicles	5,741	5,479
Interest expense on lease liabilities	12,016	10,486
Expense on short term leases (included in operating costs)	14,049	11,233
COVID-19 related rent concessions	(59)	(1,420)
Sublease operating lease income	(716)	(546)
Turnover rent	<u>25,371</u>	<u>26,332</u>
Total amount recognised in profit and loss	<u>126,605</u>	<u>121,406</u>

Total cash outflows related to leases:

Total cash outflows related to leases are presented in the table below:

	2023 £ 000	2022 £ 000
Right of use assets	89,776	95,035
Turnover rent	<u>25,371</u>	<u>26,332</u>
Total cash outflow	<u>115,147</u>	<u>121,367</u>

The Company had total net cash outflow of £115,147,000 (2022: £121,367,000) 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 year ended 31 December 2023:

	Fixed payments £ 000	Variable payments (based on sales) £ 000	Total payments £ 000
Leases with lease payments based on sales	<u>20,496</u>	<u>25,371</u>	<u>45,867</u>

The estimated annual impact on total payments of a 5% increases in sales would be £2,269,000 (2022: £2,672,000).

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

26 Leases (continued)

Extension and termination option

The Company 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 Company'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	-	3,950	3,950
Termination options expected to be exercised	1,624	-	1,624
	<u>1,624</u>	<u>3,950</u>	<u>5,574</u>

Leases commencing in the future

The Company has various lease contracts that will commence after 31 December 2023. The future lease payments for these non-cancellable lease contracts are £872,000 (2022: £573,000) within one year, £9,158,000 (2022: £7,884,000) within five years and £21,763,000 (2022: £19,813,000) thereafter.

COVID-19-related rent concessions

The Company has elected to apply the Covid-19 Related Rent Concessions amendment to IFRS 16 in the current year as described in Note 2. Eligible rent forgiveness amounts have been treated as negative variable lease payments, resulting in a credit of £59,000 (2022 : £1,420,000) for the 52 weeks to 31 December 2023 being recorded in Operating costs.

Sub-leasing

The Company does sub-let space in some of its leased property portfolio to certain franchise partners, where the Company will act as tenant on the headlease to secure the location from the landlord and sub-let the whole of the property to the franchise partner. Additionally, the Company will on some occasions sub-let properties that have ceased to trade before expiry of the lease. In these situations, the Company will seek to sub-let either the whole or part of these properties to mitigate the rental charges over the remaining lease term. The amount recognised as sub-lease operating lease income during the year was £716,000 (2022: £546,000).

The maturity analysis of the lease payments is as follows:

	2023 £ 000	2022 £ 000
Less than one year	3,091	3,073
Between two to five years	10,392	10,434
Greater than five years	12,163	13,110
Total lease liability	<u><u>25,646</u></u>	<u><u>26,617</u></u>

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

27 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.

Costa Limited trades with associate companies of The Coca-Cola Company. In 2023, Costa Limited recognised total sales for these companies of £8,797,000 (2023: £2,302,000) and cost of sales of £72,000 (2022: £2,613,000).

28 Parent of group in whose consolidated financial statements the Company is consolidated

The name of the smallest and largest 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.

29 Parent and ultimate parent undertaking

The Company's immediate parent is European Refreshments Unlimited Company. The ultimate parent is The Coca-Cola Company, Atlanta, Georgia, USA. The smallest and largest parent preparing consolidated financial statements is The Coca-Cola Company. The ultimate controlling party is The Coca-Cola Company.

30 Events after the balance sheet date

On 27 March 2024, the Company received a dividend of £20m from its wholly owned subsidiary, Costa International Limited.

On 28 March 2024, the Company received a dividend of £65m from its wholly owned subsidiary, Costa Express Holdings Limited.

On 11 April 2024, the Company subscribed £48.6m for 48,646,000 ordinary shares in its wholly owned subsidiary, Costa International Limited, who in turn invested these funds via its wholly owned subsidiary, Costa China Holdings Limited, into Costa Coffee (Shanghai) Co Limited.

On 12 April 2024, the Company paid a dividend of £80m to its parent, European Refreshments Unlimited Company.

There were no other significant events between the balance sheet date and the date of signing of the financial statements affecting the Company which requires adjustment or further disclosure in the financial statements.