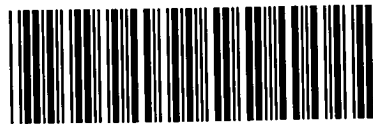


Registered number: 1270695

Costa Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2020

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COSTA LIMITED

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COSTA LIMITED

Company Information

Registered number: 1270695

Directors J Crookall
G Mowat
G McDonald
R Cornella
N Lake

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

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020

The directors present their report for the year ended 31 December 2020.

Fair review of the business

The loss for the year after taxation, is £188,709,000 (43 weeks ended 31 December 2019: loss of £14,674,000).

Costa has established and continues to establish an international multi-platform strategy with equity stores, 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" strategy represents a unique proposition and that the Company will continue to further build on its international foundations, with strong backing from The Coca-Cola Company.

The Company aims to manufacture and serve the best, hand-crafted coffee and fresh food to customers through well designed stores, products and digital offerings. Despite significant disruption from Covid-19 Costa continued to innovate offering new products, rolling out digital propositions such as order and collect and growing the Drive-thru business in the UK.

Costa's FMCG business continues to grow both in the UK and internationally through accessing the Coca-Cola distribution network. 2020 was 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 business.

2020 Performance highlight

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

	2020	2019	Change
	£'000	£'000	
Turnover (continuing operations)	603,588	880,587	(31)%
Operating (loss)/profit	(213,442)	12,185	(1,851)%
Loss for financial year	(188,709)	(14,674)	1,186%
Net assets	275,461	464,872	(41)%
New Store openings	63	100	(38)%
Capex for new store openings	25,800	32,800	(21)%

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties

Cyber and data security

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

Mitigation: A series of IT security controls 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.

Brand perception

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

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

Change management

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

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

Political and economic climate impact

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

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

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

Staff engagement and retention

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

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

Roastery

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

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

Climate Change

Risk: Climate change may impact coffee bean prices.

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

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, ahead of the Government's 2050 target.

Brexit

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

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

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

Coronavirus (COVID-19)

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

Mitigation: COVID-19 will have a significant impact on our finances during 2021 especially during Q1 where the UK Retail business was most impacted due to its size and cost base.

The Company's Directors have updated the plans for 2021 and beyond based on the impact of COVID-19 and have built a strategy for reset and growth in three phases:

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

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

- Prioritise the health and well-being of our people, customers and consumers. The Company ensuring that it follows government guidelines, delivered a rapid response to close stores (97% of the UK stores were initially closed) and set up Costa Express to continue to operate safely. The Company is monitoring the situation and following the Government guidelines to reassure its customers and employees on any decisions taken to re-open shops. The business has offered goodwill gestures to support the national efforts including free coffee to medical teams and care packages to key workers.
- Strong focus on discretionary spend and thoughtful access to government support where necessary.
- The Costa Group is focusing on changes in customer sentiment and needs and has provided contactless drive-thru, door to door delivery during the lockdowns in addition to providing contactless Express ordering through apps.
- Review retail basics and franchise opportunities.
- Continue to support Costa Express, Proud to Serve, Ready to Drink and At Home launches.
- Invest in initiatives that allow the business to stay ahead of long-term changes in consumer trends.
- Plan for launches in key international markets to ensure we maximise our potential growth in 2021 and beyond.
- Continue 'Must Do' technology programmes.

The directors receive regular updates on matters relating to its workforce, including feedback from employee engagement surveys, live virtual event Q&A sessions, feedback forums and health and safety reviews. For 2020, a primary focus was around keeping connected during the COVID crisis, checking in on how teams were feeling and asking for their input into future ways of working.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Section 172 statement

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

In doing this, the directors have specifically considered:

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

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

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 earlier this year, 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 2020.

Our Costa Values of Passion, Courage, Warmth and Trust and the required behaviour are reinforced throughout the Group through our recognition programmes, training – including our code of conduct, and leadership behaviours.

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. This is something we are looking to extend to the wider workforce in 2021.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Engagement with suppliers, customers and other relationships

Customers and Suppliers

As the operator of a global brand, the views of each subsidiary 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.

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

Supply Chain agreements

During the period to support international growth plans the Costa group established 3rd party roasting, manufacturing and warehousing relationships to service its growing International customer base and to mitigate Brexit risks.

Shareholders and other capital providers

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

The Company only has debt with fellow Costa group subsidiaries, meaning the interests of all capital providers are aligned.

Community and environment

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

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

Key Decisions

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

Capital expenditure

In 2020 Costa invested £25.8m in relation to 63 new store openings of which 32 were drive-thrus.

Finance ERP

The group invested £13m in a Finance ERP in 2020 by beginning a 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.

COSTA LIMITED

Strategic Report for the Year Ended 31 December 2020 (continued)

Store Infrastructure

The company has made capital investment of £2.7m in UK&I stores infrastructure upgrading the network capability. 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 is 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.

As such, the Costa global leadership teams were all aligned to the digital pivot in 2020 and the company invested £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 Company entered a new long-term contract for the provision of IT services following its separation from the systems operated by its former parent company Whitbread Group plc. These leveraged the broader Coca-Cola system vendor relationships specifically with Microsoft, Adobe, Akamai and Amazon. The Company also entered a long-term contract for its new People Human Capital Management System with Ceridian Dayforce.

During the period the Company's subsidiary Costa Express Limited invested £38.2m on new Costa Express machines, either to be placed with customers during the period or in the next financial year, and in relation to research and development for its vending machines. Of the £38.2m in capital expenditure, £25.9m related to the UK market.

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.

Approved by the Board on 20/12/21 and signed on its behalf by:



.....
G McDonald
Director

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

Registered No. 1270695

The directors present their report and the financial statements for the year ended 31 December 2020.

Directors of the Company

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

J Crookall (appointed 11 March 2020)

G Mowat (appointed 29 June 2020)

G McDonald

N Lake

The following directors resigned during the year:

K Seljeflot (resigned 11 March 2020)

S Highfield (resigned 31 August 2020)

The following director was appointed after the year end:

R Cornella (appointed 18 March 2021)

The following secretaries were respectively appointed and resigned after the year end:

S Savjani (appointed on 23 April 2021)

R Fairhurst (resigned on 14 May 2021)

Principal activity

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

Dividends

During the period the Company did not declare or pay any dividend (31 December 2019: £Nil).

Corporate governance

As required by the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations'), the Company is required to report on which corporate governance code had been applied in the financial year. In 2019, the Company had adopted The Wates Corporate Governance Principles for Large Private Companies (the 'Wates Principles'). An example of how the Company applied them is set out below:

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

Wates Principles

The vision of the Company to become the World's Number One Coffee Brand and its purpose of 'inspiring the world to love great coffee.' is regularly communicated to the Company's employees and the directors believe that the Company operates with a clear sense of purpose and collective vision.

In 2019, the Company adopted a new leadership signature – "Think customer, think big, think bold, be 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 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

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

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

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

The Executive Committee

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

Chief Executive Officer
Chief Financial Officer
Chief People Officer
Chief Information Officer
Chief Marketing Officer
Managing Director UK & Ireland
Managing Director Europe & MENA
Managing Director International
General Counsel
Global Customer Director
Global Strategy Director

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

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

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

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

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

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

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

Setting Remuneration

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

Remuneration Decisions

A Remuneration Committee comprising the 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.

Costa has good relationships with its stakeholders as, discussed within Section 172 statement.

Employment of disabled persons

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

Employee involvement

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

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

Employment Policies

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

Anti-bribery

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

Modern Slavery Act

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

Future developments

No significant future developments are expected.

Events after the balance sheet date

On 23 August 2021, Costa Limited announced that it had reached an agreement to sell Costa Express Poland sp z.o.o to Coca-Cola HBC Polska. As at 23 August 2021, the disposal of Poland's Costa Express business met the recognition criteria under IFRS 5 Non-current assets held for sale and discontinued operations. The sale of the business transacted on 31 October 2021.

On 21 September 2021, Costa Limited announced that it had reached an agreement to sell 145 retail stores in Poland and Latvia to Lagardere Travel Retail. As at 21 September 2021, the disposal of 145 of the stores in Costa Coffee Polska SA met the recognition criteria under IFRS 5 Non-current assets held for sale and discontinued operations. It is expected that the sale of the business will transact in the first quarter of 2022.

On 28 October 2021, Costa Beijing Limited, a wholly owned subsidiary within the Costa Group, reached an agreement with Beijing Hualian Jiahe Investment Management Co., Ltd to acquire the remaining 50% equity in Hualian Costa Beijing. It is expected that the acquisition will take transact on 15 December 2021 at which point Costa Hualian Beijing will be a wholly owned subsidiary of Costa Beijing Limited.

Disclosure of information to the auditors

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

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

Streamlined Energy and Carbon Reporting (SECR)

The company has gathered data regarding scope one and scope two carbon emissions (as defined by the GHG Protocol) for the financial year spanning 1 January 2020 to 31 December 2020 from its UK operations for inclusion in Company Reporting (2020) 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 21,341 tCO₂e. Since this is the first year of carbon footprint calculation it is not possible to publish a year-on-year change at this time.

The intensity rate for the period is calculated at 0.035 tCO₂e per £100,000 of revenue from the company group operations.

Our Greenhouse gas emissions and energy use data for the period 1 January 2020 to 31 December 2020

Energy consumption used to calculate emissions (kWh)

• UK operations	204,634,820
<hr/>	
Scope 1 emissions in metric tonnes (tCO ₂ e)	
Fuels - Transport & Natural Gas	2,098
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Scope 2 emissions in metric tonnes (tCO ₂ e)	
Purchased electricity	19,243
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Total gross emissions in metric tonnes (tCO₂e)	21,341
<hr/>	
Intensity ratio (tCO ₂ e) per £100,000 of turnover	0.035
<hr/>	
Methodology	GHG Protocol

During the reporting period considerable operational changes have been forced upon the retail sector due to the global pandemic regardless of this the company considers its social responsibility and environmental impact of high importance.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

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 2020.

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 and Group strategic plan, balance sheet position, agreed financing and forward-looking forecasts up to the end of 2022.

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. The Directors in particular considered a number of potential impacts in respect of Covid-19 and a number of different Covid-19 recovery timeframes.

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 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 and its UK domiciled subsidiaries will be able to continue to operate and meet their liabilities as they fall due for the period to 31 December 2022.

Sensitivity Analysis

Management have produced cashflows based off the Group budget position through to 31st December 2022. 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 Operating Income to base case scenario to 31 December 2022
- 2) 90% Sales/COGs - deliver sales 10% below plan, all costs and Capex in line with base
- 3) 80% Sales/COGs - deliver sales 20% below plan, all costs and Capex in line with base
- 4) 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. (Worst Case Scenario)

Under the worst-case scenario 4 above, if sales were below target by 30%, then decisions would be taken to reduce investment and discretionary spend in capex and marketing by 50% respectively. The reduction in capex and marketing spend would impact longer term growth initiatives but wouldn't impact on short term trading. These decisions could realistically be taken with 3 months' notice based on lead times of machines and marketing campaigns.

The scenarios assumed that no government support schemes would be available (such as furlough, rates relief, 'Eat out to help out' or any other support), which would improve the cash position. All operating expenses are assumed to remain in line with the base scenario. In each of the four scenarios a positive cash balance is maintained in each period.

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 group. 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.

COSTA LIMITED

Directors' Report for the Year Ended 31 December 2020 (continued)

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

Credit risk and impairment

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

Foreign exchange risk

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

Interest rate risk

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

Liquidity risk

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

Capital risk management

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

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 20/12/21 and signed on its behalf by:

Gill McDonald

.....
G McDonald
Director

COSTA LIMITED

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with United Kingdom 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, 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 31 December 2020 which comprise Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 28 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 2020 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:

- 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 2022. 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.
- 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.

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

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 2022.

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 there is 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:

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

- 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 16, 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.

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, International Accounting Standards, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HMRC regulations, The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme), UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.

- We understood how Costa Limited is complying with those frameworks by making enquiries of those charged with government and management. We understood the potential incentive and ability to override controls. We consider management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.

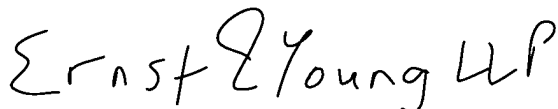
Independent Auditor's Report to members of Costa Limited (continued)

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity.
- Based on this understanding we designed our audit procedures to identify 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, including the use of specialist where appropriate, 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 testing in conjunction with our internal specialist to ensure eligibility criteria had been met, and;
 - 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.

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.



Anup Sodhi (Senior statutory auditor)

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

Luton

Date

21/12/21

COSTA LIMITED**Income Statement for the Year Ended 31 December 2020**

		52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Revenue	4	603,588	880,587
Other Operating Income	5	56,595	-
Operating costs		<u>(873,625)</u>	<u>(868,402)</u>
Operating (loss)/profit	6	(213,442)	12,185
Finance income	8	932	1,560
Finance costs	9	<u>(9,593)</u>	<u>(8,409)</u>
(Loss)/profit before tax		(222,103)	5,336
Tax receipt / (expense)	11	<u>33,394</u>	<u>(20,010)</u>
Loss for the year/period		<u>(188,709)</u>	<u>(14,674)</u>

The above results were derived from continuing operations.

COSTA LIMITED**Statement of Comprehensive Income for the Year Ended 31 December 2020**

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Note		
Loss for the year/period	<u>(188,709)</u>	<u>(14,674)</u>
Items that may be reclassified subsequently to profit or loss		
Unrealised (loss)/gain on cash flow hedges before tax	(788)	401
Deferred tax on cash flow hedges	<u>218</u>	<u>(127)</u>
	<u>(570)</u>	<u>274</u>
Total comprehensive income for the year/period	<u><u>(189,279)</u></u>	<u><u>(14,400)</u></u>

COSTA LIMITED
Statement of Financial Position
as at 31 December 2020

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Assets			
Non-current assets			
Intangible assets	12	17,811	24,568
Property, plant and equipment	13	215,756	229,617
Right-of-use assets	14	442,217	471,179
Investments	15	112,194	114,413
Deferred tax assets	11	11,515	6,565
Prepayments	17	12,482	-
Lease receivables	17	7,687	4,827
		<u>819,662</u>	<u>851,169</u>
Current assets			
Inventories	16	27,957	18,622
Trade and other receivables	17	89,789	110,413
Income tax receivable	11	28,032	-
Cash and cash equivalents		162,998	290,638
		<u>308,776</u>	<u>419,673</u>
Total assets		<u>1,128,438</u>	<u>1,270,842</u>
Current liabilities			
Current portion of long-term lease liabilities	24	103,780	90,562
Trade and other payables	19	332,178	303,456
Income tax liability	11	-	2,586
Deferred income		21,912	10,308
Provisions	20	11,245	-
Derivative financial instruments	18	585	-
		<u>469,700</u>	<u>406,912</u>
Long-term lease liabilities	24	383,277	399,058
Total liabilities		<u>852,977</u>	<u>805,970</u>
Net assets		<u>275,461</u>	<u>464,872</u>
Equity			
Called-up share capital	21	91,258	91,258
Other reserves		121,670	122,440
Profit and loss account		62,533	251,174
Total equity		<u>275,461</u>	<u>464,872</u>

Approved by the Board on 20/12/21 and signed on its behalf by:

Gill McDonald

.....
G McDonald
Director
Company number 1270695

COSTA LIMITED**Statement of Changes in Equity for the Year Ended 31 December 2020**

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

	Called-up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2020	91,258	122,440	251,174	464,872
Loss for the year	-	-	(188,709)	(188,709)
Other comprehensive loss	-	(638)	68	(570)
Total comprehensive loss	-	(638)	(188,641)	(189,279)
Employee share plan charge	-	(81)	-	(81)
Tax on employee share plans	-	(51)	-	(51)
At 31 December 2020	91,258	121,670	62,533	275,461

Reserves

The following describes the nature and purpose of each reserve in equity:

Reserve	
Share Capital	Nominal value of the share subscribed for.
Other reserves	Other reserves are non-distributable to share holders. Reserves relate to a capital contribution made by former owners Whitbread Plc; employee share-based schemes managed by Costa Limited's ultimate parent 'The Coca-Cola Company' and cash flow hedges movements.
Retained earnings	All other net gains and losses and transactions with owners not recognized elsewhere

The notes on pages 25 to 64 form an integral part of these financial statements.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020

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 period represents 52 weeks to 31 December 2020 (prior financial period: 43 weeks to 31 December 2019).

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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 2020.

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 and Group strategic plan, balance sheet position, agreed financing and forward-looking forecasts up to the end of 2022.

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. The Directors in particular considered a number of potential impacts in respect of Covid-19 and a number of different Covid-19 recovery timeframes.

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 and its UK domiciled subsidiaries will be able to continue to operate and meet their liabilities as they fall due for the period to 31 December 2022.

Sensitivity Analysis

Management have produced cash flows based off the Group budget position through to 31st December 2022. 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 Operating Income to base case scenario to 31 December 2022
- 2) 90% Sales/COGs - deliver sales 10% below plan, all costs and Capex in line with base
- 3) 80% Sales/COGs - deliver sales 20% below plan, all costs and Capex in line with base
- 4) 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. (Worst Case Scenario)

Under the worst-case scenario 4 above, if sales were below target by 30%, then decisions would be taken to reduce investment and discretionary spend in capex and marketing by 50% respectively. The reduction in capex and marketing spend would impact longer term growth initiatives but wouldn’t impact on short term trading. These decisions could realistically be taken with 3 months’ notice based on lead times of machines and marketing campaigns.

The scenarios assumed that no government support schemes would be available (such as furlough, rates relief, ‘Eat out to help out’ or any other support), which would improve the cash position. All operating expenses are assumed to remain in line with the base scenario. In each of the four scenarios a positive cash balance is maintained in each period.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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 group. 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.

Summary of disclosure exemptions

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

- (a) the requirements of IAS 7 Statement of Cash Flows;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- (d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- (e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (i) the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- (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 2020 have had a material effect on the financial statements.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

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

The Company has a loyalty programme liability based on the number of valid customer loyalty points in circulation. Points are issued to customers either through spend in retail stores as they purchase products, or as part of specific marketing promotions. Each point has a defined redemption value and is accrued based on the average utilisation of the points by our customers. We have a performance obligation to provide or arrange for the provision of Costa products for free or at a discount to loyalty programme members in exchange for the redemption of points earned from past activities.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Finance income and finance costs

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

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

Foreign currency transactions and balances

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

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

Tax

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

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

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

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

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Intangible assets

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

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

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

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

- trading 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.

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 five years
Trademarks	Indefinite useful life hence not amortised

Property, plant and equipment

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

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

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

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

Depreciation

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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 3 to 30 years
Short-term leasehold property	Over the period of the lease
Plant and equipment	Over 4 to 7 years

Provision for liabilities

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

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

Borrowings

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

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

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

Provisions

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

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Initial recognition and measurement (continued)

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

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset as follows: -

- Properties 5 to 22 years
- Motor vehicles 3 to 5 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 13.

Subsequent measurement

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

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

Sub leases

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

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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 £4.3 million in COVID-19-related rent concessions in the Income Statement within "Operating costs" in the current period.

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 7.1 (Period ending 31 December 2019: 9). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 5.627%, (Period ending 31 December 2019: 6.29%) 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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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.

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

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

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

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

Classification and measurement

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

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

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

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

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

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

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

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

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

Modification of financial assets and financial liabilities

Financial assets

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

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

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the 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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Derivatives and hedging

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

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

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

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

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

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

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

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

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

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

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

Intangible assets

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

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Investments

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

Trade and other Receivables

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

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

Cash and cash equivalents

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs to sell. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written off through the inventory counting procedures conducted by internal and external parties for all warehousing locations. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales less selling costs using factors existing at the reporting date.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

Impairment

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

The judgements and estimates underlying impairment testing have resulted in property, plant and equipment being impaired by £926,000 in the period (43 weeks ended 31 December 2019: £1,150,000); intangibles assets being impaired by £1,097,000 in the period (43 weeks ended 31 December 2019: £284,000); right-of-use assets being impaired by £1,315,000 in the period (43 weeks ended 31 December 2019: £2,297,000); investments in subsidiaries being impaired by £11,624,000 in the period (43 weeks ended 31 December 2019: £32,249,000); and provisions against amounts owed by related parties of £13,857,000 being recognised in the period (43 weeks ended 31 December 2019: £46,962,000).

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.

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).

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.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****4 Revenue**

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

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Sale of goods	587,241	852,955
Franchise fees	16,347	27,632
	<u>603,588</u>	<u>880,587</u>

All revenue is generated within the UK.

5 Other Operating Income

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Government grants received	<u>56,595</u>	<u>-</u>

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.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****6 Operating (loss)/profit**

Arrived at after charging/(crediting)

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Inventory consumed	167,021	223,297
Inventory written down/provided for	2,422	0
Restructuring costs	1,774	-
Depreciation expense	52,435	43,363
Right-of-use motor vehicle asset depreciation	2,675	2,225
Right-of-use property asset depreciation	85,527	67,932
Impairment of property, plant and equipment	3,441	1,150
Reversal of prior year impairment property, plant and equipment	(2,551)	-
Impairment of right-of-use asset	1,668	2,297
Reversal of prior year impairment of right-of-use asset	(353)	-
Impairment of intangible assets	1,097	284
Foreign exchange gains	(777)	(140)
Amortisation expense	7,153	4,860
Impairment of investments	11,624	32,249
Operating lease expense - short term leases	9,247	8,728
Covid-19 related rent concessions	(4,303)	-
Loss/(profit) on disposal of property, plant and equipment	4,096	(830)
Provision for amounts owed by related parties	13,857	46,962
Sub lease income	(217)	(165)
Turnover rent	<u>742</u>	<u>7,736</u>

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****7 Staff costs**

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

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Wages and salaries	284,969	218,680
Social security costs	19,151	13,867
Pension costs, defined contribution scheme	6,098	4,191
	<u>310,218</u>	<u>236,738</u>

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

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Roastery and production facility employees	34	33
Head office and support function employees	1,090	1,181
Store employees	15,138	15,718
Total number of employees	<u>16,262</u>	<u>16,932</u>

7.1 Directors Remuneration

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Directors remuneration	1,741	2,933
Defined contribution scheme and cash in lieu of pension contributions	255	228
Total Directors remuneration	<u>1,996</u>	<u>3,161</u>
The highest paid key management personnel received	<u>633</u>	<u>975</u>

Employee share plan charges of £(132,000) was charge to equity in the year, (31December 2019: £2,715,000). During the year three directors exercised and received shares under 2019 performance incentive schemes, (31December 2019: no directors).

There was 1 director in the defined contribution pension scheme in the year (31 December 2019: 5 directors).

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****8 Finance income**

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Interest income on bank deposits	780	1,508
Other interest receivable	152	52
	<u>932</u>	<u>1,560</u>

9 Finance costs

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Interest expense on leases	<u>9,593</u>	<u>8,409</u>

10 Auditor's remuneration

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Audit of the group financial statements	<u>1,513</u>	<u>1,429</u>

A total of £424,000 was borne by the Company in the year on behalf of its subsidiaries, (31 December 2019: £452,000)

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****11 Taxation**

Tax charged/(credited) in the income statement

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Current taxation		
UK corporation tax on profit for the period	(20,715)	21,239
Group relief payable / (receivable)	(7,369)	-
UK corporation tax adjustment to prior periods	(526)	(84)
	<u>(28,610)</u>	<u>21,155</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(4,249)	(632)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	224	233
Arising from tax rate change on opening balance	(759)	(746)
Total deferred taxation	<u>(4,784)</u>	<u>(1,145)</u>
Tax (receipt)/expense in the income statement	<u><u>(33,394)</u></u>	<u><u>20,010</u></u>

The Finance Act 2016, which was enacted on 15 September 2016 included legislation to reduce the main rate of Corporation Tax from 19% to 17% from 1 April 2020. Consequently, deferred tax was recognised at a rate of 17% in the prior year. In the UK Budget of 11th March 2020, the rate applicable from 1st April 2020 was set at 19%, this change was substantively enacted on 17th March 2020 and hence a tax credit is included in the income statement for the period ended 31 December 2020.

In the March 2021 Budget, the UK Government announced that the main rate of Corporation Tax would be increased to 25% effective from 1st April 2023, this change has not been enacted at the balance sheet date, so the effect of the rate change has not been included in these accounts. There would be no material difference in these accounts if the 25% rate was applied at the balance sheet date.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****11 Taxation (continued)**

The differences are reconciled below:	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
(Loss)/profit before tax	<u>(222,103)</u>	<u>5,536</u>
Corporation tax at standard rate	(42,256)	1,014
Increase from effect of expenses not deductible in determining taxable profit	5,076	4,269
Increase from effect of provisions against loans to group companies	2,633	8,876
Increase from impairment from investments in subsidiaries	2,208	5,520
(Decrease)/increase in current tax and deferred tax from adjustment for prior periods	(301)	149
(Decrease)/increase in closing deferred tax to average rate of 19.00%	(754)	182
Total tax (credit)/charge	<u>(33,394)</u>	<u>20,010</u>

The corporation tax balance is a receivable of £28,032,000 (31 December 2019: liability of £2,586,000).

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****11 Taxation (continued)****Deferred tax**

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 31 December 2020 £ 000
Accelerated tax					
Depreciation	5,711	1,447	-	-	7,158
Revaluation of cash flow					
Hedges	(68)	-	217	-	149
Share-based payment	922	(524)	-	(51)	347
Tax credits and loss carried forward	-	3,645	-	-	3,645
Pension benefit obligations	-	216	-	-	216
Net tax assets/(liabilities)	<u>6,565</u>	<u>4,784</u>	<u>217</u>	<u>(51)</u>	<u>11,515</u>

Deferred tax movement during the prior period:

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

The UK corporation tax rate is 19% effective from 1 April 2017. Finance Act 2021 will increase the main rate of UK corporation tax to 25% effective from 1 April 2023, however, this was not substantively enacted at the balance sheet date.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****12 Intangible assets**

	Trademarks £ 000	Internally generated software £ 000	Total £ 000
Cost or valuation			
At 1 March 2019	40	33,514	33,554
Additions	-	6,630	6,630
Disposals	-	(4,416)	(4,416)
At 31 December 2019	<u>40</u>	<u>35,728</u>	<u>35,768</u>
Amortisation			
At 1 March 2019	-	10,470	10,470
Amortisation charge	-	4,860	4,860
Impairment	-	284	284
Amortisation eliminated on disposals	-	(4,414)	(4,414)
At 31 December 2019	<u>-</u>	<u>11,200</u>	<u>11,200</u>
Carrying amount			
At 31 December 2019	<u>40</u>	<u>24,528</u>	<u>24,568</u>
At 1 March 2019	<u>40</u>	<u>23,044</u>	<u>23,084</u>
Cost or valuation			
At 1 January 2020	40	35,728	35,768
Additions	-	1,746	1,746
Disposals	-	(3,134)	(3,134)
At 31 December 2020	<u>40</u>	<u>34,340</u>	<u>34,380</u>
Amortisation			
At 1 January 2020	-	11,200	11,200
Amortisation charge	-	7,153	7,153
Amortisation eliminated on disposals	-	(2,881)	(2,881)
Impairment	-	1,097	1,097
At 31 December 2020	<u>-</u>	<u>16,569</u>	<u>16,569</u>
Carrying amount			
At 31 December 2020	<u>40</u>	<u>17,771</u>	<u>17,811</u>
At 31 December 2019	<u>40</u>	<u>24,528</u>	<u>24,568</u>

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****12 Intangible assets (continued)**

The impairment of £1,096,566 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 2020 was an amount of £436,596 (31 December 2019: £2,838,824) relating to internally generated software and development costs in the course of construction. Depreciation does not commence until assets are complete and available for use.

13 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 March 2019	128,256	279,733	407,989
Additions	12,044	40,270	52,314
Disposals	(947)	(2,372)	(3,319)
Transfers	2,019	(2,019)	-
At 31 December 2019	<u>141,372</u>	<u>315,612</u>	<u>456,984</u>
Depreciation			
At 1 March 2019	49,988	135,854	185,842
Charge for period	12,122	31,241	43,363
Eliminated on disposal	(886)	(2,102)	(2,988)
Impairment	8	1,142	1,150
Transfers	424	(424)	-
At 31 December 2019	<u>61,656</u>	<u>165,711</u>	<u>227,367</u>
Carrying amount			
At 31 December 2019	<u>79,716</u>	<u>149,901</u>	<u>229,617</u>
At 1 March 2019	<u>78,268</u>	<u>143,879</u>	<u>222,147</u>
Cost or valuation			
At 1 January 2020	141,372	315,612	456,984
Additions	9,330	33,275	42,605
Disposals	(22,076)	(64,797)	(86,873)
At 31 December 2020	<u>128,626</u>	<u>284,090</u>	<u>412,716</u>

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****13 Property, plant and equipment (continued)**

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Depreciation			
At 1 January 2020	61,656	165,711	227,367
Charge for the year	12,474	39,961	52,435
Eliminated on disposal	(21,316)	(62,452)	(83,768)
Impairment	211	715	926
At 31 December 2020	<u>53,025</u>	<u>143,935</u>	<u>196,960</u>
Carrying amount			
At 31 December 2020	<u><u>75,601</u></u>	<u><u>140,155</u></u>	<u><u>215,756</u></u>
At 31 December 2019	61,656	165,711	227,367

The £211,000 impairment of land and buildings and £3,230,000 of the furniture fittings and equipment relates to assets that are no longer in use, £(2,515,000) 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. The fair value less costs of disposal is calculated using a multiple of 7.1 (Year ending 31 December 2019: 9). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 5.63% (Year ending 31 December 2019: 6.29%).

Included within property, plant and equipment at 31 December 2020 was an amount of £14,117,000 (31 December 2019: £12,960,000) relating to expenditure for leasehold improvements and new store openings in the course of construction. Depreciation does not commence until assets are complete and available for use.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****14 Right-of-use assets**

	Motor vehicles £ 000	Property £ 000	Total £ 000
Cost or valuation			
At 1 March 2019	6,064	468,826	474,890
Additions	1,370	68,377	69,747
Disposals	-	(1,327)	(1,327)
At 31 December 2019	<u>7,434</u>	<u>535,876</u>	<u>543,310</u>
Depreciation			
Charge for period	2,225	67,932	70,157
Eliminated on disposal	-	(323)	(323)
Impairment	-	2,297	2,297
At 31 December 2019	<u>2,225</u>	<u>69,906</u>	<u>72,131</u>
At 31 December 2019	<u>5,209</u>	<u>465,970</u>	<u>471,179</u>
Cost or valuation			
At 1 January 2020	7,434	535,876	543,310
Additions	3,055	57,407	60,462
Disposals	(1,014)	(11,371)	(12,385)
At 31 December 2020	<u>9,475</u>	<u>581,912</u>	<u>591,387</u>
Depreciation			
At 1 January 2020	2,225	69,906	72,131
Charge for the year	2,675	85,527	88,202
Eliminated on disposal	(1,013)	(11,465)	(12,478)
Impairment	-	1,315	1,315
At 31 December 2020	<u>3,887</u>	<u>145,283</u>	<u>149,170</u>
Carrying amount			
At 31 December 2020	<u>5,588</u>	<u>436,629</u>	<u>442,217</u>
At 31 December 2019	<u>5,209</u>	<u>465,970</u>	<u>471,179</u>

The impairment of £1,315,000 results from the assessment of CGUs (determined as being a leased property) in which the recoverable amount of the CGU is the greater of its fair value less the costs of disposal and value in use. The fair value less costs of disposal is calculated using a multiple of 7.1 (Year ending 31 December 2019: 9). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 5.63% (Year ending 31 December 2019: 6.29%).

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****15 Investments**

Investments in Subsidiaries	Total £ 000
Cost or valuation	
At 1 March 2019	145,172
Additions	1,490
Impairment charge	<u>(32,249)</u>
At 31 December 2019	114,413
Additions	9,405
Impairment charge	<u>(11,624)</u>
At 31 December 2020	<u>112,194</u>

In the current year, the Company injected £9,405,000 into Costa Coffee Polska S.A. which was fully impaired in the year. The Company also recognized impairment charges against Costa Express Malaysia Sdn Bhd. £2,219,000.

In the prior financial period, the Company acquired the entire issued share capital of Cuppa-Cino Trading Limited for a consideration of £1,490,000, and recognised impairment charges against its investments in Coffeeheaven International Limited, Costa Coffee Polska S.A. and Costa Express GmbH amounting to £32,249,000.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****15 Investments (continued)**

Details of the directly held investments in subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Country of incorporation, principal place of business and registered office	Proportion of ownership interest and voting rights held	
			31 December 2020	31 December 2019
Coffeeheaven International Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%
Costa Catering Management (Shanghai) Co. Ltd	Catering management	China Room 3002, ICP, No 1318 North Sichuan Road, Hongkou District, Shanghai, 200080, China.	100%	100%
Life Coffee Cafes Limited	Operator of coffee shops	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%
Costa Coffee India Private Limited	Franchise business	India Unit No. 216, Second floor at Square one, c-2 district centre, Saket, New Delhi, 110017, India	100%	100%
Costa Coffee Polska SA	Operator of coffee shops	Poland Chłodna 52, 00-872 Warsaw, Poland.	100%	100%
Costa 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, France	100%	100%

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****15 Investments (continued)**

Costa International Limited	International Franchisor	England Costa House Houghton Hall, Business Park, Porz Avenue, Houghton Regis, Dunstable, Bedfordshire, LU5 5YG,	100%	100%
Costa Singapore Private Limited	Regional franchise support services	Singapore 38 Beach Road, #29-11 South Beach Tower, Singapore, 189767, Singapore.	100%	100%
Costa Express GmbH	The installation, supply and distribution of beverage machines of the Costa Coffee Group including the sale of espresso based coffee and other beverages.	Germany Ecos office centre eschborn HS Buro und Service GmbH Mergenthaleralle 10-12 65760 Eschborn Germany	100%	100%
Cuppa-Cino Trading Limited	Leaseholder of train platform kiosks	United Kingdom 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, Shanghai, Huangpu District	100%	100%
Costa Europe sp. z.o.o.	Dormant	Poland Chlodna 52, Warsaw, 00-872,	100%	0%
Costa Express Poland sp z.o.o.	Dormant	Poland Chlodna 52, Warsaw, 00-872,	99%	0%
Costa USA LLC	Local management services	USA One Coca-Cola Plaza, Atlanta, GA, 30313	100%	0%
Costa Express Canada Limited	Operator of branded coffee machines	Canada C/o Accu-Search Inc, 215 10205-101, Street Edmonton AB T5J 2Y9, Canada	100%	100%

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****16 Inventories**

	31 December 2020 £ 000	31 December 2019 £ 000
Raw materials and consumables	9,340	4,328
Finished goods and goods for resale	<u>18,617</u>	<u>14,294</u>
	<u><u>27,957</u></u>	<u><u>18,622</u></u>

17 Trade and other receivables

	31 December 2020 £ 000	31 December 2019 £ 000
Trade receivables	23,755	39,749
Provision for impairment of trade receivables	<u>(4,622)</u>	<u>(482)</u>
Net trade receivables	19,133	39,267
Amounts owed to related parties	49,786	49,356
Prepayments and accrued income	10,460	9,904
Other receivables	<u>10,410</u>	<u>11,886</u>
Total current trade and other receivables	<u>89,789</u>	<u>110,413</u>
Long-term prepayments	12,482	-
Other receivables greater than 1 year	<u>7,687</u>	<u>4,827</u>
Total current receivables and non-current	<u>109,958</u>	<u>115,240</u>

During the period, the Company recognised a provision against amounts owed by related parties of £13,857,000. The Company released a debt owed by Costa China Holdings Limited within the period for £36,075,000. This amount was included in the prior period provision against amounts owed by related parties.

In the prior period, the Company recognised a provision against amounts owed by related parties of £46,962,000.

No interest has been charged on the balances since 3 January 2019, whilst the Costa Group, of which the Company is a member, carries out a review of its intercompany lending arrangements following its acquisition by The Coca-Cola Company.

Included in trade receivables is £1,113,000 owed by Costa Group's joint venture, against which a provision for impairment of trade receivables has been recognised of £(1,043,000). In the prior period included in trade receivables was amounts owed of £1,266,000 against which a provision for impairment of trade receivables has been recognised of £(52,000).

18 Derivative financial instruments

	31 December 2020 £ 000	31 December 2019 £ 000
Current financial liabilities		
Derivatives used for hedging - forward coffee contracts	<u>585</u>	<u>-</u>

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

19 Trade and other payables	31 December 2020 £ 000	31 December 2019 £ 000
Trade payables	61,783	43,788
Accrued expenses	71,337	74,378
Amounts due to related parties	193,297	141,287
Social security and other taxes	1,843	34,247
Other payables	<u>3,918</u>	<u>9,757</u>
	<u>332,178</u>	<u>303,457</u>

Included within other payables are amounts owed to associates of The Coca-Cola Company (the ultimate parent of the Costa Group), totalling £2,931,000

20 Other provisions

	Payroll £ 000	Restructuring £ 000	Insurance Claims £ 000	VAT £ 000	Total £ 000
At 1 January 2020	-	-	-	-	-
Additional provisions	5,957	1,927	2,762	1,498	12,482
Provisions used	-	(153)	(746)	-	(1,237)
Provision reversed	-	-	-	-	-
At 31 December 2020	<u>5,957</u>	<u>1,774</u>	<u>2,016</u>	<u>1,498</u>	<u>11,245</u>

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.

Insurance Claims

Relates to current and potential future claims from customers for the statute of limitation period.

VAT Provision

Relates to the input VAT not yet claimed due to rental payments being paid to landlords, but VAT invoices not yet received.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****21 Share capital****Allotted, called-up and fully paid shares**

	31 December 2020 (000's)		31 December 2019 (000's)	
	No.	£	No.	£
Ordinary of £1 each of £1 each	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>	<u>91,258</u>

22 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 £6,098,346 (43 weeks ended 31 December 2019 - £4,191,859).

23 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 period ended 31 December 2020 was £(132)k (financial period ended 31 December 2019 was £4.4m). Of the £(132)k credited to the period, £1.0m related to charges for 2020, and £(1.1)m related to the release of share-based liabilities of performance related schemes which has been impacted by COVID-19.

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.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

23 Share-based payments (continued)

Long-Term Incentive Plan (LTIP) 2019 and 2020

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 2020

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.

Restricted stock retention awards 2019

Awards are not subject to performance conditions and vested in full on the release date in 2020 subject to continued employment at that date.

Buyout LTIP 2019

Following the acquisition of the Costa Group by The Coca-Cola Company, participants in the Whitbread Plc. LTIP plan forfeited part of their in-flight awards. The Coca-Cola Company put in a one-off LTIP to compensate for this loss. Vesting of all shares under the scheme depended on continued employment on the vest date and meeting of profit performance targets in 2019. The shares vest equally over a two-year period (the vesting period) and are settled in equity once exercised.

Buyout restricted stock award 2019

Following the acquisition of the Costa Group by The Coca-Cola Company, participants in the Whitbread Plc. restricted stock award plan forfeited part of their in-flight awards. The Coca-Cola Company put in a one-off restricted stock award plan to compensate for this loss. Vesting of all shares under the scheme depended on continued employment on the vest date. The shares vest equally over a two-year period (the vesting period) and are settled in equity once exercised.

	31 December 2020 Total Shares
Share Balance as at 1 January 2020	313,638
Total Number of Shares granted	67,060
Total Number of Shares of Vested	90,205
Total Number of Exercised shares	90,205
Forfeited Shares between	263,396
Outstanding Balance of shares as at 31 December 2020	27,097

The average share price of exercised options between 1 January 2020 and 31 December 2020 was \$57.0125. The weighted average exercise price of exercised options between 1 January 2020 and 31 December 2020 was \$54.9623. The range of exercise prices was between \$54.5400 and \$59.4850

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

24 Leases

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

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

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

The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios. The Company does, however, sub-let space in some of its leased property portfolio. The amount recognised as sub-lease operating lease income during the year was £217,337 (31 December 2019: £164,512), as detailed in note 5.

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****24 Leases (continued)****Lease accounting**

Note 13 details the accounting of right-of-use assets in the financial period.

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

Lease liabilities

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
As at beginning of the year/period	489,619	498,089
Additions	63,964	69,472
Interest expense	9,593	8,409
Disposals	(76,119)	(85,346)
Modifications	-	(1,004)
As at 31 December	<u>487,057</u>	<u>489,620</u>
	31 December 2020 £ 000	31 December 2019 £ 000
Current portion of long-term lease liabilities	103,780	90,562
Long-term lease liabilities	<u>383,277</u>	<u>399,058</u>

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****24 Leases (continued)**

A summary of the amounts recognized in profit and loss in the current financial period is as follows:

Amounts recognized in profit and loss

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Depreciation of right-of-use property	85,527	67,932
Depreciation of right-of-use motor vehicles	2,675	2,225
Interest expense on lease liabilities	9,593	8,409
Expense on short term leases (included in operating costs)	9,247	8,728
Covid-19 related rent concessions	(4,303)	-
Sublease operating lease income	(217)	(164)
Turnover rent	742	7,736
Total amount recognised in profit and loss	<u>103,264</u>	<u>94,866</u>

Cash flow

The Company had total net cash outflow of £76,862,000 (31 December 2019: £93,082,000) in relation to leases in the current financial period.

Variable lease payments based on sales

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

	Fixed payments £ 000	Variable payments (based on sales) £ 000	Total payments £ 000
Leases with lease payments based on sales	<u>10,605</u>	<u>742</u>	<u>11,348</u>

The estimated annual impact on total payments of a 5% increase in sales would be of £ 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:

COSTA LIMITED**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****24 Leases (continued)**

	Within 5 years £ 000	More than 5 years £ 000	Total £ 000
Extension options expected not to be exercised	748	291	1,039
Termination options expected to be exercised	169	3,953	4,122
	<u>917</u>	<u>4,244</u>	<u>5,161</u>

Leases commencing in the future

The Company has various lease contracts that will commence after 31 December 2020. The future lease payments for these non-cancellable lease contracts are £532,296 (31 December 2019: £1,203,100) within one year, £8,297,193 (31 December 2019: £20,296,257) within five years and £19,662,499 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 £4.3 million for the 52 weeks to 31 December 2020 being recorded in Operating costs.

25 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.

The Costa Group has equity investments in a joint venture. For the 52 weeks ending 31 December 2020 Costa Limited had recognised sales of £77,000 and cost of sales of £(60,000). For the 43 weeks ending 31 December 2019 Costa Limited recognised sales of £2,017,000 and cost of sales of £(1,081,000).

Costa Limited trades with associate companies of The Coca-Cola Company. For the 52 weeks ending 31 December 2020 Costa Limited had recognised total sales for these companies of £6,268,000 and cost of sales of £(9,064,000).

The balances due to and from these related parties as at the balance sheet date have been disclosed in Note 17 and Note 19.

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

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

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

27 Parent and ultimate parent undertaking

The Company's immediate parent is European Refreshments.

The ultimate parent is The Coca-Cola Company.

COSTA LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

27 Parent and ultimate parent undertaking (continued)

Relationship between entity and parents

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

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

28 Events after the balance sheet date

On 23 August 2021, Costa Limited announced that it had reached an agreement to sell Costa Express Poland sp z.o.o to Coca-Cola HBC Polska. As at 23 August 2021, the disposal of Poland's Costa Express business met the recognition criteria under IFRS 5 Non-current assets held for sale and discontinued operations. The sale of the business transacted on 31 October 2021.

On 21 September 2021, Costa Limited announced that it had reached an agreement to sell 145 retail stores in Poland and Latvia to Lagardere Travel Retail. As at 21 September 2021, the disposal of 145 of the stores in Costa Coffee Polska SA met the recognition criteria under IFRS 5 Non-current assets held for sale and discontinued operations. It is expected that the sale of the business will transact in the first quarter of 2022.

On 28 October 2021, Costa Beijing Limited, a wholly owned subsidiary within the Costa Group, reached an agreement with Beijing Hualian Jiahe Investment Management Co., Ltd to acquire the remaining 50% equity in Hualian Costa Beijing. It is expected that the acquisition will take transact on 15 December 2021 at which point Costa Hualian Beijing will be a wholly owned subsidiary of Costa Beijing Limited.