Registration number: 1270695

Costa Limited

Annual Report and Financial Statements

for the Year Ended 1 March 2018

Costa Limited
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Costa Limited

Company Information

Directors	J Cotta S Highfield K Seljeflot D Paul
Company secretary	R Fairhurst D Lowry
Registered number	1270695
Registered office	Whitbread Court Houghton Hall Business Park Porz Avenue Dunstable Bedfordshire LU5 5XE
Statutory auditor	Deloitte LLP 2 New Street Square London United Kingdom

Costa Limited

Strategic Report for the Year Ended 1 March 2018

The directors present their strategic report for the year ended 1 March 2018.

Fair review of the business

The Company is part of the Whitbread Group which has built some of the UK's most successful hospitality brands including Premier Inn, Costa, Beefeater and Brewers Fayre. Its strategy is to grow leading brands with a clear focus on returns to deliver shareholder value.

The board of the Company's ultimate parent undertaking, Whitbread PLC has taken the decision to demerge Costa and list it as a separate entity. The board is confident that both Premier Inn and Costa will soon be businesses of sufficient strength, scale and capability to enable them to thrive as independent companies. The demerger is due to be completed within 24 months. Costa will become the clear market leader in the out-of-home coffee market in the UK. Costa will also be well positioned to build further on its strong international foundations with growth expected in China and Costa Express.

The Company aims to serve the best quality coffee and fresher food via more tailored store designs, with a complementary digital experience. During the year, the Company launched new drink propositions including a coconut based milk alternative, summer selections and Cold Brew coffee. It also expanded its food range to add gluten free and vegan options and an expanded salad range. Eight new "stores of the future" delivering light and airy spaces for customers to enjoy an enhanced selection of fresh food and coffee. The store layout also includes a newly designed bar to increase the store team's productivity.

In March 2017, Costa's state of the art new sustainable roastery was opened in Basildon, quadrupling Costa's roasting capability and supporting its long-term growth.

For further details of the coffee business, please refer to the Costa section of the Strategic Report within the Annual Report and Accounts of Whitbread PLC (the ultimate parent company) for the year ended 1 March 2018.

The Company's continued focus on innovation and operational support helped support a 7.4% increase in turnover to £951.7m (2017: £886.4m). Operating profit fell by 0.8% to £89.1m (2017: £89.8m). The Company continue to invest in the opening of new stores, with a net 204 stores opened in the year (2017: 169).

	Units	2018	2017	Change
Turnover	£m	951.7	886.4	7.4 %
Operating profit	£m	89.1	89.8	(0.8) %
Operating profit excluding non-underlying costs	£m	121.6	122.9	(1.1) %
Net new stores opened (UK only)	Number	204	169	20.7 %

Like for like sales declined by 0.4% in 2018. Like for like growth measures the period over period change in revenue for outlets open for at least one year. There is no direct equivalent IFRS measure. This definition was redefined to reflect wider industry practice and therefore there is no comparative.

Principal risks and uncertainties

Marketplace risks

Maintenance of innovation and brand strength:
To ensure Costa 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.

Decline in consumer spending reduces turnover:
The general health of the UK economy and its influence on consumer spending is important to the Company's success. In the current climate, the Company performed better than footfall trends in traditional shopping locations. This relative outperformance was primarily a result of increased spend per transaction supported by the ongoing improvements in the food offer and the introduction of new drinks.

Principal risks and uncertainties (continued)

Operational risks

Failure to maintain staff engagement and retention in tightening labour market:
The success of Costa's business 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 'Your Say', the results of which are reviewed by the Executive Committee and the Board, with trends analysed and appropriate actions reviewed and agreed. HR systems are also being upgraded to provide greater insight. Team retention is a key component of the Company's balanced scorecard (WINcard) and Annual Incentive Scheme.

Inability to operate the Costa roastery for more than one week:
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.

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

The Company's ability to execute the significant volume of change, including the proposed demerger of Costa from Whitbread:
The Company has embarked on an extensive programme of change to replace legacy finance, point of sale, customer relationship management and human resources systems, whilst also delivering an ongoing efficiency programme and upgrading digital capability and customer propositions enabling Costa to deliver its growth plans over the coming years. To help ensure the successful delivery of these change projects, including the proposed demerger of Costa from Whitbread, 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.

External financial risks

Rises in key costs reducing returns:
The Company mitigates the risk of fluctuations in coffee prices by purchasing coffee using forward contracts. The Company does not enter into speculative positions when entering forward contracts. Recent years have seen large rises in utility costs and future cost increases are a risk. Costa has mitigated these cost rises by negotiating centralised utility contracts where possible. There is a risk that the minimum wage will rise at a faster rate than the rate of inflation. Costa has mitigated this continuing risk by reviewing its operating procedures and improving productivity through the use of labour scheduling techniques.

Approved by the Board on 8/8/2018 and signed on its behalf by:

S Whitfield

Director
S HIGHFIELD

Costa Limited

Directors' Report for the Year Ended 1 March 2018

The directors present their report and the financial statements for the year ended 1 March 2018.

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.

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

J Cotta

S Highfield

M McGowan (resigned 30 April 2017)

K Seljeflot

D Paul

Dividends
During the year the Company paid a dividend of £200,000,000 (2017: £Nil).

Principal risks and uncertainties

Information on financial risk management, exposure to price, credit and liquidity risk is covered in the Strategic report.

Employment of disabled persons
All employee services are provided to the Company by Whitbread Group PLC. For further information on the Company's policy on the employment of disabled persons please refer to the Annual Report and Accounts of Whitbread PLC for the year ended 1 March 2018 which are available from Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire.

Employee involvement
All employee services are provided to the Company by Whitbread Group PLC. For further information on employee involvement please refer to the Annual Report and Accounts of Whitbread PLC for the year ended 1 March 2018 which are available from Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire.

Future developments
The Company plans to continue its operation in the production and sale of coffee.

There were no significant events after the balance sheet date which would require disclosure in these accounts.

Going concern
The financial position of the Company is set out in these financial statements. The Company has considerable financial resources and, as a consequence, the directors believe that the Company is well placed to manage its business risks.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Costa Limited

Directors' Report for the Year Ended 1 March 2018

Qualifying third party indemnity provisions

A qualifying indemnity provision (as defined in Section 236(1) of the Companies Act 2006) is in force for the benefit of the directors.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.

Reappointment of auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board on 8/8/2018 and signed on its behalf by:

Director

S HIGHFIELD

Costa Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards 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 inappropriate to presume that the Company will continue in business.

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

Independent Auditor's Report to the Members of Costa Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclsoure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Costa Limited (the 'Company'), which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of Costa Limited

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at 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.

Report on other legal and regulatory requirements

Opinion 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 Directors' Report for the financial period 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.

In the light of our 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 and the Directors' Report.

Costa Limited

Independent Auditor's Report to the Members of Costa Limited

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Nicola Mitchell

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Nicola Mitchell (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 8/8/2018

Costa Limited

Income Statement for the Year Ended 1 March 2018

	Note	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Revenue	4	951,684	886,366
Operating costs		(830,084)	(763,433)
Non-underlying items	5	(32,466)	(33,156)
Operating profit	5	**89,134**	**89,777**
Finance revenue	6	16,090	13,619
Finance costs	7	(9)	(9)
Profit before tax		**105,215**	**103,387**
Tax expense	10	(31,097)	(24,748)
Profit for the year		**74,118**	**78,639**

The above results were derived from continuing operations.

The notes on pages 15 to 40 form an integral part of these financial statements.

Costa Limited

Statement of Comprehensive Income for the Year Ended 1 March 2018

	Note	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Profit for the year		74,118	78,639
Items that may be reclassified subsequently to profit or loss			
Unrealised loss on cash flow hedges before tax		(1,114)	(531)
Current tax on cash flow hedges	10	273	121
Deferred tax on cash flow hedges		(46)	(19)
Foreign currency translation losses		(94)	-
		(981)	(429)
Total comprehensive income for the year		73,137	78,210

The notes on pages 15 to 40 form an integral part of these financial statements.

Costa Limited

(Registration number: 1270695)
Statement of Financial Position as at 1 March 2018

	Note	1 March 2018 £ 000	2 March 2017 £ 000
Assets			
Non-current assets			
Intangible assets	11	16,562	12,097
Property, plant and equipment	12	211,749	213,982
Investments	13	120,298	78,067
Derivative financial instruments	16	61	36
Deferred tax assets	10	5,442	4,018
		354,112	308,200
Current assets			
Inventories	14	19,538	23,642
Trade and other receivables	15	314,880	422,755
Derivative financial instruments	16	-	731
Cash and cash equivalents		6,940	11,090
		341,358	458,218
Total assets		**695,470**	**766,418**
Liabilities			
Current liabilities			
Trade and other payables	19	(110,737)	(103,001)
Current tax liabilities	10	(32,004)	(26,095)
Derivative financial instruments	16	(408)	-
Deferred income		(5,369)	(4,551)
		(148,518)	(133,647)
Provisions for liabilities	20	(8,652)	(3,780)
Total liabilities		**(157,170)**	**(137,427)**
Net assets		**538,300**	**628,991**
Equity			
Called up share capital	21	67,817	33,000
Other reserves		(347)	767
Retained earnings		470,830	595,224
Total equity		**538,300**	**628,991**

Approved by the Board on 8/8/2018 and signed on its behalf by:

Director

S HIGHFIELD

The notes on pages 15 to 40 form an integral part of these financial statements.

Costa Limited

Statement of Changes in Equity for the Year Ended 1 March 2018

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 4 March 2016	33,000	1,298	511,055	545,353
Profit for the year	-	-	78,639	78,639
Other comprehensive income/ (loss)	-	(531)	102	(429)
Total comprehensive income/(loss)	-	(531)	78,741	78,210
Share based payment transactions	-	-	5,428	5,428
At 2 March 2017	**33,000**	**767**	**595,224**	**628,991**

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 3 March 2017	33,000	767	595,224	628,991
Profit for the year	-	-	74,118	74,118
Other comprehensive income/ (loss)	-	(1,114)	133	(981)
Total comprehensive income/(loss)	-	(1,114)	74,251	73,137
Dividends	-	-	(200,000)	(200,000)
New share capital subscribed	34,817	-	-	34,817
Share based payment transactions	-	-	1,355	1,355
At 1 March 2018	**67,817**	**(347)**	**470,830**	**538,300**

The notes on pages 15 to 40 form an integral part of these financial statements.

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 financial statements are presented in pounds sterling, which is the functional currency, and all values are rounded to the nearest thousand.

The financial statements of Costa Limited for the year ended 1 March 2018 were authorised for issue by the Board of Directors on 8/8/2018

2 Accounting policies

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

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

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.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Whitbread Group PLC. The group accounts of Whitbread Group PLC are available to the public and can be obtained at Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5XE.

The financial year represents 52 weeks to 1 March 2018 (prior financial year: 52 weeks to 2 March 2017).

The Company has adopted the following standards, interpretations and amendments which have been assessed as having no financial impact or disclosure requirements at this time:

• Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
• Amendment to IAS 7 Disclosure Initiative; and
• Amendments to IFRS 12 Disclosure of Interests in Other Entities included in the Annual Improvements to IFRS Standards 2014-2016 Cycle.

Summary of disclosure exemptions
As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements of Whitbread PLC.

Going concern
The financial statements have been prepared on a going concern basis. The financial position of the Company is set out in these financial statements. The Company has considerable financial resources and, as a consequence, the directors believe that the Company is well placed to manage its business risks.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Revenue recognition
Revenue is measured at the fair value of the consideration receivable from the sale of goods and services to third parties after deducting discounts, allowances for customer loyalty and other promotional activities. Revenue includes duties which the Company pays as principal, but excludes amounts collected on behalf of other parties, such as value added tax.

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue of the Company comprises the following streams:

Sale of goods:
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.

The Company operates some customer loyalty programmes. Where award credits are granted as part of a sale transaction, a portion of revenue equal to the fair value of the award points earned is deferred until redemption. The fair value of points awarded is determined with reference to the discount received upon redemption and the level of redemption;

Rendering of services:
Revenue from room sales and other guest services is recognised when rooms are occupied and as services are provided; and

Franchise fees:
Revenue from fees received in connection with the franchise of the Group's brand names is recognised when earned.

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.

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.

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.

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 three to 30 years

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.

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.

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.

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.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Warranties

Provisions for the expected costs of warranty obligations arising on the acquisition or disposal of a business are recognised at the date of the relevant transaction, at the directors' best estimate of the expenditure required to settle the Company's obligation.

Leases

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

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. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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. 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.

In the absence of a comparable recent market transaction that demonstrates that the fair value, less the costs of disposal, of intangible assets exceeds their carrying amount, the recoverable amount is determined from value in use calculations. An impairment is then made to reduce the carrying amount to the recoverable amount.

For the purposes of the impairment review of property, plant and equipment, the Company considers each trading outlet to be a separate CGU. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Consideration is also given, where appropriate, to the market value of the asset either from independent sources or, in conjunction with, an accepted industry valuation methodology.

Investments in joint ventures and subsidiaries

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

Share capital

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

Dividends

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

Non-underlying items

A range of measures are used to monitor the financial performance of the Company. These measures include both statutory measures in accordance with IFRS and alternative performance measures (APMs) which are consistent with the way that the business performance is measured internally.

The term underlying profit is not defined under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, statutory measurements of profit. Underlying measures of profitability are non-IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS.

We report underlying measures because we believe they provide both management and investors with useful additional information about the financial performance of the Company's business.

Underlying measures of profitability represent the equivalent IFRS measures adjusted for specific items that are considered to hinder comparison of the financial performance of the Company's business either from one period to another or with other similar businesses.

The adjustments made to reported profit in order to derive underlying profit may include:

- Profit or loss on disposal of property, plant and equipment, property reversions and onerous leases. On occasion property may be disposed of, either as part of a sale and leaseback transaction or because the property is no longer required in the ongoing business. In addition, the Company may recognise liabilities in respect of lease obligations on properties which have been previously disposed of but where the lease obligations have reverted to the Company under privity. Profits or losses on these items may be significant and are not reflective of the Company's ongoing trading results;

- Profit or loss on the sale of a business or investment. These disposals are not part of the Company's ongoing trading business and are therefore excluded;

- Significant one-off restructuring costs, resulting from a strategic review of the Company's business or operations, the inclusion of which would distort the year on year comparability of the Company's trading results;

- Impairment of assets as the result of restructuring or closure of a business and impairment of sites which are underperforming or are to be closed, the inclusion of which would distort the year-on-year comparability of the Company's trading results;

- Amortisation of intangible assets recognised as part of a business combination or other transaction outside of the ordinary course of business;

- Finance costs resulting from the unwinding of discounts on provisions created in respect of non-underlying items; and

- Significant and one-off tax settlements in respect of prior years including the related interest and the impact of changes in the statutory tax rate, the inclusion of which would distort year on year comparability, as well as the tax impact of the non-underlying items identified above.

Defined contribution pension obligation

Employees of the Company are entitled to participate in a contracted-in defined contribution pension scheme operated by Whitbread Group PLC. 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.

Share based payments

Equity-settled transactions

Certain employees and directors of the Company receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions or non-vesting conditions are fulfilled, ending on the relevant vesting date. Except for awards subject to market-related conditions for vesting, the cumulative expense recognised for equity-settled transactions, at each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors' best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. If options are subject to market-related conditions, awards are not cumulatively adjusted for the likelihood of these targets being met. Instead, these conditions are included in the fair value of the awards.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where an equity-settled award is forfeited, the related expense recognised to date is reversed.

Cash-settled transactions

The cost is fair-valued at grant date and expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in the income statement for the period.

Financial assets

Classification

The recognition of financial assets and liabilities occurs when the Company becomes party to the contractual provisions of the instrument. The derecognition of financial assets takes place when the Company no longer has the right to cash flows, the risks and rewards of ownership, or control of the asset. The derecognition of financial liabilities occurs when the obligation under the liability is discharged, cancelled or expires.

Some assets held by the Company are classified as financial assets at fair value through profit or loss. On initial recognition these assets are recognised at fair value. Subsequent measurement is also at fair value, with changes recognised through finance revenue or costs in the income statement.

Recognition and measurement

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

Trade receivables are recognised and carried at original invoice amount less any uncollectable amounts.

Financial liabilities

Classification

Financial liabilities are classified as 'other financial liabilities'.

Recognition and measurement

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.
Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derivatives and hedging

The Company enters into derivative transactions with a view to managing interest and currency risks associated with underlying business activities and the financing of those activities. Derivative financial instruments used by the Company are stated at fair value on initial recognition and at subsequent balance sheet dates. Cash flow hedges mitigate exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Company's risk management objective strategy for undertaking the hedge and it is expected to be highly effective.

The fair value of derivative instruments is calculated by discounting all future cash flows by the applicable market yield curves at the balance sheet date.

The portion of any gains or losses on cash flow hedges which meet the conditions for hedge accounting and are determined to be effective, is recognised directly in the statement of comprehensive income. The gains or losses relating to the ineffective portion are recognised immediately in the profit and loss account.

When a firm commitment that is hedged becomes an asset or a liability recognised on the balance sheet, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the transaction that results from a firm commitment that is hedged affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account.

3 Key accounting judgements and estimates

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

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

Impairment

An impairment test of tangible and intangible assets is undertaken each year on both an EBITDA multiple approach and a discounted cash flow approach. Further information is provided in the accounting policy on impairment and in Note 12.

The level of impairment of investments is predominantly dependent upon judgements used in arriving at future growth rates and the discount rate applied to cash flow projections. The carrying amount of investments in subsidiaries at the balance sheet date was £120,298,000 with an impairment loss of £12,542,000 recognised in the year (2017: £27,027,000). The investment in the Shanghai business is at an early phase of its development and significant expansion in the store portfolio (and associated capital expenditure) is included in the plan. Consequently, whilst forecast operating cash flows are positive from year 3, forecast net cash flows are negative until year 5. The growth in cash flows over each of the next five years of Costa Coffee (Shanghai) Co. Ltd would need to be below plan by 19% in order to generate an impairment on the investment.

Onerous contracts provisions

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

4 Revenue

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

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Sale of goods	917,979	854,719
Rendering of services	9,968	9,874
Franchise fees	23,737	21,773
	951,684	886,366

All revenue is generated within the UK.

5 Operating profit

Arrived at after charging/(crediting)

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Depreciation expense	49,856	47,770
Amortisation expense	2,175	877
Cost of inventories recognised as an expense	248,477	225,145
Operating lease expense - property	98,858	92,944
Operating lease expense - plant and machinery	972	909
Sub-lease income	(195)	(230)
Foreign exchange gains	(146)	(251)
Other non-underlying items	32,466	33,156

As set out in the policy in Note 2, a range of measures are used to monitor the financial performance of the Company. These measures include both statutory measures in accordance with IFRS and alternative performance measures which are consistent with the way that the business performance is measured internally. Underlying measures are reported because they provide both management and investors with useful additional information about the financial performance of the Company's business. Underlying measures of profitablility represent the equivalent IFRS measures adjusted for specific items that are considered to hinder the comparison of the financial performance of the Company's business either from one period to another or with other similar businesses.

Other non-underlying items can be further analysed as follows:

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Impairment loss	24,581	29,788
Loss on disposal of property, plant and equipment	1,021	1,733
Settlement of historic VAT claim	-	(5,264)
Restructuring	4,070	5,328
Privity of contract	2,794	1;571
	32,466	33,156

Impairment loss
The impairment loss in the current year comprised an impairment of the Company's investments in Costa France SAS, Costa Singapore Pvt Limited, Costa Express Canada Limited and Costa Denmark ApS amounting to £12,542,000 as well as £4,418,000 impairment of intangible fixed assets and £7,621,000 impairment of tangible fixed assets.

The impairment loss in the prior year comprised an impairment of the Company's investments in Costa France SAS, CHI Poland, Costa Singapore Pvt Limited, Costa Express Canada Limited and Life Coffee Cafes Limited amounting to £27,027,000 as well as a £2,761,000 impairment of tangible fixed assets.

VAT settlement
In the prior year, the Company received a refund on settlement of a historic VAT claim.

Restructuring
Since last year, the Company has undertaken a significant reorganisation of support centre operations for which a provision was created. An amount was released in the current year due to an underutilisation of this provision.

Privity of contract
During the year, onerous contract provisions of £2,794,000 relating primarily to property reversions were recognised.

6 Finance revenue

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Interest income on bank deposits	2	4
Other finance income	-	1
Interest received from group undertakings	16,088	13,614
	16,090	13,619

7 Finance costs

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Interest expense on other financing liabilities	9	9

8 Staff costs

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

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Wages and salaries	218,750	201,298
Social security costs	13,899	12,816
Pension costs, defined contribution scheme	2,278	2,182
	234,927	216,296

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

	Year ended 1 March 2018 No.	Year ended 2 March 2017 No.
Number of employees	11,052	11,093

Included within the average number of employees and the staff costs detailed above, are employees under an employment contract with Whitbread Group PLC or Costa Limited and who provided services to Costa Limited during the year.

All fees paid to directors as remuneration are borne by the parent company Whitbread Group PLC and it is not practical to allocate the amount for services in respect of this Company.

9 Auditor's remuneration

Audit fees for the year of £6,000 (2017: £6,000) were paid by the parent Company, Whitbread Group PLC. Information about the total audit fees paid by the Group can be found in the Whitbread PLC Annual Report and Accounts for the year ended 1 March 2018.

10 Taxation

Tax charged in the income statement

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Current taxation		
UK corporation tax	31,151	29,189
UK corporation tax adjustment to prior periods	1,450	(2,910)
	32,601	26,279

	Year ended 1 March 2018 £ 000	Year ended 2 March 2017 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(2,611)	(2,316)
Arising from changes in tax rates and laws	5	448
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,102	337
Total deferred taxation	(1,504)	(1,531)
Tax expense in the income statement	31,097	24,748

The tax on profit before tax for the period is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19.08% (2017: 20%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	105,215	103,387
Corporation tax at standard rate	20,080	20,677
Increase/(decrease) in current tax from adjustment for prior periods	1,450	(2,910)
(Decrease)/increase from effect of revenues exempt from taxation	(7,160)	1,520
Increase from effect of expenses not deductible in determining taxable profit	15,620	4,676
Deferred tax expense from unrecognised temporary difference from a prior period	1,102	337
Deferred tax expense relating to changes in tax rates or laws	5	448
Total tax charge	31,097	24,748

Factors that may affect future tax charges:

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. The effect of the new rate was included in the financial statements in 2016/17. The rate change will also impact the amount of the future cash tax payments to be made by the Company.

The corporation tax balance is a liability of £32,004,000 (2017: liability of £26,158,000).

Deferred tax

Deferred tax asset

Deferred tax movement during the period:

	At 3 March 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 1 March 2018 £ 000
Accelerated tax depreciation	3,618	1,765	-	-	5,383
Revaluation of property	295	(342)	-	47	-
Revaluation of cash flow hedges	105	-	(46)	-	59
Net tax assets/(liabilities)	4,018	1,423	(46)	47	5,442

Deferred tax movement during the prior period:

	At 4 March 2016 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 2 March 2017 £ 000
Accelerated tax depreciation	2,594	1,165	-	(141)	3,618
Revaluation of property	(71)	366	-	-	295
Revaluation of cash flow hedges	124	-	(19)	-	105
Net tax assets/(liabilities)	2,647	1,531	(19)	(141)	4,018

11 Intangible assets

	Trademarks £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation			
At 3 March 2017	871	14,220	15,091
Additions	-	11,057	11,057
Assets written off	-	(357)	(357)
At 1 March 2018	871	24,920	25,791
Amortisation			
At 3 March 2017	816	2,178	2,994
Amortisation charge	-	2,174	2,174
Impairment	-	4,418	4,418
Assets written off	-	(357)	(357)
At 1 March 2018	816	8,413	9,229
Carrying amount			
At 1 March 2018	55	16,507	16,562
At 2 March 2017	55	12,042	12,097

12 Property, plant and equipment

	Land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost or valuation			
At 3 March 2017	114,396	237,682	352,078
Additions	25,721	30,871	56,592
Disposals	(1,670)	(1,450)	(3,120)
Transfers	(300)	3,192	2,892
Assets written off	(5,782)	(30,360)	(36,142)
At 1 March 2018	132,365	239,935	372,300
Depreciation			
At 3 March 2017	40,292	97,804	138,096
Charge for the period	10,423	39,433	49,856
Eliminated on disposal	(1,048)	(1,011)	(2,059)
Impairment	-	7,621	7,621
Transfers	834	2,345	3,179
Assets written off	(5,782)	(30,360)	(36,142)
At 1 March 2018	44,719	115,832	160,551
Carrying amount			
At 1 March 2018	87,646	124,103	211,749
At 2 March 2017	74,104	139,878	213,982

Included above are assets under construction of £19,385,000 (2017: £17,371,000).

Capital expenditure commitments for property, plant and equipment for which no provision has been made amount to £23,300,000 (2017: £7,413,000).

The net book value of land and buildings can be broken down as follows:

- £16,236,000 - freehold
- £57,000 - long leasehold
- £71,353,000 - short-leasehold

Impairment

Furniture, fittings and equipment

The impairment charge relates to stores that are underperforming.

The Company considers each trading site to be a CGU and each CGU is reviewed annually for indicators of impairment. Where indicators of impairment are identified an impairment assessment is undertaken.

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value, less costs of disposal and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use.

The amount of impairment loss included in profit and loss is £7,827,000 (2017: £2,761,000).

The amount of reversal of impairment recognised in profit and loss is £206,000 (2017: £Nil).

13 Investments

Subsidiaries	Investment in subsidiary companies £ 000	Loans to subsidiaries £ 000	Total £ 000
Cost or valuation			
At 3 March 2017	137,820	1,700	139,520
Additions	54,773	-	54,773
At 1 March 2018	192,593	1,700	194,293
Impairment			
At 3 March 2017	61,453	-	61,453
Impairment charge for the year	12,542	-	12,542
At 1 March 2018	73,995	-	73,995
Carrying amount			
At 1 March 2018	118,598	1,700	120,298
At 2 March 2017	76,367	1,700	78,067

The investments are directly held by the Company.

During the year, the Company increased its investment in Costa International Limited to fund the buy-out of the joint venture operation in Shanghai. It also acquired another subsidiary, Costa Express Malaysia sdn.bdh as well as providing additional funding to several of its overseas subsidiaries.

The impairment charge for the year represents impairment of the Company's investments in Costa France SAS, Costa Singapore Pvt Limited, Costa Express Canada Limited and Costa Denmark ApS amounting to £12,542,000.

Details of the subsidiaries as at 1 March 2018 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 2018	2017
Coffeeheaven International Limited	Operator of coffee shops	England Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE.	100%	100%
Costa Card ELMI Limited	E-money issuer	England Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE.	100%	100%
Costa Catering Management (Shanghai) Co. Ltd	Catering management	China Room 3002, ICP, No 1318 North Sichuan Road, Hongkou District, Shanghai, 200080, China.	100%	100%
Costa Coffee India Private Limited	Franchise business	India Unit No. 216, Second floor at Square one, c-2 district centre, Saket, New Delhi, 110017, India	100%	100%
Costa Coffee Polska SA	Operator of coffee shops	Poland Chłodna 52, 00-872 Warsaw, Poland.	100%	100%
Costa Denmark ApS	Operator of coffee shops	Denmark c/o TMF Denmark A/S, Bredgade 6, 1, 1260 Copenhagen, Copenhagen, Denmark.	100%	100%
Costa Express Canada Limited	Operator of branded coffee machines.	Canada C/o Accu-Search Inc, 215, 10205-101 Street, Edmonton AB T5J 2Y9, Canada.	100%	100%
Costa Express Holdings Limited	Holding company	England Knaves Beach, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR	100%	100%

Costa Express Malaysia Sdn Bhd.	Operator of branded coffee machines	Malaysia TMF Administrative Services Malaysia Sdn. Bhd., 10th Floor, Menara Hap Seng, No.1 & 3 Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia	100%	0%
Costa France SAS	Operator of coffee shops	France 52 rue de la Victorie 75009, Paris, France	100%	100%
Costa International Limited	Franchise business	England Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE.	100%	100%
Costa Singapore Private Limited	Operator of coffee shops	Singapore 38 Beach Road, #29-11 South Beach Tower, Singapore, 189767, Singapore.	100%	100%
Life Coffee Cafes Limited	Operator of coffee shops	England Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE.	100%	100%

14 Inventories

	1 March 2018 £ 000	2 March 2017 £ 000
Raw materials and consumables	7,734	12,827
Finished goods and goods for resale	11,804	10,815
	19,538	23,642

15 Receivables

	1 March 2018 £ 000	2 March 2017 £ 000
Trade receivables	37,947	33,554
Provision for impairment of trade receivables	(475)	(442)
Net trade receivables	37,472	33,112
Amounts owed by group undertakings	258,197	372,928
Prepayments and accrued income	9,793	9,929
Other receivables	8,836	5,837
Total current trade and other receivables	314,298	421,806
Total non-current other receivables	582	949
Total receivables	314,880	422,755

Amounts receviable from related parties are repayable on demand and carry an average quarterly interest rate based upon the group funding.

16 Derivative financial instruments

	1 March 2018 £ 000	2 March 2017 £ 000
Non-current financial assets		
Derivatives used for hedging	61	36

	1 March 2018 £ 000	2 March 2017 £ 000
Current financial assets		
Derivatives used for hedging - forward coffee contracts	-	731

	1 March 2018 £ 000	2 March 2017 £ 000
Current financial liabilities		
Derivatives used for hedging - forward coffee contracts	(408)	-

17 Operating lease arrangements

Operating leases

The Company leases various buildings which are used within the business. The leases are non-cancellable operating leases with varying terms, escalation clauses and renewal rights. The Company also leases various plant and equipment under non-cancellable operating lease agreements.

Contingent rents are the portion of the lease payment that is not fixed in amount but based upon the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices or future market rates of interest).

The weighted average lease life of future minimum rentals payable under non-cancellable operating leases is 4.7 years (2017: 4.3 years).

The total future value of minimum lease payments is as follows:

	1 March 2018 £ 000	2 March 2017 £ 000
Within one year	80,349	78,215
In two to five years	221,733	199,633
In over five years	93,869	69,016
	395,951	346,864

The amount of non-cancellable operating lease payments recognised as an expense during the year is £99,836,000 (2017: £93,853,000)

The amount of contingent operating lease payments recognised as an expense during the year is £10,741,000 (2017: £10,678,000).

Sublease arrangements

The Company has sublet space in certain properties.

Total future minimum sublease income under non-cancellable operating leases expected to be received is £1,771,000 (2017: £1,725,000).

The amount of income recognised in the period from non-cancellable operating subleases is £195,000 (2017: £230,000).

18 Share-based payments

Employee sharesave scheme

Scheme description
The employee sharesave scheme is open to all employees and provides for a purchase price equal to the market price on the day preceding the date of invitation, with a 20% discount. The shares can be purchased over the six-month period following the third or fifth anniversary of the commencement date, depending on the length chosen by the employee.

Outstanding options to purchase ordinary shares of 76.80 pence between 2017 and 2022 are exercisable at prices between £19.14 and £38.66 per share (2017: between 2016 and 2021 at prices between £13.39 and £38.66).

The weighted average contractual life of the share options outstanding as at 1 March 2018 is between two and three years. The weighted average share price at the date of exercise for options exercised during the year was £38.03 (2017: £39.09).

Long-Term Incentive Plan (LTIP)
The LTIP awards shares to directors and senior executives of the Company. Vesting of all shares under the scheme will depend on continued employment and meeting earnings per share (EPS) and return on capital employed (ROCE) performance targets over a three-year period (the vesting period). Details of the performance targets for the LTIP awards can be seen in the Group consolidated financial statements. The awards are settled in equity once exercised.

Deferred equity awards
Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/05. The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If the director or senior executive of the Company ceases to be an employee of Whitbread prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the remuneration committee, the awards will be released in full. If employment ceases for any other reason, the proportion of awards which vest depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the awards vest, between the first and second anniversary, 25% vests and between the second and third anniversary, 50% vests.

19 Trade and other payables

	1 March 2018 £ 000	2 March 2017 £ 000
Trade payables	18,055	17,299
Accruals and deferred income	85,960	73,972
Other payables	6,722	11,730
	110,737	103,001

Amounts due to related parties are repayable on demand and carry an average quarterly interest rate based upon the group funding.

20 Other provisions

	Onerous contracts £ 000	Other provisions £ 000	Total £ 000
At 3 March 2017	1,571	2,209	3,780
Additional provisions	2,794	4,070	6,864
Provisions used	(372)	(1,620)	(1,992)
At 1 March 2018	3,993	4,659	8,652

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

Onerous leases are discounted using a discount rate of 3.74% (2017: 3.74%) based on an approximation for the time value of money.

The amount and timing of the cash outflows are subject to variation. The Company utilises the skills and expertise of both internal and external property experts to determine the provision held. Provision are expected to be utilised over a period of up to 18 years.

Other provisions
Other provisions relate to restructuring that has been recognised as a result of the Company's decision to reorganise its support centre operations. These are expected to be used within one year.

21 Share capital

Allotted, called up and fully paid shares

	No. 000	1 March 2018 £ 000	No. 000	2 March 2017 £ 000
Ordinary of £1 each	67,817	67,817	33,000	33,000

The shares carry full voting, dividend and capital distribution rights.

New shares allotted
During the period 34,816,921 Ordinary shares having an aggregate nominal value of £34,816,921 were allotted for an aggregate consideration of £34,816,921.

22 Dividends

During the year the directors declared and paid a dividend of £2.95 per ordinary share (2017: £Nil).

23 Contingent liabilities

The Company has provided guarantees to HSBC and BNP Paribas in respect of facilities provided by the banks to Costa France SAS, CHI Polska and Costa Singapore Private Limited amounting to £3.3m, £4.8m and £1.1m respectively. In addition, Costa Limited is one of the guarantors of a £450m unsecured bond issued by Whitbread Group PLC on the 28th May 2015. This bond has a coupon rate of 3.375pct and a maturity of 16th October 2025. It is also one of the guarantors of a £950m revolving credit facility provided to Whitbread Group PLC which runs until September 2021, with the option to extend until September 2022. The facility has variable interest rates linked to LIBOR and is multi-currency. The Company considers it unlikely that it will be called upon to make any payments under these guarantees.

24 Related party transactions

As well as the subsidiary undertakings listed in note 13, the Company had the following related undertakings at the year-end which were indirectly owned:

Name of related undertaking	Principal place of business	Class of shares held	% of class of shares held by the Company	% of class of shares held by the Group	% of nominal value
Coffeeheaven Holdings Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £0.01	0	100	100
Coffee Nation Employee Benefit Trustee Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £1.00	0	100	100
Coffee Nation UK Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £1.00	0	100	100
Costa Beijing Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £1.00	0	100	100

Name of related undertaking	Principal place of business	Class of shares held	% of class of shares held by the Company	% of class of shares held by the Group	% of nominal value
Costa China Holdings Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £1.00	0	100	100
Costa Coffee (Shanghai) Co. Ltd (formerly Yueda Costa (Shanghai) Food & Beverage Management Company Limited)	Science and Technology Center Building, Room B1, Block F, No 666 East Beijing Road, Shanghai, China.	Ordinary CNY 1.00	0	100	100
Costa Express Limited	Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5XE. United Kingdom.	Ordinary £0.10	0	100	100
C.H.I Hungary Kft	Ugocsa utca 4. B. ep., 1226-Budapest, Hungary.	Ordinary HUF 1.00	0	100	100
Costa Hong Kong Limited	36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.	Ordinary HKD 1.00	0	100	100
Costa M.E.N.A Trading DMCC	Unit No. Almas-33-A, Almas Tower, Plot No. LT-2, Jumeirah Lakes Towers, Dubai, United Arab Emirates.	Ordinary AED 1,000	0	100	100
Hulian Costa (Beijing) Food & Beverage Management Company Limited	Room 520 and 524, 5th Floor, East Tower, Sichuan Building, 1 Fu Wai Avenue, Xicheng District, Beijing, China.	Ordinary US $1.00	0	50	50

Name of related undertaking	Principal place of business	Class of shares held	% of class of shares held by the Company	% of class of shares held by the Group	% of nominal value
PSU2 Kft	Ugocsa utca 4. B. ep., 1126 - Budapest, Hungary.	Ordinary HUF 1.00	0	100	100
SIA Coffee Nation	Leriķu iela 3, Riga, LV-1084, Latvia.	Ordinary LVL 1.00	0	100	100

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

25 Parent and ultimate parent undertaking

The immediate parent undertaking is Whitbread Group PLC. The ultimate parent undertaking and controlling party is Whitbread PLC.

The parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the Company is a member is Whitbread Group PLC, registered in England and Wales. Copies of their accounts can be obtained from the registered office at Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5XE.

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member is Whitbread PLC, registered in England and Wales. Copies of their accounts can be obtained from the registered office at Whitbread Court, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5XE.