Costa Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Company number: 1270695

COSTA LIMITED

Contents

COSTA LIMITED

Company Information

Registered number:	1270695
Directors	N Lake J Crookall G Mowat A Cook
Company secretary	S Savjani
Registered office	Costa House, Houghton Hall Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG
Statutory auditor	Ernst & Young LLP 400 Capability Green, Luton, Bedfordshire, LU1 3LU

Strategic Report for the Year Ended 31 December 2021

The Directors present their Strategic report on Costa Limited (also referred to as the "Company" or "Costa") for the year ended 31 December 2021. Where referenced, Costa Group and Costa Coffee refers to the Company and all of 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. Coffee is sold through a chain of coffee shops, both owned and franchised, and to wholesale customers.

The Company aims to produce and serve the best, hand-crafted coffee and fresh food to customers through well designed stores, products, and digital offerings. Costa has established and continues to establish an international multi-platform strategy with equity stores, Costa Express machines, franchises and wholesale operations in Europe, Asia Pacific, the Middle East, the Americas, and Africa. The Directors believe that this multi-platform "Total Coffee Company" proposition will continue to further build on its international foundations.

Business review

Covid remained a challenge in 2021, particularly in the first half of the year with the third national lockdown occurring in January and government restrictions remaining in place until July. Following the easing of restrictions, the Company saw trading steadily improve as market footfall increased, although performance in the final quarter of the year was again impacted with the rapid rise of the Omicron variant.

Despite this, the Company continued to innovate and invest in its future growth, offering new products, rolling out digital propositions such as order and collect, and growing its Drive-Thru business. The national relaunch of its new loyalty scheme, for example, followed a successful trial with all six million members transferring to the new scheme that offers market leading consumer value as well as forming part of Costa's commitment to sustainability with enhanced value for consumers with a reusable cup.

The Company's fast-moving consumer goods (FMCG) business continued to grow both in the UK and internationally via The Coca-Cola Company's distribution network, with 2021 being a strong year for Costa. FMCG has grown both at home and internationally with Costa entering new markets with it's ready to drink and packaged coffee products.

Costa is well placed to continue to grow its multi-market and platform businesses. In addition to investing in consumer propositions, the Company continued to invest in physical stores, opening 64 equity stores in the year. A further 42 sites were opened by our franchise and corporate partners.

Market recovery, investments in consumer propositions and new site openings helped grow the business, allowing Costa to invest in people by increasing the hourly wage of UK equity store team members by at least 5% from 1st October 2021. Costa remains committed to putting team members first, investing in their safety and wellbeing and their long-term development, ensuring we remain a great place to work for all our current and future team members.

2021 Performance highlights

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

	2021 £'000	Restated 2020 £'000	Change
Turnover (continuing operations)	923,174	603,588	53%
Operating profit/(loss)	(33,443)	(217,908)	(85)%
Loss for financial year	(38,147)	(193,024)	(80)%
Net assets	227,606	263,646	(14)%
New Store openings	64	63	2%
Capex for new store openings	25,153	25,800	(3)%

The loss for the year after taxation, is £38,147,000 (2020 restated: £193,024,000).

Principal risks and uncertainties

Brand perception

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

Mitigation: The Company ensures we have a well-known brand that is well marketed to consumers. With a large database of loyalty consumers in the UK, perception and performance data is significant and accessible, and drives marketing investment decisions. Across all key markets, regular consumer research is done to measure sentiment, net promoter score and share, in order to constantly check brand performance. As a total coffee company, the Company's brand perception is built through multiple touchpoints including store experiences and FMCG products, as well as self-serve (Express) experiences. Marketing spend therefore is wide-ranging across stores, digital programmes, shopper environments and advertising to ensure brand awareness and equity are continually invested in. This enables the brand to flex marketing investment to ensure brand and business objectives are met.

Political and economic climate impact

Risk: Uncertain/volatile political and economic climate results in a decline in GDP, consumer and business spending and inflation pressure impacting growth plans. The impact of Brexit has resulted in disruptions to coffee exports, raw material imports, the availability of labour, an increased financial exposure on foreign exchange and duty tariffs, and a UK supply base that is not prepared for the changes in regulatory framework relating to the export of composite food or food contact materials.

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

The Brexit risks being identified and mitigated are split between macro-economic risks relating to consumer attitude and behaviour, and micro-economic risks relating to the export supply of roasted coffee, raw material imports, the hiring and retention of labour, plus financial related risks around foreign exchange and duty tariffs. Contingency plans are in place and continue to evolve with our major suppliers to help maintain the supply of key product lines and alternatives. The Costa Group has established third party roasting, manufacturing, and warehousing relationships to service its growing international customer base. Food risk has been mitigated by a master data and commodity-code cleanse, and the recruitment of a Trade Compliance team.

Invasion of Ukraine

On 8 March 2022, The Coca-Cola Company announced the suspension of its business in Russia as a result of the conflict in Ukraine. After making enquiries, the Directors do not expect this suspension of business to have a material adverse impact on the Company's ability to continue as a going concern.

Roastery

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

Mitigation: The workforce at the roastery is long standing and experienced thereby mitigating this risk and use is made of an independent risk engineering report. There is also a contingency plan which includes roasting coffee elsewhere if required, the supplier regularly grind and pack coffee for our business. In addition to holding sufficient stocks of roasted beans, we also have a selection of coffee roasters that regularly roast-pack coffee on our behalf for local markets.

Principal risks and uncertainties (continued)

Climate Change

Risk: Climate change may impact coffee bean prices.

Mitigation: The Company plans to undertake a review of potential risks that may result from climate change and that could potentially impact its business during the next financial year. An update on this work and any changes to principal risks and uncertainties associated with climate change will be provided in the Company's next Strategic Report. Further information on climate change is available in the Sustainability section below.

Staff engagement and retention

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

Mitigation: The success of the Company's businesses would not be possible without the passion and commitment of its teams. Team engagement is fundamental. This is monitored closely through our regular engagement surveys 'Costa and Me', the results of which are reviewed by the Executive Committee and the Board, with trends analysed and appropriate actions reviewed and agreed. Human resource systems are also being upgraded to provide greater insight. Team retention is a key component of the Company's review of performance.

Global Pandemic

Risk: A global pandemic results in significant uncertainty for the UK/global economy.

Mitigation: Ensuring the safety of its employees, customers, and consumers, whilst adhering to government and local guidelines, was the Company's number one priority during the Coronavirus (COVID-19) global pandemic that began in 2020. The Company's Directors also took steps to protect the business and manage cash through the crisis in order to ensure that the business emerged from it stronger and ready to grow in the future. The procedures and learnings developed as a consequence of the COVID-19 pandemic continue to form part of the Company's ongoing approach to its disaster recovery and risk planning.

Cyber and data security

Risk: Cyber and data security reduces the effectiveness of systems or results in a loss of data. This in turn could result in loss of income and/or reputational damage.

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

Change management

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

Mitigation: The Company has an ongoing extensive programme of change, supported and coordinated by regional, functional and central transformation teams. Change programmes include developing and rolling out enabling systems in Finance and Supply Chain, at point of sale, as well as customer relationship management and human resource systems to improve end to end processes and facilitate evolving business models. This is alongside the Company's on-going efficiency programme, as well as continuous upgrading of digital capability and customer propositions, enabling Costa to deliver its growth plans over the coming years. To help ensure the successful delivery of these change projects, internal project delivery expertise and capability has been significantly enhanced, and governance frameworks are in place, coupled with regular reporting to the Executive Committee.

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 on pages 5 to 8 and form part of this report by cross reference.

1. Purpose and leadership

Purpose
The Company's purpose is to inspire the world to love great coffee, and its vision to become the world's most loved coffee brand. 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
To deliver Costa's vision it is important that we maintain and continue to build on our reputation as a company that conducts business in an ethical way - that we care for the community we serve and that we respect our people, customers, partners and the wider world.

The Company's continued growth and success depends on our shared values of passion, warmth, courage, and trust. Costa's internal Code of Conduct captures our business practices and behaviours and helps our employees to understand what we value. Everyone at Costa has a part to play in upholding our values and be committed to delivering the highest of standards, by bringing passion and warmth to work, and by respecting our teams and customers.

Costa 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, Costa celebrates individuality and encourages a community where everyone is welcomed and free to be themselves.

Costa Group's Human Rights Policy applies to the Company and also expects franchise partners and suppliers to uphold the principles and urges 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 and covers:

- Diversity and inclusion
- Safe and healthy workplace
- Work hours, wages and benefits
- Freedom of association and collective bargaining
- Workplace security
- Land rights and water resources
- Child labour
- Forced labour and human trafficking
- Healthy lifestyles

Further details can be found in the 'Polices and reports' section of the Costa brand website www.costa.co.uk.

In 2019, the Company adopted a new leadership signature - "Think customer, think big, think bold; Obsessive about growth; Execute with pace; Champion our values". This leadership signature is our way of capturing how we set out to lead at Costa. It not only defines the behaviours that we expect of each other and those we lead and inspire, but how we behave with our customers, consumers, and partners. The Company's annual employee survey is used to monitor the Company's employees' perceptions of the extent to which the Company's values are exhibited by the Company's management and team members.

The Wates Corporate Governance Principles (continued)
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. During the year, the Costa Foundation built its hundredth school in Ethiopia. Further details can be found in the 'Behind the Beans' section of the Costa brand website www.costa.co.uk.

Strategy
The Company aims to produce and serve the best, hand-crafted coffee and fresh food to customers through well designed stores, products, and digital offerings. Costa has established and continues to establish an international multi-platform strategy with equity stores, Costa Express machines, franchises and wholesale operations in Europe, Asia Pacific, the Middle East, the Americas, and Africa.

The Company's strategy and Long-Range Plan were discussed regularly by the Company's Executive Committee. The Long-Range Plan is focused on building the Costa brands' global brand preference and differentiating Costa from its competition as a total coffee company by virtue of the range of platforms available to distribute coffee.

Costa Coffee is a responsible business committed to minimising our impact on the environment and promoting good environmental practice, and, as a founding signatory to the British Retail Consortium's Climate Roadmap, committed to tackling climate change.

The Company's *environmental policy statement* sets out our approach to managing our environmental impact. We aim for continual improvement in mitigating our direct environmental impact, reducing use of natural resources, and preventing pollution. We will apply this policy to all of Costa's activity in the UK, at sites where the company has direct operational control.

The Company's *energy policy statement* aims to achieve continual improvement in our energy efficiency whilst increasing the business's overall sustainability in line with the Global Environment Policy. The policy is applied to Costa's activities within the UK and Ireland business at sites where the company has direct operational control.

Further details on the Company's environment and energy policy statements can be found in the 'Policies and reports' section of the Costa brand website www.costa.co.uk.

During the reporting period the Company evaluated its entire global value chain, from coffee farms through to its unique takeaway waffle cups using 2019 as a base year. This was used to develop the following science-based reduction targets: to reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a 2019 base year and to reduce scope 3 GHG emissions 50% per coffee serving within the same timeframe. These targets were submitted to the Science Based Targets Initiative to assess and validate that our targets were aligned with their methodology. This approval was granted in September 2021. Further details are available on the Company's website.

The Wates Corporate Governance Principles (continued)

2. Board composition

Size and structure

During the year, the Board of Directors consisted of five members; the Chief Executive Officer (CEO), Chief Financial Officer, Chief People Officer, the Managing Director Europe, Middle East and North Africa, and the Managing Director UK and Ireland which reflected the balance and skills required to effectively manage the Costa business. Meetings held throughout the year are usually chaired by the CEO.

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

Balance and diversity

Costa is committed to a diverse leadership team comprised of directors from different backgrounds with relevant experience, perspectives, skills and knowledge. We believe that diversity, amongst directors and employees contributes towards a high performing and effective leadership team and business, and promotes the Company's ongoing success. The size and structure of the Board is consummate with companies of a similar scale and size and meet the Group's strategic needs and enable effective decision making. Costa is committed to providing equal opportunities throughout its Board appointments, including in 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

We undertake an annual Board evaluation to consider the effectiveness of our Board. The Board is competent and well run ensuring high quality decisions that address diverse customer and stakeholder needs. Where necessary 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

3. Director responsibilities

The Company is the parent company of a number of subsidiaries which operate various Costa branded businesses. The day-to-day management of the Group is delegated to an Executive Committee which comprises the Board members as well as:

- Chief Information Officer
- Chief Marketing Officer
- Chief Supply Chain Officer
- General Counsel
- Global Retail and Franchise Director
- Global Strategy Director
- Managing Director International

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

Accountability and responsibility for decisions are closely defined in a detailed Delegation of Authority (DOA). The DOA sets out a robust internal control process via the requirement for a "request for approval" 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 revenue agreements.

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

The Wates Corporate Governance Principles (continued)
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. The Company's Internal Controls team ensures that a risk and controls framework is established for both financial and operational controls and that meets SOX requirements, and this framework is audited annually by The Coca-Cola Company's audit department.

The Remuneration Committee sets the Company's policy towards the remuneration of all of its employees. This is discussed further in the Remuneration section of the Wates Principles on page 8 of the Strategic Report.

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.

As a subsidiary of The Coca-Cola Company, the Company is required to put in place a system of internal controls to help the Company comply with the United States' Sarbanes-Oxley Act. 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. These are discussed in more detail in the Strategic Report on pages 3 to 4.

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

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

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

Section 172 statement (continued)
•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 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:

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

Costa & Me, our communication and engagement framework which launched in 2021, 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 store, operational and support service infrastructure. We have robust governance in place over all employee remuneration and reward matters, which are overseen by the Costa Remuneration Committee. There were no significant changes to remuneration or incentive structures during 2021.

Our Costa Values of Passion, Courage, Warmth and Trust and the required behaviour are reinforced throughout the Group through our recognition programmes and training - including our Code of Conduct, and leadership behaviours. 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 Costa Coffee's reputation.

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.

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

Suppliers
Suppliers are regularly assessed for their standards and compliance with Costa Coffee supplier guiding principles, the details of which can be found in the responsible sourcing section of the Costa brand website www.costa.co.uk.

Shareholders and other capital providers
The Company and the Costa Group was acquired by European Refreshments Unlimited Company, a wholly owned subsidiary of The Coca-Cola Company, on 3 January 2019. The Company only has debt with fellow Costa Group subsidiaries, meaning that the interests of all capital providers are aligned.

Community and the environment

The Directors have implemented sustainability practices, planning and initiatives that operate with the guiding principle to inspire the world to love great coffee. This year the Costa Group reviewed and revised its existing Behind the Beans sustainability strategy. As part of this review the business carried out a materiality review which involved engagement with key internal and external stakeholders to identify its most important sustainability issues.

Work to develop this new programme - called Coffee with Commitment - was largely complete by the end of 2021. This new programme is the Company's action plan to drive positive change in the areas where we can have the greatest impact, and that matter most to our teams, suppliers, partners, and our consumers. It sets out four global priorities: Coffee; Cups & Packaging; Climate; and Community. These priority themes are supported by other important issues we need to progress: Other Ingredients; Nutrition; Resources; and People.

Coffee
We recognise that to have a sustainable coffee business we need to invest in a sustainable coffee supply, ensuring that our coffee is grown in a way that protects the environment and allows the communities growing our coffee to thrive. We continue to buy 100% of our coffee from Rainforest Alliance certified farms. The Rainforest Alliance is a non-profit organisation, working to create a future in which people and nature thrive in harmony. By working together with farmers, businesses and consumers, its aim is to protect forests, improve the livelihoods of farmers and farming communities, and help them adapt to climate change. Although we can have an impact on our own, we know that we can achieve much more when we work together with our suppliers, knowledgeable partners, and the wider coffee industry. Over the coming years, we commit to openly sharing the learnings from our current and future coffee sustainability projects, as well as being inspired by the work of others around us.

Cups & packaging
We know that packaging is a complex issue, and we are proud of the steps we have taken to reduce our environmental impact so far, and committed to working together with our suppliers, partners, and the wider industry to drive further progress in future. Our ambition is to create circular packaging solutions. This means removing any packaging we don't need from our products, removing any chemicals that might damage the planet, recycling materials into new packaging to give it a longer life, and creating opportunities for refilling and reuse. Ultimately, we believe that the best way to create a more sustainable future for packaging is to move towards reuse. We work to make it easier for our customers to choose reuse, with innovative solutions and additional incentives like discounts helping to seal the deal. During the year, Costa introduced cups made from 100% plant-based materials in its UK coffee shops. The carbon footprint of these cups, when recycled, is 26% lower than standard to-go cups. The Company also refreshed its reusable cup incentive program, further encouraging consumers another option to play their part in helping to reduce waste. It also launched a reusable cup trial in 14 of its stores in Glasgow.

Climate
In July 2020, Costa joined the British Retail Consortium's Climate Roadmap as one of the founding signatories. This roadmap includes a commitment to tackle climate change that will accelerate the UK's progress to becoming Net Zero by 2040, ahead of the Government's 2050 target. To further this commitment during the year the Company evaluated its entire value chain, from coffee farms through to its unique takeaway waffle cups using 2019 as a base year. This was used to develop the following science-based reduction targets: to reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a 2019 base year and to reduce scope 3 GHG emissions 50% per coffee serving within the same timeframe. These targets were submitted to the Science Based Targets Initiative to assess and validate that the targets were aligned with their methodology. This approval was granted in September 2021. The Company has begun to create a transition roadmap to help it achieve its goals.

Community and the environment (continued)

Community
We aim to listen and really understand the most important issues and topics that matter to our communities, because the people we serve know what they need better than we do. In coffee-growing regions, we know from in-depth research and conversations that the best way for us to make a positive impact is by providing them with access to a safe, quality education. By supporting the Costa Foundation charity, Costa helps fund the construction of brand-new schools that give whole communities a better future. During the year, the Costa Foundation built its hundredth school in Ethiopia.

Further details on the Company's sustainability programme can be found on its website.

Principal Decisions

We define Principal decisions taken by the Board as those decisions 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

The principal decisions made during the year related to the approval of capital expenditure, entering into contracts for IT services and customer agreements, and the sales and acquisition of businesses.

Capital expenditure
In 2021 Costa invested £25.2m in relation to new stores, opening 64 in the year of which 42 were drive-thrus.

Finance ERP
The Costa Group invested a further £8.3m in its Finance ERP in 2021 (2020: £28.0m), and is continuing its journey to transform finance processes and capabilities across accounts, purchasing, and invoicing away from legacy systems and services to a modern, automated Microsoft Dynamics solution. Costa is now running its UK&I hub operations on a modern, cloud-based solution globally supported by Microsoft. The platform is able to support the growth, scale, and international ambitions of Costa over time.

Store Infrastructure
The Company has made capital investment of £9.6m in UK&I stores infrastructure upgrading the network capability (2020: £2.7m). The capital investment replaces out of date manual processes with a digital technology platform to enable automation, data insight and auditability for the Baristas working in the stores.

Costa in now running on a modern, cloud- based solution across its UK stores replacing the legacy fixed lines. Store network capability now means that Costa can develop and roll out the next generation of digital services for both operations and consumers. Digital 'compliance tablets' have also been rolled out enabling stores to move away from manual paper-based process to automated monitoring. The new platform is able to support growth, scale, and other store services such as payments and Internet of Things.

Digital Capability
Costa have listened to consumer feedback which shows that behaviours and expectations have shifted significantly with regards to their preferred in-store experience. Consumers want reduced queuing, reduced time in store, and cashless services with access to more digital services.

Principal Decisions (continued)
Digital Capability (continued)

As such, the Costa global leadership teams were all aligned to the digital pivot in 2021 and the company invested £5.1m (2020: £5.4m) on digital capability across the UK. Consumers are now able to use digital capability for services such as: collect, delivery, Costa mobile apps and payment. The platform is able to support growth, scale, and store services such as promotions and kerbside as well as enabling Costa to pilot new loyalty and gamification services. A global Costa website and store locator was also delivered to multiple new markets.

IT Service Contracts

During the period the Group started its transition from the existing IT Service Provider Fujitsu, to new contracts with Ultimate and Coforge to provide hosting and IT services respectively and Exponential-e to provide network services, with the transition work completing in 2022.

Customer Agreements

During the year the Company renewed a number of significant customer agreements with long established partners along with a number of new customer agreements in line with our strategy for growth.

Sales and Acquisition of Businesses

On 11 August 2021, Costa Limited announced that it had entered into an agreement to sell the Express business organised part of Costa Coffee Polska S.A. to Coca-Cola HBC Polska. The sale was enacted on 31 October 2021.

On 28 October 2021, Costa Beijing Limited, a wholly owned subsidiary of Costa Limited, reached an agreement with Beijing Hualian Jiahe Investment Management Co., Ltd to acquire the remaining 50% equity in Hualian Costa (Beijing) Food & Beverages Management Company Limited. The acquisition of the business transacted on 13 December 2021 at which point Hualian Costa (Beijing) Food & Beverages Management Company Limited became a wholly owned subsidiary of Costa Beijing Limited.

On 21 September 2021, Costa Limited announced that it had reached an agreement to sell two of its companies, Costa Coffee Polska S.A. (a subsidiary in Poland operating 128 retail stores) and SIA Coffee Nation (a subsidiary of CoffeeHeaven Holdings Limited, indirectly owned by Costa Limited, and operating 11 retail stores in Latvia), to Lagardere Travel Retail. It is expected that the sale of the business will transact in the first quarter of 2023.

In 2021 and 2022, Costa Limited incorporated three new companies with the business purpose to hold retail stores for resale; Potation 1 Limited and Potation 2 Limited were formed on 13 September 2021, and Potation 3 Limited was formed on 9 March 2022. Costa Limited reached agreements to sell a number of their retail stores to Tilly's Coffee Limited which took place over 3 tranches. On 18 November 2021, 6 retail stores were sold under Potation 1 Limited along with an additional 1 store under Costa Limited; on 17 February 2022, 8 retail stores were sold under Potation 2 Limited; and on 26 May 2022, 2 retail stores were sold under Potation 3 Limited.

In 2021, Costa Limited incorporated two new companies with the business purpose to hold retail stores for resale, Libation 1 Limited and Libation 2 Limited, which were formed on 13 September 2021. Costa Limited reached agreements to sell a number of their retail stores to Scoffs (Cornwall) Limited which took place over 2 tranches. On 17 February 2022, 9 retail stores were sold under Libation 1 Limited; and on 11 August 2022, 10 retail stores were sold under Libation 2 Limited.

Approved by the Board on 14 December 2022 and signed on its behalf by:

DocuSigned by:
Jonathan Crookall
34240268F7874BC...............
J Crookall
Director

Directors' Report for the Year Ended 31 December 2021

Registered No. 1270695

The Directors present their report and the financial statements for the year ended 31 December 2021.

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

G McDonald (resigned 31 July 2022)

N Lake

J Crookall

R Cornella (appointed 18 March 2021 and resigned 30 April 2022)

G Mowat

A Cook (appointed 6 January 2022)

The secretaries who held office during the year and to the date of this report (except as noted) were as follows:

R Fairhurst (resigned on 14 May 2021)
S Savjani (appointed on 23 April 2021)

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 on pages 5 to 8 and form part of this report by cross reference.

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

Dividends
During the year the Company did not declare or pay any dividend (31 December 2020: £Nil).

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

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

Directors' Report for the Year Ended 31 December 2021 (continued)

Employment Policies

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

Anti-bribery

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 the Company engages with suppliers and other third-party contractors to prevent bribery.

Modern Slavery Act

The Company's Modern Slavery Act 2015 statement is reviewed by the board annually and published on the Costa brand 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 21 September 2021, Costa Limited announced that it had reached an agreement to sell two of its companies, Costa Coffee Polska S.A. (a subsidiary in Poland operating 128 retail stores) and SIA Coffee Nation (a subsidiary of CoffeeHeaven Holdings Limited, indirectly owned by Costa Limited, and operating 11 retail stores in Latvia), to Lagardere Travel Retail. It is expected that the sale of the business will transact in the first quarter of 2023.

In 2021 and 2022, Costa Limited incorporated three new companies with the business purpose to hold retail stores for resale; Potation 1 Limited and Potation 2 Limited were formed on 13 September 2021, and Potation 3 Limited was formed on 9 March 2022. Costa Limited reached agreements to sell a number of their retail stores to Tilly's Coffee Limited which took place over 3 tranches. On 18 November 2021, 6 retail stores were sold under Potation 1 Limited along with an additional 1 store under Costa Limited; on 17 February 2022, 8 retail stores were sold under Potation 2 Limited; and on 26 May 2022, 2 retail stores were sold under Potation 3 Limited.

In 2021, Costa Limited incorporated two new companies with the business purpose to hold retail stores for resale, Libation 1 Limited and Libation 2 Limited, which were formed on 13 September 2021. Costa Limited reached agreements to sell a number of their retail stores to Scoffs (Cornwall) Limited which took place over 2 tranches. On 17 February 2022, 9 retail stores were sold under Libation 1 Limited; and on 11 August 2022, 10 retail stores were sold under Libation 2 Limited.

On 31 October 22, Costa Express Holdings Limited, a wholly owned subsidiary of Costa Limited, declared a dividend payable to the Company of £240 million. This dividend had yet to be received by the Company at the date of signing these accounts.

On 2 November 2022, the Company paid a dividend of £95 million to its ultimate parent, European Refreshments Unlimited Company.

Disclosure of information to the auditors

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

Streamlined Energy and Carbon Reporting (SECR)

During the reporting period the primary focus for the retail sector was the safe and secure exit from the recent global pandemic. For Costa Limited this has meant opening stores back up to customers in a safe and secure way, ensuring sufficient space is made available, sufficient ventilation is in place in all stores and colleagues are able to operate in a safe environment.

This has impacted on energy consumption in a positive manner, with many of the efficiencies implemented during the pandemic to reduce energy remaining in place.

Streamlined Energy and Carbon Reporting (SECR) (continued)

The company has gathered data regarding scope one and scope two carbon emissions (as defined by the GHG Protocol) for the financial year spanning 1st January 2021 to 31st December 2021 from its UK operations for inclusion in Company Reporting (2021) as defined by the requirements of the Streamlined Energy and Carbon Reporting (SECR) legislation.

The combined scope one and scope two carbon emissions for the period was recorded at 20,680 TCO2e this is a reduction of 3% over the previously reported year. The reduction has been achieved through continual actions to reduce scope two (electricity) consumption, which in turn mitigates increased scope one (transport) emissions.

Greenhouse gas emissions and energy use data

	31 December 2021	31 December 2020	Change (%)
Energy consumption used to calculate emissions (kWh)	304,352,842	204,634,820	49%
Scope 1 emissions in metric tonnes (tCO2e)			
Fuels - Transport & Natural Gas	2,696	2,098	29%
Scope 2 emissions in metric tonnes (tCO2e)			
Purchased electricity	17,984	19,243	(7)%
Total gross emissions in metric tonnes (tCO2e)	20,680	21,341	(3)%
Intensity ratio (tCO2e) per £100,000 of turnover	0.023	0.035	(34)%
Methodology	GHG Protocol	GHG Protocol	

The intensity rate for the period is calculated at 0.023 tC02e per £100,000 of revenue from the company group operations, with the post pandemic recovery of revenue this results in a net 34% relative reduction over the previous financial year.

The company is striving to maintain in store efficiency whilst continuing to provide a safe and secure environment for customers and colleagues.

As referenced in the Strategic Report, during the reporting period the Company established the following science-based reduction targets: to reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a 2019 base year and to reduce scope 3 GHG emissions 50% per coffee serving within the same timeframe.

Going concern

The Directors have adopted the going concern basis for preparation of the financial statements of the Company and its UK domiciled subsidiaries for the financial period ended 31 December 2021. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited ("the Company") to its UK domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. In forming their view on going concern, the Directors considered the Company's strategic plan, balance sheet position, agreed financing and forward-looking forecasts, which covered the period to 31 December 2023.

The Directors stress tested the assumptions that fed into this exercise, considering the impacts of various risks occurring in isolation and in combination, as well as various risk mitigating actions that could be taken.

In each of the stress test scenarios modelled, the Company remained within its agreed financing levels. In some severe but possible scenarios modelled, the Company remained within its agreed financing only if appropriate mitigating capital management actions were taken. These included reductions in non-essential capital expenditure and discretionary spend. Reverse stress testing indicated to the Directors that the Company would only need to seek additional financing in a highly unlikely scenario, where multiple improbable events occurred simultaneously or in short succession.

Going concern (continued)
The review supported the Directors view that the Company will be able to continue to operate and meet its liabilities as they fall due for the period to 31 December 2023.

Sensitivity Analysis
Management have produced cashflows based off the Group budget position through to 31st December 2023. Various sensitivity analyses were performed on the cash flow, including a worst-case scenario to determine the periods in which the group will experience a cash deficit should performance be unfavourable to the plan. The sensitivities have been performed taking into consideration full discretionary spend and reduced discretionary spend. The scenarios considered are:

1. Base - deliver Sales and OI (operating income) to June RE (revised estimate) and LRP (long-range plan)
2. 90% Sales/95% COGs (cost of goods sold) - deliver sales 10% below plan with only 5% reduction in COGs, DME (direct marketing expense) and Capex (capital expenditure) in line with base
3. 70% Sales/COGs, 50% DME/Capex - deliver sales 30% below plan, marketing spend and Capex reduced by 50% with all other operating costs in line with base.

Scenario 3 should be considered a worst-case scenario. This is a sales shortfall of 30% versus forecast, that would result in decisions taken to reduce investment and discretionary spend within Capex and Marketing respectively (assumed 50% cut). The reduction in Capex and Marketing spend would impact longer term growth initiatives but would not impact on short term trading. These decisions could realistically be taken with 3 months notice based on lead times of machines and marketing campaigns. No assumption has been included that any government support schemes would be available (such rates relief or other support schemes), which would improve the cash position. All operating expenses are assumed to remain in line with the Base scenario, however, should a reduction in performance versus plan occur, a review of the cost base would take place and it is expected that other costs (i.e. salaries and wages) would reduce which again would improve the cash position.

In all scenarios a positive cash balance is maintained for a period of more than 12 months. A negative cash balance is not experienced.

Covid-19, 2022 War in Ukraine and inflationary considerations
Throughout 2022 the UK experienced increased inflation, primarily driven by an increase in demand post Covid-19 and has been exacerbated by the ongoing war in Ukraine. This has resulted in an increase in the cost of raw materials used in our retail business, significant increases in gas and electricity prices, and has also contributed to a drop in retail footfall as customers reduce household spend. The Company has considered such effects on operating overheads and has embedded inflationary increases and reduced footfall into its forecasts used in our above sensitivity analysis. Furthermore, the Company has fully hedged its energy prices to March 2024. Whilst the effects of such economic pressures are significant, we do not believe it to impact on our conclusions reached over going concern and viability.

Financial Guarantees
At 31 December 2021 the Company was a financial guarantor to businesses in China and Poland. Such guarantees amounted to £23.3 million at year end and increased to £23.6 million at the date of signing. The remaining guarantee is in force for the duration of the underlying contract in place and is payable on demand. We do not believe such a guarantee would impact on the Company's ability to continue as a Going Concern should it become fully payable. Such conclusion has been reached whilst considering and in addition to the above sensitivity analysis performed by us. We believe the entity, with the financial backing of its parent, is able to settle such financial guarantee and continue trading as a Going Concern should it, in the unlikely event, become payable.

Facility with European Refreshments
The Company has a reciprocal facility with its parent European Refreshments Unlimited Company commencing November 2022 to draw up to £200 million in cash on a loan account should it be required. The facility ends November 2023, at which point the loan is due to be repaid in full should, in the unlikely event, any amount be drawn down by either party.

We believe that the above arrangements would not impact on the Company's ability to continue as a Going Concern should they be exercised.

Going concern (continued)
Should it be required, the group could seek external debt, however, at present management have no plans or requirements to do so. Costa Limited currently has no external debt outside of The Coca Cola Company. The UK entity has no internal debt outside of normal intercompany trading.

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

Price risk, credit risk, liquidity risk and cash flow risk
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 has no major exposure to price risk.

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 balance sheet are net of expected credit losses, which have been estimated by management based on prior experience and any known factors at the balance sheet date. The Company's maximum exposure on its trade and other receivables is the carrying amount as disclosed in Note 17.

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

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

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

Political and charitable donations
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 (2020: £nil).

Directors' Report for the Year Ended 31 December 2021 (continued)

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 auditors
The Company reviews and makes recommendations each year in accordance with section 485 of the Companies Act 2006 with regard to the appointment of external auditors. The auditors, Ernst & Young Chartered Accountants, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed and approved at a meeting of the board of Directors.

Approved by the Board on 14 December 2022 and signed on its behalf by:

DocuSigned by:
Jonathan Crookall
34310258F7874BC...........
J Crookall
Director

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- in respect of the company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have 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 appropriate to presume that the company will not 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 Company 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.

Independent Auditor's Report to members of Costa Limited

Opinion

We have audited the financial statements of Costa Limited for the year ended which comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position, the Statement of changes in Equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 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, 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 the following:

· We confirmed our understanding of management's going concern assessment process and engaged with management at the start of our audit to ensure all key factors were considered in their assessment. We noted that the assessment had been undertaken on a group basis incorporating cashflows and considerations for both Costa Limited and other UK Costa subsidiary entities (together "the UK Costa combined group" or "group") to enable the directors to assess cashflows controlled directly or indirectly by the company.

· We obtained management's going concern assessment, including the UK Costa combined group cashflow forecast for the going concern assessment period up to 31 December 2023. A number of adverse scenarios were modelled by management in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the group.

· We have tested the factors and assumptions included within the group cash flow forecast and challenged management with further modelled scenarios.

· We considered the appropriateness of the methods used to calculate the group 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 group and entity.

Conclusions relating to going concern (continued)

▪ We considered the mitigating factors included in the group cash flow forecasts that are within control of the group. This includes corroborating the group's non-operating cash outflows and evaluating the group's ability to control these outflows as mitigating actions if required.

· We have performed reverse stress testing in order to identify what factors would lead to the group utilising all liquidity during the going concern period.

• We read the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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 the period to 31 December 2023.

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.

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.

Independent Auditor's Report to members of Costa Limited (continued)

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

Our approach was as follows:

- 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, International Accounting Standards, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, The Companies (Miscellaneous Reporting) Regulations 2018, Part 23 of 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, The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme).
- We understood how Costa Limited is complying with those frameworks by making enquires of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered 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.
- 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 noncompliance with such laws and regulations. Our procedures involved:
  - Enquiry 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.
  - Enquiry of management, those charged with governance and the entity's in-house legal team around actual and potential litigation and claims.
  - Enquiry 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.
  - Enquiry 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.
  - 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.
  - We focused on compliance with the Government furlough scheme legislation introduced in March 2020. We understood how the company had complied with the rules and designed and performed testing to ensure eligibility criteria had been met.
  - Challenging judgements made by management. This included corroborating the inputs and considering contradictory 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.

Independent Auditor's Report to members of Costa Limited (continued)

Use of our report

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

Ernst & Young LLP

Anup Sodhi (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
Date: 15 December 2022

COSTA LIMITED

Income Statement for the Year Ended 31 December 2021

	Note	2021 £ 000	Restated 31 December 2020 £ 000
Revenue	4	923,174	603,588
Other operating income	5	14,700	56,595
Operating costs		(971,317)	(878,091)
Operating profit/(loss)	6	**(33,443)**	**(217,908)**
Finance income	8	466	927
Finance costs	9	(9,393)	(10,449)
Profit/(loss) before tax		**(42,370)**	**(227,430)**
Tax expense	11	4,223	34,406
Loss for the year		**(38,147)**	**(193,024)**

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 December 2021

	2021 £ 000	Restated 31 December 2020 £ 000
Loss for the year	(38,147)	(193,024)
Items that may be reclassified subsequently to profit or loss		
Unrealised gain/(loss) on cash flow hedges before tax	1,087	(788)
Deferred tax on cash flow hedges	(6)	218
	1,081	(570)
Total comprehensive loss for the year	(37,066)	(193,594)

COSTA LIMITED

Statement of Financial Position as at 31 December 2021

Company number 1270695

Assets	Note	31 December 2021 £ 000	Restated 31 December 2020 £ 000
Non-current assets			
Intangible assets	12	18,625	17,811
Property, plant and equipment	13	206,013	215,756
Right-of-use assets	15	400,786	479,238
Investments	16	161,038	112,194
Deferred tax assets	11	11,542	14,287
Lease receivables	18	13,306	7,989
		811,310	847,275
Current assets			
Inventories	17	29,393	27,957
Trade and other receivables	18	92,700	86,358
Assets held for sale	13, 14	606	-
Income tax receivable	11	37,569	28,032
Derivatives used for hedging	19	382	-
Cash and cash equivalents		217,472	162,998
		378,122	305,345
Total assets		**1,189,432**	**1,152,620**
Current liabilities			
Current portion of long-term lease liabilities	27	89,624	94,534
Trade and other payables	20	480,637	354,091
Provisions	23	4,804	11,245
Derivative financial instruments	19	-	585
		575,065	460,455
Long-term lease liabilities	27	386,761	428,519
Total liabilities		**961,826**	**888,974**
Net assets		**227,606**	**263,646**
Equity			
Called-up share capital	24	91,258	91,258
Other reserves		123,777	121,670
Retained earnings		12,571	50,718
Total equity		**227,606**	**263,646**

Approved by the board on 14 December 2022 and signed on its behalf by:

DocuSigned by:
Jonathan Crookall
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J Crookall
Director

The notes on pages 29 to 68 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2021

	Called-up share capital[1] £ 000	Other reserves[2] £ 000	Retained earnings[3] £ 000	Total £ 000
At 1 January 2020	91,258	122,440	251,174	464,872
Prior year adjustment	-	-	(7,500)	(7,500)
At 1 January 2020 (restated)	**91,258**	**122,440**	**243,674**	**457,372**
Loss for the year (restated)	-	-	(193,024)	(193,024)
Other comprehensive profit/(loss)	-	(638)	68	(570)
Total comprehensive loss (restated)	-	**(638)**	**(192,956)**	**(193,594)**
Employee share plan charge	-	(81)	-	(81)
Tax on employee share plans	-	(51)	-	(51)
At 31 December 2020 (restated)	**91,258**	**121,670**	**50,718**	**263,646**

	Called-up share capital[1] £ 000	Other reserves[2] £ 000	Retained earnings[3] £ 000	Total £ 000
At 1 January 2021	91,258	121,670	50,718	263,646
Loss for the year	-	-	(38,147)	(38,147)
Other comprehensive profit	-	1,081	-	1,081
Total comprehensive profit/(loss)	-	**1,081**	**(38,147)**	**(37,066)**
Employee share plan credit	-	1,031	-	1,031
Tax on employee share plans	-	(5)	-	(5)
At 31 December 2021	**91,258**	**123,777**	**12,571**	**227,606**

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

[2] **Retained earnings**
Retained earnings comprises the accumulated net profits and losses retained after dividends and other distributions.

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

1 General information

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

The address of its registered office is:
Costa House,
Houghton Hall Business Park,
Porz Avenue, Houghton Regis,
Dunstable,
Bedfordshire,
LU5 5YG

2 Accounting policies

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

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

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

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

Going concern
The Directors have adopted the going concern basis for preparation of the financial statements of the Company and its UK domiciled subsidiaries for the financial period ended 31 December 2021. As the Group has a cash-pooling arrangement with financial support provided from Costa Limited ("the Company") to its UK domiciled subsidiaries, the going-concern assessment has been conducted on a Group basis. In forming their view on going concern, the Directors considered the Company's strategic plan, balance sheet position, agreed financing and forward-looking forecasts, which covered the period to 31 December 2023.

The Directors stress tested the assumptions that fed into this exercise, considering the impacts of various risks occurring in isolation and in combination, as well as various risk mitigating actions that could be taken.

In each of the stress test scenarios modelled, the Company remained within its agreed financing levels. In some severe but possible scenarios modelled, the Company remained within its agreed financing only if appropriate mitigating capital management actions were taken. These included reductions in non-essential capital expenditure and discretionary spend. Reverse stress testing indicated to the Directors that the Company would only need to seek additional financing in a highly unlikely scenario, where multiple improbable events occurred simultaneously or in short succession.

The review supported the Directors view that the Company will be able to continue to operate and meet its liabilities as they fall due for the period to 31 December 2023.

2 Accounting policies (continued)

Going concern (continued)

Sensitivity Analysis

Management have produced cashflows based off the Group budget position through to 31st December 2023. Various sensitivity analyses were performed on the cash flow, including a worst-case scenario to determine the periods in which the group will experience a cash deficit should performance be unfavourable to the plan. The sensitivities have been performed taking into consideration full discretionary spend and reduced discretionary spend. The scenarios considered are:

1. Base - deliver Sales and OI (operating income) to June RE (revised estimate) and LRP (long-range plan)
2. 90% Sales/95% COGs (cost of goods sold) - deliver sales 10% below plan with only 5% reduction in COGs, DME (direct marketing expense) and Capex (capital expenditure) in line with base
3. 70% Sales/COGs, 50% DME/Capex - deliver sales 30% below plan, marketing spend and Capex reduced by 50% with all other operating costs in line with base.

Scenario 3 should be considered a worst-case scenario. This is a sales shortfall of 30% versus forecast, that would result in decisions taken to reduce investment and discretionary spend within Capex and Marketing respectively (assumed 50% cut). The reduction in Capex and Marketing spend would impact longer term growth initiatives but would not impact on short term trading. These decisions could realistically be taken with 3 months notice based on lead times of machines and marketing campaigns. No assumption has been included that any government support schemes would be available (such rates relief or other support schemes), which would improve the cash position. All operating expenses are assumed to remain in line with the Base scenario, however, should a reduction in performance versus plan occur, a review of the cost base would take place and it is expected that other costs (i.e. salaries and wages) would reduce which again would improve the cash position.

In all scenarios a positive cash balance is maintained for a period of more than 12 months. A negative cash balance is not experienced.

Covid-19, 2022 War in Ukraine and inflationary considerations

Throughout 2022 the UK experienced increased inflation, primarily driven by an increase in demand post Covid-19 and has been exacerbated by the ongoing war in Ukraine. This has resulted in an increase in the cost of raw materials used in our retail business, significant increases in gas and electricity prices, and has also contributed to a drop in retail footfall as customers reduce household spend. The Company has considered such effects on operating overheads and has embedded inflationary increases and reduced footfall into its forecasts used in our above sensitivity analysis. Furthermore, the Company has fully hedged its energy prices to March 2024. Whilst the effects of such economic pressures are significant, we do not believe it to impact on our conclusions reached over going concern and viability.

Financial Guarantees

At 31 December 2021 the Company was a financial guarantor to businesses in China and Poland. Such guarantees amounted to £23.3 million at year end and decreased to £23.6 million at the date of signing. The remaining guarantee is in force for the duration of the underlying contract in place and is payable on demand. We do not believe such a guarantee would impact on the Company's ability to continue as a Going Concern should it become fully payable. Such conclusion has been reached whilst considering and in addition to the above sensitivity analysis performed by us. We believe the entity, with the financial backing of its parent, is able to settle such financial guarantee and continue trading as a Going Concern should it, in the unlikely event, become payable.

Facility with European Refreshments

The Company has a reciprocal facility with its parent European Refreshments Unlimited Company commencing November 2022 to draw up to £200 million in cash on a loan account should it be required. The facility ends November 2023, at which point the loan is due to be repaid in full should, in the unlikely event, any amount be drawn down by either party.

We believe that the above arrangements would not impact on the Company's ability to continue as a Going Concern should they be exercised.

2 Accounting policies (continued)
Going concern (continued)

Should it be required, the group could seek external debt, however, at present management have no plans or requirements to do so. Costa Limited currently has no external debt outside of The Coca Cola Company. The UK entity has no internal debt outside of normal intercompany trading.

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

Correction of Prior Period Error - SaaS Arrangements
Historically, the Company has accounted for costs incurred in preparing software for its intended use as prepayments.

During the year, the Company corrected its accounting of costs incurred in preparing software for its intended use. This is in response to the 2021 IFRS Interpretations Committee (IFRIC) agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements during the current financial year.

The impact is considered to have a material impact on the prior year Income Statement, Statement of Comprehensive Income and Balance Sheet and therefore the prior year results have been fully restated.

Adjustments in relation to costs capitalised in the prior year have therefore been recognised as follows:

Deferred tax asset	2,998
Total non-current assets	**2,998**
	£ 000
Trade and other receivables - prepayment	(3,297)
Non-current prepayments	(12,481)
Total assets (within trade receivables)	**(15,778)**
Retained earnings	(12,780)
Total equity	**(12,780)**
Operating cost	(15,778)
Taxation expense	2,998
Loss for the year	**(12,780)**

The corresponding notes are affected by the above error:
Note 6 - Operating loss
Note 11 - Taxation
Note 17 - Trade and other receivables

2 Accounting policies (continued)

Correction of Prior Period Error – Embedded Leases

During the year the Company identified a contract with GXO Logistics that contained embedded leases relating to the operation and management of the Company's supply chain warehouses and fleet of delivery vehicles that had not previously been recognised. Despite the new contract not being signed until May 2022, the new contract contained wording that indicated there were right of use leased assets for warehouse space and delivery vehicles following the acquisition by The Coca-Cola Company in 2019 and the separation of supply chain operations from Whitbread plc. As a consequence, a prior year adjustment has also been recognised to restate the right of use lease liability balance brought forward from the prior financial year as at 1st January 2020, and the reported movements in right of use lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is an increase in the right of use asset of £22.2m, an increase in the right of use liability of £22.4m, an increase in the deferred tax asset of £0.1m and a decrease in reserves of £0.1m. The impact of this on the 2020 position is an increase in the right of use asset of £24.7m, an increase in the right of use liability of £11.3m, a decrease to the deferred tax asset of £0.1m and an increase to reserves of £13.3m.

Additionally, during the year, the Company implemented a new lease accounting platform called CCH Tagetik replacing the legacy accounting model. During implementation there were a number of differences identified where the legacy model was inaccurately calculating the right of use lease liability resulting in restatement of the balances brought forward from the financial year ending 31st December 2019, and the reported movements in lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is a decrease in the right of use asset of £14.1m, a decrease in the right of use liability of £4.9m, an increase in the deferred tax asset of £1.7m and a decrease in reserves of £7.5m. The impact of this on the 2020 position is an increase in the right of use asset of £4.2m, an increase in the right of use liability of £7.2m, a decrease in the deferred tax asset of £1.9m. and a decrease in reserves of 4.9m.

Adjustments to correct the error in the prior year have therefore been recorded as follows:

	2020 brought forward £ 000	2020 £ 000	Total £ 000
Right-of-use asset	8,152	28,869	37,021
Deferred tax	1,759	(1,986)	(227)
Current lease receivables	(101)	(31)	(132)
Non-current lease receivables	181	119	300
Total assets	**9,991**	**26,971**	**36,962**
Current portion of long-term lease liabilities	(4,991)	(4,255)	(9,246)
Long-term lease liabilities	22,482	22,761	45,243
Total liabilities	**17,491**	**18,506**	**35,997**
	(7,500)	8,465	965
Retained earnings	**(7,500)**	**8,465**	**965**
Operating expenses	-	(11,307)	(2,047)
Finance costs	-	856	856
Taxation	-	1,986	226
Loss for the year	**-**	**(8,465)**	**(965)**

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Correction of Prior Period Error – Embedded Leases

The corresponding notes are affected by the above error:
Note 6 – Operating loss
Note 9 – Finance costs
Note 11 – Taxation
Note 14 – Right of use assets
Note 17 – Trade and other receivables
Note 26 – Leases

The total impact of the correction of prior period error relating to SaaS Arrangements and Embedded lease is as follows:

	SaaS Arrangements	Embedded Lease	Total impact to 31 December 2020	Total impact to 1 January 2020 from Embedded lease
	£'000s	£'000s	£'000s	£'000s
Right of use assets		28,869	28,869	8,152
Deferred tax	2,998	(1,986)	1,012	1,759
Non current prepayments	(12,481)		(12,481)	-
Trade and other receivables - prepayment	(3,297)		(3,297)	-
Current lease receivables		(31)	(31)	(101)
Non-Current lease receivables		119	119	181
Total assets	(12,780)	26,971	14,191	9,991
Long term lease liabilities	-	(22,761)	(22,761)	(22,482)
Current portion the long term lease liabilities	-	4,255	4,255	4,991
Total liabilities	**-**	**(18,506)**	**(18,506)**	**(17,491)**
Net assets	**(12,780)**	**8,465**	**(4,315)**	**(7,500)**
Retained earnings	(12,780)	8,465	(4,315)	(7,500)
Total equity	**(12,780)**	**8,465**	**(4,315)**	**(7,500)**
Operating cost	(15,778)	11,307	(4,472)	-
Finance expense		(856)	(855)	-
Taxation	2,998	(1,986)	1,012	-
Loss for the year	**(12,780)**	**8,465**	**(4,315)**	**-**

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;

(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 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;

(j) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and

(k) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2021 have had a material effect on the financial statements.

Revenue recognition

Recognition

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

The following 5 step principles are applied to revenue recognition:

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

2 Accounting policies (continued)

Revenue recognition (continued)

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 Costa Limited to manufacture distinct products for the customer for an agreed transaction price. The revenue is recognised when the title of ownership transfers from Costa Limited 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.

Government grants

Government grants are only recognised when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Government grants are treated as 'other income' in the income statement and are recognised in the same period that the associated compensated expense is incurred.

Loyalty programme

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 Costa Limited to manufacture distinct products for the customer for an agreed transaction price. The revenue is recognised when the title of ownership transfers from Costa Limited to the customer.

Finance income and finance costs

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

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

Foreign currency transactions and balances

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

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

Tax

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

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

2 Accounting policies (continued)

Tax (continued)

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.

Intangible assets

Internally generated intangible assets (development costs)

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 intension 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 recognized in the statement of comprehensive income as incurred.

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;
- Reacquired franchise rights are amortised over the life of the acquired franchise agreement;
- IT software and technology is amortised over periods of three to ten years;
- Acquired customer relationships are amortised over 15 years; and
- Operating rights agreements are amortised over the life of the contract.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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 three to ten years
Trademarks	Indefinite useful life hence not amortised

Property, plant and equipment

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

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

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

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

Depreciation

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

Asset class	Depreciation method and rate
Land & buildings	Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years
Furniture, fittings & equipment	Over 1 to 20 years
Short-term leasehold property	Over the period of the lease
Plant and equipment	Over 4 to 7 years

Provision for liabilities

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

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

Borrowings

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

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

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

2 Accounting policies (continued)

Provisions

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

If the effect is material, provisions are discounted to present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Leases

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.

Initial recognition and measurement

IFRS 16 Leases became mandatorily effective under FRS 1010 for financial periods beginning on or after 1 January 2019. On adoption of IFRS 16, the Company elected to apply the transitional practical expedient to not reassess whether a contract is, or contains, a lease at 1 March 2019. Instead, the company applied the standard only to contracts that were previously identified as leases applying IAS17 and IFRIC 4. The Company has also applied the available practical expedients in C10 of IFRS 16 to leases previously classified as operating leases. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 2.24%.

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 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 day, less any lease incentives received and any initial direct costs.

2 Accounting policies (continued)

Leases (continued)

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

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset 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 14.

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 £3,662,000 (2020: £4,303,000) in COVID-19-related rent concessions in the Income Statement within "Operating costs" in the current period.

2 Accounting policies (continued)

Impairment

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

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 8.9 (2020: 7.1). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.4%, (2020: 5.6%) which reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined with reference to the CGU to which the asset belongs or an impairment is recognised if the asset is no longer in use. Impairment losses are recognised in the consolidated income statement within operating costs.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimated future cashflows used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Such a reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's carrying amount, less any residual value, on a straight-line basis over its remaining useful life.

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

Share capital

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

Dividends

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

Defined contribution pension obligation

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

Financial instruments

Initial recognition

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

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:-

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

Financial liabilities at amortised cost

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

2 Accounting policies (continued)

Financial instruments (continued)

Financial liabilities at fair value through the profit or loss

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

Modification of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

2 Accounting policies (continued)
Impairment of financial assets (continued)

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 statement of income 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.

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 2021 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.

2 Accounting policies (continued)

Derivatives and hedging (continued)

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

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

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

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

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

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

Any gain or loss recognised in other comprehensive income and the accumulated cash flow hedge reserve remains in equity and is reclassified to profit or loss. Gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

Intangible assets

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

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

Investments

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

Trade and other receivables

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

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

Cash and cash equivalents

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

2 Accounting policies (continued)

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.

Assets held for sale

Non-current assets/disposal groups are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and its sale are highly probable. They are measured at the lower of its carrying amount and fair value less costs to sell. Non-current assets are not depreciated while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are continued to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the Balance sheet.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Impairment

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

Impairment tests of investments in subsidiaries and amounts owed by group companies are conducted each financial period. In these impairment tests, the carrying value of assets are compared with estimates of their value in use or recoverable amount. Informing these valuation estimates assumptions are applied, in particular in assessing future cashflow generation from value in use, discounting those future cashflow estimates and FVLCTS.

The judgements and estimates underlying impairment testing have resulted in property, plant and equipment being impairment by £7,207,000 in the year (2020: £926,000); intangible assets being impaired by £499,000 in the year (2020: £1,097,000) and right of use assets being impaired by £18,563,000 (2020: £1,315,000). Investments in subsidiaries resulted in an impairment charge of £2,433,000 in the year (2020: £11,624,000); and provisions against amounts owed by group companies of £14,201,000 being recognised in the year (2020: £13,857,000).

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.

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

Determining the lease term of contracts with renewal and termination options (continued)

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).

Classification of leases

The Company accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- There is an identified asset;
- The Company obtains substantially all the economic benefit for use of the asset; and
- The Company has the right to direct use of the 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.

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, which is based on historic run-rates. As this is dependent on uncertain customer activity, the Company relies on using a level of judgement surrounding the timing of revenue recognition.

Stock Provision

The Company evaluates its inventory to ensure that it is carried at the lower of cost or net realisable value. 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.

Other provisions

The Company's other provisions are based on the best information available to management at the balance sheet date. Insurance comprises the estimated cost of current and potential claims from customers in store, where judgement is required to assess the likelihood of the success of any claim made against the Company and if any liability will arise. Restructuring comprises the estimated cost of announced store closures, including dilapidations and redundancies, where assumptions are used in estimating the ultimate cost and timing of cashflows to the Company. The Company has considered the factors used to calculate the VAT provision and has determined that they are not judgmental in nature, nor areas of estimation uncertainty.

4 Revenue

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

	December 2021 £ 000	December 2020 £ 000
Sale of goods	893,851	587,241
Franchise fees	29,323	16,347
	923,174	603,588

The analysis of the company's turnover for the year by destination is as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
UK	908,987	586,373
Rest of world	14,187	17,215
	923,174	603,588

5 Other operating income

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

	31 December 2021 £ 000	31 December 2020 £ 000
Government grants received	13,710	56,595
R&D credits	990	-
	14,700	56,595

Government grants represent the grant received in relation to employee payroll costs under the UK Government job retention scheme for the period during which UK stores were closed.

6 Operating profit/(loss)

Arrived at after charging/(crediting)

	31 December 2021 £ 000	31 December 2020 Restated £ 000
Inventory consumed	230,249	167,021
Inventory written down/provided for	-	2,422
Restructuring costs	(630)	1,774
Depreciation expense	49,314	52,435
Right-of-use motor vehicle asset depreciation	5,531	4,337
Right-of-use property asset depreciation	77,168	88,585
Impairment of property, plant and equipment	8,984	3,441
Reversal of prior year impairment property, plant and equipment	(1,777)	(2,515)
Impairment of intangible assets	499	1,097
Impairment of property right-of-use assets	18,933	1,668
Reversal of prior year impairment of property right-of-use-assets	(1,225)	(353)
Impairment of vehicle right-of-use assets	855	-
Foreign exchange losses/(gains)	1,719	(777)
Amortisation expense	11,198	7,153
Impairment of investments	2,433	11,624
Operating lease expense - short term leases	6,755	9,247
Covid-19 related rent concessions	(3,662)	(4,303)
(Profit)/loss on disposal of property, plant and equipment	(1,912)	4,095
Provision for amounts owed by group companies	14,201	13,857
Sub lease income	(808)	(217)
Prior year adjustment for SaaS costs	-	15,778
Prior year adjustment for operating leases	-	(16,026)
Turnover rent expense	13,179	742

The 2020 loss for the year is after a £15.8 million (before taxation) accounting correction relating to SaaS costs that were previously accounted for as prepayments. The Company has now applied IFRIC guidance in treating such costs.

The 2020 loss for the year is after a £11.3 million (before taxation and interest) accounting correction relating to right-of-use assets and liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Staff costs

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

	31 December 2021 £ 000	31 December 2020 £ 000
Wages and salaries	277,247	284,968
Social security costs	18,965	19,152
Pension costs, defined contribution scheme	6,602	6,098
	302,814	310,218

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

	31 December 2021 No.	31 December 2020 No.
Roastery and production facility employees	36	34
Head office and support function employees	1,373	1,090
Store employees	15,012	15,138
	16,421	16,262

Directors remuneration

	31 December 2021 £ 000	31 December 2020 £ 000
Directors remuneration	3,717	1,741
Defined contribution scheme and cash in lieu of pension contributions	299	255
Total Directors remuneration	4,016	1,996
The highest paid key management personnel received	833	633

Employee share plan charges of £1,031,000 was charged to equity in the year, (2020: £(132,000)).
During the year 3 Directors exercised and received shares under 2019 incentive schemes, (2020: 3 Directors).
There was 1 director in the defined contribution pension scheme in the year (2020: 1 director).
During the year, the highest paid Director had pension payments totalling £91,000 and did not exercise or receive any shares.

The numbers above are inclusive of remuneration paid on behalf of Costa Express Limited and Costa International Limited. During the year Costa Limited paid Directors remuneration for Costa Express Limited. The allocated payments totalled £1,258,000 (2020: £633,000). During the year Costa Limited paid Directors remuneration for Costa International Limited. The allocated payments totalled £32,000 (2020: £16,000).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

8 Finance income

	31 December 2021 £ 000	Restated at 31 December 2020 £ 000
Interest income on bank deposits	35	780
Other interest receivable	431	147
	466	927

9 Finance costs

	31 December 2021 £ 000	Restated at 31 December 2020 £ 000
Interest expense on leases	9,393	10,449

The 2020 charge includes a charge of £856,000 for additional interest as a result of the correction within lease liabilities.

10 Auditors remuneration

	31 December 2021 £ 000	31 December 2020 £ 000
Audit of the Company financial statements and its subsidiaries	1,860	1,513

A total of £424,000 was borne by the Company in the year on behalf of its subsidiaries (2020: £424,000).

11 Taxation

Tax charged/(credited) in the income statement

	31 December 2021 £ 000	31 December 2020 £ 000
Current taxation		
UK corporation tax on profit for the period	-	(20,715)
Group relief payable / (receivable)	(7,723)	(7,369)
UK corporation tax adjustment to prior periods	984	(526)
	(6,739)	(28,610)

11 Taxation (continued)

	31 December 2021	Restated at 31 December 2020
Deferred taxation	**£ 000**	**£ 000**
Arising from origination and reversal of temporary differences	6,028	(5,261)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(1,182)	224
Arising from tax rate change on opening balance	(2,330)	(759)
Total deferred taxation	2,516	(5,796)
Tax expense/(receipt) in the income statement	**(4,223)**	**(34,406)**

The 2020 taxation is calculated after a £15.8 million accounting correction relating to SaaS costs that were previously accounted for as prepayments. The Company has now applied IFRIC guidance in treating such costs.
The taxation effects of the correction amount to (£3m) and is included in the above 2020 balances.

The 2020 taxation is calculated a £10.5 million accounting correction relating to right of use asset and accumulated depreciation restatement. The taxation effects of the correction amount to £2.0m and is included in the above 2020 balances.

The UK corporation tax rate is 19%. Finance Act 2021 increased the main rate of UK corporation tax to 25% effective from 1 April 2023.

The differences are reconciled below:	31 December 2021 £ 000	Restated 31 December 2020 £ 000
Profit/(loss) before tax	(42,370)	(227,432)
Corporation tax at standard rate	(8,050)	(43,212)
Fixed asset differences	1,946	2,023
Income not taxable	(595)	-
Increase from effect of expenses not deductible in determining taxable profit	2,582	2,617
Increase from effect of provisions against loans to group companies	2,606	3,013
Increase from impairment from investments in subsidiaries	462	2,208
R&D credits	(188)	-
(Decrease)/increase in current tax and deferred tax from adjustment for prior periods	(198)	(301)
(Decrease)/increase in closing deferred tax to average rate of 25.00%	(2,788)	(754)
Total tax charge/(credit)	(4,223)	(34,406)

The corporation tax balance is a receivable of £37,569,000 (2020: receivable of £28,032,000).

11 Taxation (continued)

Deferred tax

The deferred tax balance consists of the following:

	At 31 December 2021 £ 000	Restated 31 December 2020 £ 000
Pension benefit obligations	267	216
Tax credits and loss carried forward	3,693	6,417
Accelerated tax depreciation	7,254	7,158
Revaluation of cash flow hedges	(75)	149
Share based payment	403	347
Net tax assets/(liabilities)	**11,542**	**14,287**

Deferred tax movement during the current year:

	Restated at 1 January 2021 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	7,158	96	-	-	7,254
Hedges	149	-	(224)	-	(75)
Share-based payments	347	61	-	(5)	403
Tax losses carry-forwards	6,417	(2,724)	-	-	3,693
Pension benefit obligations	216	51	-	-	267
Net tax assets/(liabilities)	14,287	(2,516)	(224)	(5)	11,542

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	Restated at 31 December 2020 £ 000
Accelerated tax depreciation	5,711	1,447	-	-	7,158
Hedges	(68)	-	217	-	149
Share-based payments	922	(524)	-	(51)	347
Tax losses carry-forwards	-	6,417	-	-	6,417
Pension benefit obligations	-	216	-	-	216
Net tax assets/(liabilities)	6,565	7,556	217	(51)	14,287

The UK corporation tax rate is 19%. Finance Act 2021 has increased this to 25% effective from 1 April 2023 and hence the deferred tax balances are recognised at 25%.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

12 Intangible assets

	Trademarks, patents, licenses franchise rights, and customer agreements £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation			
At 1 January 2021	40	34,340	34,380
Additions	-	12,511	12,511
At 31 December 2021	40	46,851	46,891
Amortisation			
At 1 January 2021	-	16,569	16,569
Charge for year	-	11,198	11,198
Impairment	-	499	499
At 31 December 2021	-	28,266	28,266
Carrying amount			
At 31 December 2021	**40**	**18,585**	**18,625**
At 31 December 2020	40	17,771	17,811

The impairment of £499,000 (31 December 2020: £1,097,000) relates to internally generated software which reduces their carrying value of these assets to their recoverable amount.

Included within internally generated software costs at 31 December 2021 was an amount of £1,216,000 (2020: £437,000) 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Property, plant and equipment

	Land & buildings £ 000	Furniture, fittings & equipment, plant & equipment, and short-term leasehold property £ 000	Total £ 000
Cost or valuation			
At 1 January 2021	128,626	284,090	412,716
Additions	12,992	37,551	50,543
Transfer to assets held for sale (Note 14)	(634)	(1,465)	(2,099)
Disposals	(4,366)	(10,013)	(14,379)
At 31 December 2021	136,618	310,163	446,781
Depreciation			
At 1 January 2021	53,025	143,935	196,960
Charge for the year	11,699	37,615	49,314
Eliminated on disposal	(3,304)	(7,916)	(11,220)
Transfer to assets held for sale (Note 14)	(448)	(1,045)	(1,493)
Impairment	3,187	4,020	7,207
At 31 December 2021	64,159	176,609	240,768
Carrying amount			
At 31 December 2021	**72,459**	**133,554**	**206,013**
At 31 December 2020	75,601	140,155	215,756

The impairment charge of £3,187,000 (2020: £212,000) in respect of land and buildings and the impairment charge of £5,796,000 (2020: £3,230,000) in respect of furniture, fittings and equipment relates to the reduction of their value to their recoverable amount. The impairment credit of £1,777,000 (2020: £2,515,000 credit) in respect of furniture, fittings and equipment results from prior year impairment reversal of furniture, fittings and equipment in which the recoverable amount of the CGU is the greater of its fair value less the costs of disposal and value in use and there is evidence to suggest, such as an upturn in trading performance, that the prior year impairment asset write down should be reversed. The fair value less costs of disposal is calculated using a multiple of 8.9 (2020: 7.1). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.4% (2020: 5.7%).

Included within property, plant and equipment at 31 December 2021 was an amount of £13,984,000 (2020: £14,117,000) 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.

14 Assets held for sale

On 11 November 2021, Costa Limited announced that it had reached an agreement to sell 17 of its retail stores to Tilly's Coffee Limited. As at the balance sheet date, the sale of 10 of these stores had yet to complete and a £606,000 (2020: nil) transfer of property, plant and equipment to assets held for sale was recorded.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Right-of-use assets

	Machinery £ 000	Property £ 000	Total £ 000
Cost or valuation			
Restated at 1 January 2021	27,202	614,721	641,923
Additions	2,295	59,288	61,583
Modifications	-	(39,111)	(39,111)
Disposals	(1,005)	(36,368)	(37,373)
At 31 December 2021	**28,492**	**598,530**	**627,022**
Depreciation			
Restated at 1 January 2021	5,794	156,892	162,686
Charge for the year	5,531	77,168	82,699
Eliminated on disposal	(1,005)	(36,707)	(37,712)
Impairment	855	17,708	18,563
At 31 December 2021	**11,175**	**215,061**	**226,236**
Carrying amount			
At 31 December 2021	**17,317**	**383,469**	**400,786**
Restated at 31 December 2020	21,408	457,830	479,238

	Machinery £ 000	Property £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	7,434	535,876	543,310
Prior year adjustment as at 1 January 2020	1,713	15,235	16,948
At 1 January 2020 restated	**9,147**	**551,111**	**560,258**
Additions	3,055	57,407	60,462
Prior year adjustment relating to 2020	16,013	17,574	33,587
Disposals	(1,013)	(11,371)	(12,384)
At 31 December 2020 restated	**27,202**	**614,721**	**641,923**
Depreciation			
At 1 January 2020	2,225	69,906	72,131
Prior year adjustment as at 1 January 2020	245	8,551	8,796
At 1 January 2020 restated	2,470	78,457	80,927
Charge for the period	2,675	85,527	88,202
Prior year adjustment relating to 2020	1,662	3,058	4,720
Eliminated on disposal	(1,013)	(11,465)	(12,478)
Impairment	-	1,315	1,315
At 31 December 2020 restated	**5,794**	**156,891**	**162,685**
Carrying amount			
At 31 December 2020	5,588	436,628	442,216
Restated at 31 December 2020	**21,408**	**457,830**	**479,238**

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Right-of-use assets (continued)

The impairment charge of £18,933,000 (2020: £1,668,000) in respect of leased properties and the impairment charge of £855,000 (2020: nil) in respect of leased motor vehicles relates to the reduction of their value to their recoverable amount. The impairment credit of £1,225,000 (2020: £353,000 credit) in respect of leased properties results from prior year impairment reversal in which the recoverable amount of the CGU is the greater of its fair value less the costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 8.9 (2020: 7.1). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.4% (2020: 5.7%).

During the year the Company identified a contract with GXO Logistics that contained embedded leases relating to the operation and management of the Company's supply chain warehouses and fleet of delivery vehicles that had not previously been recognised. Despite the new contract not being signed until May 2022, the new contract contained wording that indicated there were right of use leased assets for warehouse space and delivery vehicles following the acquisition by The Coca-Cola Company in 2019 and the separation of supply chain operations from Whitbread plc. As a consequence, a prior year adjustment has also been recognised to restate the right of use lease liability balance brought forward from the prior financial year as at 1st January 2020, and the reported movements in right of use lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is an increase in the right of use asset of £22.2m, an increase in the right of use liability of £22.4m, an increase in the deferred tax asset of £0.1m and a decrease in reserves of £0.1m. The impact of this on the 2020 position is an increase in the right of use asset of £24.7m, an increase in the right of use liability of £11.3m, a decrease to the deferred tax asset of £0.1m and an increase to reserves of £13.3m.

Additionally, during the year, the Company implemented a new lease accounting platform called CCH Tagetik replacing the legacy accounting model. During implementation there were a number of differences identified where the legacy model was inaccurately calculating the right of use lease liability resulting in restatement of the balances brought forward from the financial year ending 31st December 2019, and the reported movements in lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is a decrease in the right of use asset of £14.1m, a decrease in the right of use liability of £4.9m, an increase in the deferred tax asset of £1.7m and a decrease in reserves of £7.5m. The impact of this on the 2020 position is an increase in the right of use asset of £4.2m, an increase in the right of use liability of £7.2m, a decrease in the deferred tax asset of £1.9m. and a decrease in reserves of 4.9m.

Adjustments to correct the error in the prior year have therefore been recorded as follows:

Cost or valuation	**£ 000**
Increased asset at 1 January 2020	16,948
Increased additions in the year	33,589
Increased asset at 31 December 2020	**50,537**
Depreciation	
Increased accumulated depreciation at 1 January 2020	8,796
Increased charge for the year	4,719
Increased accumulated depreciation at 31 December2020	**13,515**

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

16 Investments

Investments in subsidiaries

Cost or valuation	
At 1 January 2020	114,413
Additions	9,405
Impairment charge	(11,624)
At 31 December 2020	112,194
Additions	51,277
Impairment charge	(2,433)
At 31 December 2021	**161,038**

In the current year, the Company invested an additional £51,277,000 into Costa International Limited who in turn invested these funds into Costa Coffee (Beijing) Co Limited in order to acquire the remaining 50% share of the previously held joint venture in Hualian Costa (Beijing) Food & Beverage Management Co Limited. This included funds to repay the loan as well as cash consideration to acquire the additional share capital. For further details of this investment, please refer to the 2021 statutory accounts for Costa International Limited and Costa Coffee (Beijing) Co Limited.

On 13 September 2021, Costa Limited incorporated Potation 1 Limited, with the business purpose to hold retail stores for resale. The Company reached an agreement to sell on 18 November 2021, 6 retail stores were sold under Potation 1 Limited and the significant control was transferred to Tilly's Coffee Limited.

On 21 September 2021, Costa Limited, announced that it had reached an agreement to sell SIA Coffee Nation (a subsidiary of CoffeeHeaven Holdings Limited) to Lagardere Travel Retail. The balance of the investment within CoffeeHeaven Holdings Limited was subsequently transferred to assets held for sale.

In the current year, the Company also recognised impairment charges of £1,490,000 against Cuppa-Cino Trading Limited, and £943,000 against Costa Express Malaysia Sdn Bhd. In 2020, the Company recognised impairments of £9,405,000 in Costa Coffee Polska S.A. and £2,219,000 in Costa Express Malaysia Sdn Bhd.

Details of the directly held investments in subsidiaries as at 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and registered office	Proportion of ownership interest and voting rights held	
			2021	2020
CoffeeHeaven International Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	100%	100%
Costa Catering Management (Shanghai) Co. Ltd	Catering management	China Room 3002, ICP, No 1318 North Sichuan Road, Hongkou District, Shanghai, 200080	100%	100%

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and registered office	Proportion of ownership interest and voting rights held 2021	2020
Coffee Corporate Services Limited (formerly Life Coffee Cafes Limited)	Provision of research and development services	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	100%	100%
Costa Coffee Polska SA	Operator of coffee shops	Poland Chłodna 52, 00-872 Warsaw	100%	100%
Costa Express Holdings Limited	Holding company	England Knaves Beach, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR	100%	100%
Costa Express Malaysia Sdn Bhd	Operator of branded coffee machines	Malaysia TMF Administrative Services Malaysia Sdn. Bhd., 10th Floor, Menara Hap Seng, No.1 & 3 Jalan P. Ramlee 50250	100%	100%
Costa France SAS	Operator of coffee shops	France 52 rue de la Victorie 75009, Paris	100%	100%
CoffeeHeaven International Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	100%	100%
Costa 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%
Libation 2 Limited	Unlicensed restaurants and cafes	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	100%	0%
Libation 1 Limited	Unlicensed restaurants and cafes	England Finance Office Costa Coffee, 311-313 Collier Row Lane, Collier Row, Essex, RM5 3ND	100%	0%
Potation 2 Limited	Unlicensed restaurants and cafefs	England 2nd Floor, Suite B Garden Place, 4-12 Victoria Street, Altrincham, WA14 1ET	100%	0%

16 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation and registered office	Proportion of ownership interest and voting rights held 2021	2020
Costa Singapore Private Limited	Franchise business support	Singapore 38 Beach Road, #29-11 South Beach Tower, 189767	100%	100%
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	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG	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, Huangpu District	100%	100%
Costa Europe Services sp. Zoo (formerly Costa Express Poland sp. zoo)	Franchise business support, and warehousing and distribution services	Poland Chlodna 52, Warsaw, 00-872	100%	99%
Costa Europe sp. zoo	Operator of coffee shops	Poland Chlodna 52, Warsaw, 00-872	100%	0%
Costa USA LLC	Provision of management services	USA One Coca-Cola Plaza, Atlanta, GA, 30313	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	100%	100%

17 Inventories

	2021	2020
	£ 000	£ 000
Raw materials and consumables	11,285	9,340
Finished goods and goods for resale	18,108	18,617
	29,393	27,957

18 Trade and other receivables

	31 December 2021 £ 000	Restated 31 December 2020 £ 000
Current		
Trade receivables	31,721	22,757
Provision for impairment of trade receivables	(3,680)	(4,622)
Net trade receivables	28,041	18,135
Amounts due from group companies	36,243	49,786
Prepayments	11,093	7,162
Other receivables	16,025	10,410
Current lease receivables	1,298	865
	92,700	**86,358**
Non-current		
Non-current lease receivables	13,306	7,989
	106,006	94,347

Included in amounts due from group companies are balances related to related parties of 565,000 (2020: £2,578,000). Included in other receivables is a balance of £501,000 relating to Coca Cola European Refreshments (CCEP) and Coca Cola Holdings (CCH) which are not 100% wholly owned subsidiaries.

During the period, the Company recognised a provision against amounts owed by group companies of £14,201,000. In the prior year, the Company recognised a provision against amounts owed by group companies of £13,857,000. The Company released a debt owed by Costa China Holdings Limited within the prior period for £36,075,000.

The Costa Group previously held an equity investment in a joint venture, Hualian Costa (Beijing) Food & Beverages Management Company Limited, to 28 October 2021. Thereafter, the remaining percentage of the entity was acquired in full. In 2020, included in trade receivables is £1,113,000 owed by this entity, against which a provision for impairment of trade receivables was recognised of £1,043,000.

Amounts due from group companies are interest free and repayable on demand.

The 2020 prepayments balance has reduced by £15.8 million and relates to an accounting correction of costs previously accounted for as prepayments. The Company has now applied IFRIC guidance in treating such costs.

The 2020 trade lease receivables balance has increased by £0.2 million and relates to an accounting correction of right of use assets.

19 Derivative financial instruments

	31 December 2021 £ 000	31 December 2020 £ 000
Current financial assets		
Derivatives used for hedging - forward coffee contracts	382	-

19 Derivative financial instruments (continued)

	31 December 2021 £ 000	31 December 2020 £ 000
Current financial liabilities		
Derivatives used for hedging - forward coffee contracts	-	585

20 Trade and other payables

	2021 £ 000	2020 £ 000
Trade payables	97,898	61,783
Accrued expenses	104,863	71,337
Deferred income	24,041	21,913
Amounts due to group companies	239,040	193,297
Social security and other taxes	12,039	1,842
Other payables	2,756	3,919
	480,637	354,091

Deferred income includes unredeemed loyalty points and gift cards.

Amounts due to group companies are interest free and repayable on demand. Included in trade payables is a balance of £275,000 relating to Coca Cola European Refreshments (CCEP) and Coca Cola Holdings (CCH) which are not 100% wholly-owned subsidiaries.

Included in accrued expenses is a balance of £9,702,000 (2020: £2,900,000) relating to Coca Cola European Refreshments (CCEP) and Coca Cola Holdings (CCH) which are not 100% wholly-owned subsidiaries.

21 Financial Guarantees

The Company acted as a financial guarantor for businesses based in China and Poland to the value of £23.3m as at 2021 year-end (2020: £40.4 million).

Such guarantees are in force for the duration of the underlying contracts in place and are payable on demand.

22 Capital commitments

As at 2021 year end the Company had the following capital commitments:

Supplier	2022 £'000	2023 £'000	Total £'000	Nature of services procured
Coforge	3,320	3,320	6,640	Global desk support
Varonis	328	-	328	Data security services

Separately and as part of the contract with Coforge, an early termination charge is in force and amounts to £598,000 as at December 2022.

23 Other provisions

	Payroll £ 000	Restructuring £ 000	Insurance Claims £ 000	VAT £ 000	Total £ 000
At 1 January 2021	5,957	1,774	2,016	1,498	11,245
Additional provisions	-	1,212	235	1,146	2,593
Provisions used	(5,957)	(740)	(556)	(678)	(7,931)
Unused provision reversed	-	(1,103)	-	-	(1,103)
At 31 December 2021	-	1,143	1,695	1,966	4,804

Payroll Provisions
Relates to final payment adjustments payable to Costa employees and HMRC in relation to the furlough scheme.

Restructuring Provisions
Relates to dilapidation costs in respect of announced store closures with expected cash outflows over the next 12 months. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Insurance Claims
Relates to current and potential future claims from customers with expected cash outflows over the statute of limitation period. The main uncertainty relates to estimating the cost that will be incurred to settle the claim.

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. The main uncertainty relates to the recoverability of input VAT.

24 Share capital

Allotted, called-up and fully paid shares

	31 December 2021 (000's)		31 December 2020 (000's)	
	No.	£	No.	£
Ordinary of £1 each	91,258	91,258	91,258	91,258

25 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 £6,602,000 (2020: £6,098,000). The amount outstanding at year end £1,382,000 (2020: £1,143,000).

26 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 2021 was a charge of £1,031,000 (2020: a credit of £(132,000)). Of the £1,031,000 share-based payment charge in the period, £1,083,000 relates to 2021 awards, following exceeded performance criteria on the PSU scheme, offset by a £(52,000) release of share-based liabilities relating to prior years.

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 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.

27 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 operating lease income during the year was £808,000 (2020: £217,000), as detailed in Note 6.

Lease accounting
Note 14 details the accounting of right-of-use assets in the financial year.

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

27 Leases (continued)

Lease liabilities

	31 December 2021 £ 000	Restated at 31 December 2020 £ 000
At 1 January	523,053	489,619
Prior year adjustment	-	17,492
At 1 January restated	**523,053**	**507,111**
Additions	61,583	63,963
Modifications	(32,200)	-
Interest expense	9,393	9,593
Payments	(85,444)	(76,120)
Prior year adjustments relating to 2020:		
Additions	-	33,846
Interest expense	-	856
Payments	-	(16,196)
As at 31 December	476,385	523,053

Leases included in creditors

The maturity analysis of these leases is as follows:-

	2021 £ 000	2020 £ 000
Less than one year	89,624	94,534
Between two to five years	259,634	266,983
Greater than five years	127,127	161,536
Total lease liability	**476,385**	**523,053**

	31 December 2021 £ 000	Restated at 31 December 2020 £ 000
Current portion of long-term lease liabilities	89,624	94,534
Long-term lease liabilities	386,761	428,519

The 2020 current portion of lease liabilities and long-term lease liabilities shown in the above table include an adjustment of (£9,246,000) and £45,242,000 respectively in respect of the prior year accounting correction as detailed on page 66.

27 Leases (continued)

Amounts recognised in profit and loss

	31 December 2021 £ 000	Restated at 31 December 2020 £ 000
Depreciation of right-of-use property	77,168	88,585
Depreciation of right-of-use motor vehicles	5,531	4,337
Interest expense on lease liabilities	9,393	10,449
Expense on short term leases (included in operating costs)	6,755	9,247
Covid-19 related rent concessions	(3,662)	(4,303)
Sublease operating lease income	(808)	(217)
Turnover rent	13,179	742
Correction of error for operating leases		(16,026)
Total amount recognised in profit and loss	107,556	92,814

The 2020 loss for the year is after a £11.3 million (before taxation and interest) accounting correction relating to right-of-use assets and lease liabilities.

Included in the above 2020 balances are corrections of error relating to right-of use assets. The following balances have been corrected:
Depreciation of right-of-use property (an increase of £3,058,000),

Depreciation of right-of-use motor vehicles (an increase of £1,662,000)
Interest expense on lease liabilities (an increase of £856,000)
Correction of error for operating leases (a decrease of £16,026,000).

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

	2021 £ 000	2020 £ 000
Right of use assets	85,444	92,316
Turnover rent	13,179	742
Total cash outflow	**98,623**	**93,058**

The Company had total net cash outflow of £98,623,000 (2020 restated: £93,058,000, including a £16,196,000 adjustment for the prior year) in relation to leases in the current financial year.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

27 Leases (continued)

During the year the Company identified a contract with GXO Logistics that contained embedded leases relating to the operation and management of the Company's supply chain warehouses and fleet of delivery vehicles that had not previously been recognised. Despite the new contract not being signed until May 2022, the new contract contained wording that indicated there were right of use leased assets for warehouse space and delivery vehicles following the acquisition by The Coca-Cola Company in 2019 and the separation of supply chain operations from Whitbread plc. As a consequence, a prior year adjustment has also been recognised to restate the right of use lease liability balance brought forward from the prior financial year as at 1st January 2020, and the reported movements in right of use lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is an increase in the right of use asset of £22.2m, an increase in the right of use liability of £22.4m, an increase in the deferred tax asset of £0.1m and a decrease in reserves of £0.1m. The impact of this on the 2020 position is an increase in the right of use asset of £24.7m, an increase in the right of use liability of £11.3m, a decrease to the deferred tax asset of £0.1m and an increase to reserves of £13.3m.

Additionally, during the year, the Company implemented a new lease accounting platform called CCH Tagetik replacing the legacy accounting model. During implementation there were a number of differences identified where the legacy model was inaccurately calculating the right of use lease liability resulting in restatement of the balances brought forward from the financial year ending 31st December 2019, and the reported movements in lease liability during the financial year ending 31st December 2020. The impact of this on the brought forward 2020 position is a decrease in the right of use asset of £14.1m, a decrease in the right of use liability of £4.9m, an increase in the deferred tax asset of £1.7m and a decrease in reserves of £7.5m. The impact of this on the 2020 position is an increase in the right of use asset of £4.2m, an increase in the right of use liability of £7.2m, a decrease in the deferred tax asset of £1.9m. and a decrease in reserves of 4.9m.
Adjustments to correct the error in the prior year have therefore been recorded as follows:

Current lease liabilities	**£ 000**
Decreased liability at 1 January 2020	(4,991)
Increased payments during the year	(16,196)
Increased transfer to non-current liabilities	11,941
Decreased liability at 31 December 2020	**(9,246)**

Non-current lease liabilities	
Increased liability at 1 January 2020	22,482
Increased additions in the year	33,845
Increased interest expense in the year	856
Increased transfer from current liabilities	(11,941)
Increased liability at 31 December 2020	**45,242**

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 2021:

	Fixed payments £ 000	Variable payments (based on sales) £ 000	Total payments £ 000
Leases with lease payments based on sales	15,765	13,179	28,944

27 Leases (continued)

The estimated annual impact on total payments of 5% increases in sales would be £994,000 (2020: £438,000).

Extension and termination option

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

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

	Within 5 years £ 000	More than 5 years £ 000	Total £ 000
Extension options expected not to be exercised	-	4,123	4,123
Termination options expected to be exercised	2,544	948	3,492
	2,544	5,071	7,615

Leases commencing in the future

The Company has various lease contracts that will commence after 31 December 2021. The future lease payments for these non-cancellable lease contracts are £193,000 (2020: £532,000) within one year, £2,010,000 (2020: £8,297,000) within five years and £4,750,000 (2020: £19,662,000) 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 £3,662,000 (2020: £4,303,000) for 2021 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 occasion 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 £808,000 (2020: £217,000).

The maturity analysis of the lease payments is as follows:

	2021 £ 000	2020 £ 000
Less than one year	1,407	759
Between two to five years	4,491	2,089
Greater than five years	7,230	3,514
Total lease liability	**13,128**	**6,362**

28 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.

In the year, the Costa Group acquired the remaining shares in the previously held 50% joint venture in Hualian Costa (Beijing) Food & Beverages Management Company Limited. For this entity in 2021, Costa Limited had recognised sales of £nil (2020: £77,000) and cost of sales of £26,000 (2020: £60,000).

Costa Limited trades with associate companies of The Coca-Cola Company. In 2021, Costa Limited recognised total sales for these companies of £4,271,000 (2020: £6,268,000) and cost of sales of £5,762,000 (2020: £9,064,000).

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

The name of the parent of the group in whose consolidated financial statements the Company's financial statements are consolidated is The Coca-Cola Company. The ultimate parent company, and controlling entity is European Refreshments Unlimited Company.

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

30 Events after the balance sheet date

On 21 September 2021, Costa Limited announced that it had reached an agreement to sell two of its companies, Costa Coffee Polska S.A.(a subsidiary in Poland operating 128 retail stores) and SIA Coffee Nation (a subsidiary of CoffeeHeaven Holdings Limited, indirectly owned by Costa Limited, and operating 11 retail stores in Latvia), to Lagardere Travel Retail. It is expected that the sale of the business will transact in the first quarter of 2023.

In 2021 and 2022, Costa Limited incorporated three new companies with the business purpose to hold retail stores for resale; Potation 1 Limited and Potation 2 Limited were formed on 13 September 2021, and Potation 3 Limited was formed on 9 March 2022. Costa Limited reached agreements to sell a number of their retail stores to Tilly's Coffee Limited which took place over 3 tranches. On 18 November 2021, 6 retail stores were sold under Potation 1 Limited along with an additional 1 store under Costa Limited; on 17 February 2022, 8 retail stores were sold under Potation 2 Limited; and on 26 May 2022, 2 retail stores were sold under Potation 3 Limited.

In 2021, Costa Limited incorporated two new companies with the business purpose to hold retail stores for resale, Libation 1 Limited and Libation 2 Limited, which were formed on 13 September 2021. Costa Limited reached agreements to sell a number of their retail stores to Scoffs (Cornwall) Limited which took place over 2 tranches. On 17 February 2022, 9 retail stores were sold under Libation 1 Limited; and on 11 August 2022, 10 retail stores were sold under Libation 2 Limited.

On 31 October 22, Costa Express Holdings Limited, a wholly owned subsidiary of Costa Limited, declared a dividend payable to the Company of £240 million. This dividend had yet to be received by the Company at the date of signing these accounts.

On 2 November 2022, the Company paid a dividend of £95 million to its ultimate parent, European Refreshments Unlimited Company.