

Costa International Limited

Annual Report and Financial Statements

for the Period from 1 March 2019 to 31 December 2019

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COSTA INTERNATIONAL LIMITED

Contents

Company Information	1
Strategic Report	2 to 6
Directors' Report	7 to 10
Statement of Directors' Responsibilities	11
Independent Auditor's Report	12 to 14
Income Statement	15
Balance Sheet	16
Statement of Changes in Equity	17
Notes to the Financial Statements	18 to 37

COSTA INTERNATIONAL LIMITED

Company Information

Registered number:	1416662
Directors	G McDonald J Crookall G Mowat
Company secretary	R Fairhurst
Registered office	Costa House Houghton Hall Business Park Porz Avenue Dunstable Bedfordshire LU5 5YG
Statutory auditor	Ernst & Young LLP 1 More London Riverside London SE1 2AF

COSTA INTERNATIONAL LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019

The directors present their Strategic Report for the period ended 31 December 2019.

Fair review of the business

The profit for the period, after taxation, is £11.0m (28 February 2019: loss of £45.8m).

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

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

	43 weeks ended 31 December 2019	52 weeks ended 28 February 2019	Change
Turnover from continuing operations (£'000)	21,355	25,580	(17) %
Operating profit (£'000)	14,047	(43,197)	133 %
New site openings (units)	34	34	- %

Principal risks and uncertainties

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

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

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

Mitigation: To ensure the Company maintains and improves the strength of its brands, 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.

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

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

COSTA INTERNATIONAL LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

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

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

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

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

Risk: Roastery - 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.

Risk: Climate change may impact coffee bean prices.

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

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 INTERNATIONAL LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (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: The Directors consider the Company as a member of a group of UK domiciled companies headed by Costa Limited, COVID-19 risk mitigation was considered for the Costa group of companies.

COVID-19 will have a significant impact on our finances during 2020 especially during Q1 where the UK Retail business (Costa Limited) was most impacted due to its size and cost base.

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

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

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

- Prioritise the health and 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.
- Ruthless focus on discretionary spend and thoughtful access to government support where necessary.
- Plan for launches in key international markets to ensure we maximise in 2021.
- Review retail basics and franchise opportunities.
- Must win in the UK Retail and Costa Express as footfall returns to recover sales at pace. The Company is focusing on changes in customer sentiment and needs and providing contactless Drive-Thru and deliver to support re-opening and contactless Costa Express ordering.
- 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.
- Continue 'Must Do' technology programmes.

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 subsidiary company employees;
- the need to develop and maintain longstanding and collaborative relationships with suppliers, customers and other key trading partners;
- the impact of subsidiary business operations on the community and the environment;
- the reputation of the Company, known for its high standard of business conduct; and

COSTA INTERNATIONAL LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

Section 172 statement (continued)

- the need to act fairly between shareholders and other capital providers.

The Company is a subsidiary of Costa Limited, which holds title to the Costa brand. The Company acts as a UK domiciled holding company for Costa businesses and subsidiaries operating in other International markets and as the primary franchisor of the Costa brand in those markets. These overseas businesses and subsidiaries utilise the Costa brand and some of the centralised Costa functions housed in the UK in their local markets.

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

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 are 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.

Employees

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

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

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 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, 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 the Costa brand website www.costa.co.uk.

Community and environment

The directors have implemented sustainability practices, planning and initiatives in each subsidiary company 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 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 the Costa brand website www.costa.co.uk.

COSTA INTERNATIONAL LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

Key Decisions

The key decisions made during the period related to the management of the Company's International Development Agreements for the operation of Costa branded stores in markets outside of the United Kingdom.

During the period the Company granted store development rights to new franchisees in Saudi Arabia, Bahrain, Qatar and Oman.

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



G McDonald
Director

COSTA INTERNATIONAL LIMITED

Directors' Report for the 43 Weeks Ended 31 December 2019

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

Directors of the Company

The directors, who held office during the period, were as follows:

G McDonald (appointed 2 December 2019)

J Cotta (resigned 30 June 2019)

S Highfield (resigned 31 August 2020)

N Lake (appointed 18 June 2019 and resigned 18 March 2020)

D Paul (resigned 29 November 2019)

K Seljeflot (resigned 11 March 2020)

The following directors were appointed after the period end:

J Crookall (appointed 11 March 2020)

G Mowat (appointed 23 June 2020)

Principal activity

The principal activity of the Company is the operation of international franchise agreements. The Company is well placed to look at strategic opportunities by capitalising on The Coca-Cola Company's strength and market expertise.

Dividends

The directors recommend a final dividend payment of £nil be made in respect of the financial period ended 31 December 2019 (28 February 2019: £nil).

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

Price risk

Price risk is the risk that the movement in the price of key materials will adversely affect the profitability of the business. The Company has no major exposure to price risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss of the other party by failing to discharge an obligation. The Company's policies are aimed at minimizing such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations.

Cash flow risk

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

COSTA INTERNATIONAL LIMITED

Directors' Report for the 43 Weeks Ended 31 December 2019 (continued)

Employment of disabled persons

All employee services are provided to the Company by Costa Limited. For further information on the Company's policy on the employment of disabled persons please refer to the Annual Report and Financial Statements of Costa Limited for the year ended 31 December 2019 which are available from Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5YG.

Employee involvement

All employee services are provided to the Company by Costa Limited. For further information on employee involvement please refer to the Annual Report and Financial Statements of Costa Limited for the year ended 31 December 2019 which are available from Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5YG.

Future developments

No significant future developments are expected.

Events after the balance sheet date

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

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

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

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

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

Going concern

In order to support the Directors' assessment of going concern, the Company has received a parental letter of support from Costa Limited. This confirms that Costa Limited will support the company as necessary to meet its liabilities as they fall due and has the ability to do so for at least 12 months after the date of these financial statements. As a result, the directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these annual financial statements.

In forming this conclusion, the Directors have considered the going concern assessment prepared by the directors of Costa Limited.

COSTA INTERNATIONAL LIMITED

Directors' Report for the 43 Weeks Ended 31 December 2019 (continued)

Going concern (continued)

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

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

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

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

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

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

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

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

COSTA INTERNATIONAL LIMITED

Directors' Report for the 43 Weeks Ended 31 December 2019 (continued)

Going Concern (continued)

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

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

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 for the period ended 31 December 2019 and remains in place at the date of this report.


Appointment of auditor

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

Disclosure of information to the auditor

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.

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



G McDonald
Director

COSTA INTERNATIONAL LIMITED

Statement of Directors' Responsibilities

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COSTA INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Costa International Limited for the period from 1 March 2019 to 31 December 2019, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

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

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

Emphasis of matter – Effects of COVID-19

We draw attention to the Directors assessment of Going Concern, notes 1 and 17 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19, which is impacting finances, supply chains, consumer demand and personnel available for work. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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Anup Sodhi

(Senior statutory auditor)

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

Date: 23 December 2020

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

		43 weeks ended 31 December 2019	52 weeks ended 28 February 2019
	Note	£ 000	£ 000
Revenue	4	21,355	25,580
Operating costs		(7,308)	(10,494)
Administrative expenses		-	(58,283)
Operating profit/(loss)	5	14,047	(43,197)
Finance income	7	18	512
Profit/(loss) before tax		14,065	(42,685)
Tax expense	9	(3,069)	(3,109)
Profit/(loss) for the period		10,996	(45,794)

There were no recognised gains and losses for the current or previous financial period other than those included in the Income Statement.

The above results were derived from continuing operations.

COSTA INTERNATIONAL LIMITED**Balance Sheet**

as at 31 December 2019

	Note	31 December 2019 £ 000	28 February 2019 £ 000
Assets			
Non-current assets			
Intangible assets	10	31,613	31,613
Investments	11	28	28
Deferred tax assets	9	16	-
		<u>31,657</u>	<u>31,641</u>
Current assets			
Trade and other receivables	12	38,134	21,505
Cash and cash equivalents		1,435	6,703
		<u>39,569</u>	<u>28,208</u>
Total assets		71,226	59,849
Current liabilities			
Trade and other payables	13	(306)	(122)
Current tax liabilities	9	(2,605)	(2,501)
Accruals and deferred income		(184)	(91)
		<u>(3,095)</u>	<u>(2,714)</u>
Net assets		68,131	57,135
Equity			
Called up share capital	14	58,258	58,258
Profit and loss account		9,873	(1,123)
Total equity		68,131	57,135

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

Gillian McDonald

 G McDonald
 Director
 Company Number: 1416662

COSTA INTERNATIONAL LIMITED**Statement of Changes in Equity for the 43 Weeks Ended 31 December 2019**

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 2 March 2018	34,817	44,671	79,488
Loss for the period	-	(45,794)	(45,794)
Total comprehensive loss	-	(45,794)	(45,794)
New share capital subscribed	23,441	-	23,441
At 28 February 2019	58,258	(1,123)	57,135

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 March 2019	58,258	(1,123)	57,135
Profit for the period	-	10,996	10,996
Total comprehensive income	-	10,996	10,996
At 31 December 2019	58,258	9,873	68,131

The notes on pages 18 to 37 form an integral part of these financial statements.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:

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

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

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.

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

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

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

Going concern

In order to support the Directors' assessment of going concern, the Company has received a parental letter of support from Costa Limited. This confirms that Costa Limited will support the company as necessary to meet its liabilities as they fall due and has the ability to do so for at least 12 months after the date of these financial statements. As a result, the directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these annual financial statements.

The Directors of Costa Limited have undertaken a thorough assessment of Costa Limited and its UK domiciled subsidiaries (the Group) financial forecasts to end of 2021, including the impact of COVID-19 in the UK.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

Going Concern (continued)

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

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

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

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

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

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

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

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

The notes on pages 18 to 37 form an integral part of these financial statements.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

Going Concern (continued)

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

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

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies

Summary of disclosure exemptions

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

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- (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 IAS 7 Statement of Cash Flows;
- (g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (i) 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.

Changes in accounting policy

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

Revenue recognition

Recognition

The Company earns revenue from franchise and territory fees

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

Franchise and territory fees are detailed in signed franchise agreements with franchise partners. 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 over time, and so the revenue is recognised monthly over the contract term.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (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

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Trading results are translated into the functional currency (generally sterling) at average rates of exchange for the year. Day-to-day transactions in a foreign currency are recorded in the functional currency at an average rate for the month in which those transactions take place, which is used as a reasonable approximation to the actual transaction rate. Translation differences are taken to the income statement.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Income 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 or where an annual assessment is required.

Amortisation

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

<i>Asset class</i>	<i>Amortisation method and rate</i>
Intellectual property rights	Indefinite useful life hence not amortised

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.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Impairment of non-financial assets

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

The recoverable amount of 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 income statement within administrative expenses.

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.

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 INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, although excluding Tangible assets, 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 marketplace.

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

Classification and measurement

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

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

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

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

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

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

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

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

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

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (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.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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

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

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

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

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

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the 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. However, the nature of estimation means that the actual outcomes could differ from those estimates.

Estimation uncertainty relates to assumptions about the future and other sources of estimation uncertainty. Judgements relate to something other than assumptions about the future or making estimates and to the application of accounting standards and the Group's accounting policies.

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****4 Revenue**

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

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Franchise fees	20,451	24,523
Territory fees	822	1,044
Sale of goods	82	13
	<u>21,355</u>	<u>25,580</u>

Sales of goods relate to equipment sales commission received from our supplier of coffee machines in Italy and design fees income from Kuwait.

5 Operating profit/(loss)

Arrived at after charging

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Depreciation expense	-	2
Depreciation on asset write off	-	33
Operating lease expense - property	2	32
Operating lease expense - plant and machinery	18	6
Foreign exchange losses	41	6
Impairment of investment (note 11)	-	58,283
Auditors remuneration	<u>76</u>	<u>1</u>

6 Staff costs

The Company has no employees (28 February 2019: no employees) other than the directors, who did not receive any remuneration (28 February 2019: £nil). All fees paid to directors as remuneration are borne by Costa Limited and it is not practical to allocate the amount for services in respect of this Company.

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****7 Finance income**

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Interest received from group undertakings	<u>18</u>	<u>512</u>

Interest has not accrued on amounts owed by group undertakings since 3 January 2019, as further detailed in note 12.

8 Auditor's remuneration

Audit fees for the audit of financial statements for the year of £76,000 were borne by Costa Limited (28 February 2019: £1,000).

9 Taxation

Tax charged in the income statement

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Current income tax		
UK corporation tax on profits for the period	1,912	1,801
UK corporation tax adjustment to prior periods	<u>313</u>	<u>-</u>
Total current tax	2,225	1,801
Foreign tax	<u>860</u>	<u>1,306</u>
Total current income tax	<u>3,085</u>	<u>3,107</u>
Deferred tax		
Arising from origination and reversal of temporary differences	3	21
		-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior period	<u>(19)</u>	<u>(19)</u>
Total deferred tax	<u>(16)</u>	<u>2</u>
Total tax charge in the income statement	<u>3,069</u>	<u>3,109</u>

The notes on pages 18 to 37 form an integral part of these financial statements.

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****9 Taxation (continued)**

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

The differences are reconciled below:

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Profit/(loss) before tax	<u>14,065</u>	<u>(42,685)</u>
Corporation tax at standard rate	2,672	(8,110)
Increase in current tax from adjustment for prior periods	313	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)		11,107
Adjustments to tax charge in respect of previous periods - deferred tax	(19)	-
Adjust closing deferred tax to average rate of 19.00%	0	-
Increase arising from overseas tax suffered	103	1,306
Deferred tax credit from unrecognised tax credit	-	(19)
Decrease from effects of double taxation relief	<u>-</u>	<u>(1,175)</u>
Total tax charge	<u><u>3,069</u></u>	<u><u>3,109</u></u>

The corporation tax balance is a liability of £2,605,000 (28 February 2019: £2,501,000).

The main UK corporation tax rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent. There is minimal impact on the net deferred tax asset balance.

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****9 Taxation (continued)****Deferred tax**

Deferred tax assets and liabilities

	Asset £ 000
2019	
Deferred tax asset	<u>16</u>

Deferred tax movement during the period:

	At 1 March 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Deferred tax asset	<u>-</u>	<u>16</u>	<u>16</u>

Deferred tax movement during the prior period:

	At 2 March 2018 £ 000	Recognised in income £ 000	At 28 February 2019 £ 000
Deferred tax asset	<u>2</u>	<u>(2)</u>	<u>-</u>

10 Intangible assets

	IP Rights £'000
As at 1 March 2019	31,613
Additions	-
Disposals	-
Amortisation	<u>-</u>
As at 31 December 2019	<u>31,613</u>
As at 28 February 2019	<u>31,613</u>

Intangible assets of £31.6m relates to international IP rights in the Costa brand.

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****11 Investments**

Subsidiaries	Investment in subsidiary companies
Cost or valuation	£ 000
At 1 March 2019	<u>58,311</u>
At 31 December 2019	<u>58,311</u>
Provision	
At 1 March 2019	<u>(58,283)</u>
At 31 December 2019	<u>(58,283)</u>
Carrying amount	
At 31 December 2019	<u><u>28</u></u>
At 28 February 2019	<u><u>28</u></u>

In the prior financial period, the Company recognised an impairment charge against its investment in Costa China Holdings Limited of £58,283,000.

COSTA INTERNATIONAL LIMITED**Proportion of
ownership interest and****Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019****(continued)****11 Investments (continued)**

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation, principal place of business and registered office	voting rights held	
			31 December 2019	28 February 2019
Costa China Holdings Limited	Holding company	England Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, LU5 5YG.	100%	100%
Costa Beijing Limited	Holding company	England Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, LU5 5YG.	100%	100%
Costa M.E.N.A. Trading DMCC	Franchise business	Dubai Unit No. Almas-33-A, Almas Tower, Plot No. LT-2, Jumeirah Lakes Towers, Dubai, United Arab Emirates.	100%	100%

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****12 Debtors**

	31 December 2019 £ 000	(As restated) 28 February 2019 £ 000
Trade receivables	10,882	4,252
Provision for impairment of trade receivables	(1,000)	(408)
Net trade debtors	9,882	3,844
Amounts owed by group undertakings	21,094	16,296
Prepayments and accrued income	6,999	1,349
Other receivables	159	16
Total current trade and other debtors	38,134	21,505
Total non-current other debtors	-	-
Total debtors	38,134	21,505

Amounts owed by group undertakings are repayable on demand and, prior to 3 January 2019, were subject to a compounding quarterly interest charge. No interest has been charged on the balances since 3 January 2019, whilst the Costa Group, of which the Company is a member, carries out a review of its intercompany lending arrangements following its acquisition by The Coca-Cola Company.

Amounts owed by group undertakings and prepayments and accrued income balances as at 28 February 2019 have been restated. This is a correction of an error in the prior year financial statements in relation to amounts receivable by group undertakings being incorrectly recorded as accrued income.

There was no impact in the balance of total debtors as at 28 February 2019, so the restatement does not impact the prior period Balance Sheet as a primary statement.

	28 February 2019 (As previously stated) £'000	Restatement £'000	28 February 2019 (As restated) £'000
Amounts owed by group undertakings	13,735	2,561	16,296
Prepayments and accrued income	3,910	(2,561)	1,349

COSTA INTERNATIONAL LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****13 Trade and other payables**

	31 December 2019 £ 000	28 February 2019 £ 000
Accrued expenses	<u>306</u>	<u>122</u>

14 Share capital**Allotted, called up and fully paid shares**

	31 December 2019		28 February 2019	
	No. 000	£ 000	No. 000	£ 000
Ordinary of £1 each	<u>58,258</u>	<u>58,258</u>	<u>58,258</u>	<u>58,258</u>

Nil shares allotted

During the period £nil Ordinary shares were allocated for any aggregate consideration.

15 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.

16 Parent and ultimate parent undertaking

The Company's immediate parent is Costa Limited.

The ultimate parent is The Coca-Cola Company.

The most senior parent entity producing publicly available financial statements 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.

The ultimate controlling party is The Coca-Cola Company.

COSTA INTERNATIONAL LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

17 Events after the financial period

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

The economic impacts of the virus and local governmental efforts around the world to control its spread have included a deterioration in the creditworthiness of some businesses and consumers. Rapid changes in the demand and supply of certain goods, which has affected their traded price and their value if held in inventory; and shifts in the allocation of capital, which has affected average costs of capital, the time value of money and rates of foreign currency exchange. Economic factors such as these are often considered when assessing the fair value of assets and liabilities the Company typically holds on its balance sheet.

Whilst the Covid-19 virus was first identified in December 2019, the World Health Organisation did not declare an outbreak until 30 January 2020 and did not declare a pandemic until March 2020. Costa International's franchise partners around the world have seen differing levels of controls and restrictions though many partners were forced to close for a period of time. To enable our partners to continue trading, when able to do so, some were offered royalty breaks and extended credit terms.

Despite the pandemic some regions have seen new franchise partner store openings particularly within the Middle East and recovery has been steady in these areas.

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

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