

# Costa International Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

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## **COSTA INTERNATIONAL LIMITED**

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## **COSTA INTERNATIONAL LIMITED**

### **Company Information**

**Registered number:** 1416662

**Directors** G McDonald  
G Mowat  
J Crookall  
R Cornella

**Company secretary** S Savjani

**Registered office** Costa House  
Houghton Hall Business Park,  
Porz Avenue, Houghton Regis,  
Dunstable,  
Bedfordshire,  
LU5 5YG

**Statutory auditor** Ernst & Young LLP  
400 Capability Green,  
Luton,  
Bedfordshire,  
LU1 3LU

## COSTA INTERNATIONAL LIMITED

### Strategic Report for the Year Ended 31 December 2020

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

#### Fair review of the business

The loss for the year, after taxation, is £(1.6)m (43 weeks ended 31 December 2019: profit of £11.0m).

The Company operates as the international franchisor of the Costa brand. Costa continues 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 year were as follows:

	52 weeks ended 31 December 2020 £'000	43 weeks ended 31 December 2019 £'000	Change
Turnover from continuing operations (£'000)	9,999	21,355	(53%)
Operating profit/(loss) (£'000)	(2,334)	14,047	(117%)
New site openings (units)	51	34	50%

#### Principal risks and uncertainties for Costa Group

**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 systems, 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 Year Ended 31 December 2020 (continued)**

#### **Principal risks and uncertainties for Costa Group (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 significant savings over the coming 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.

**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 in addition to holding sufficient stocks of roasted beans.

**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.

In July 2020 Costa joined the British Retail Consortium's Climate Roadmap as one of the founding signatories. This roadmap includes a commitment to tackle climate change that will accelerate the UK's progress to becoming Net Zero, ahead of the Government's 2050 target.

**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 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. Contingency plans are firmly in place and continue to evolve in conjunction with our major suppliers to help maintain the supply of key products lines and alternatives. The Company continues to monitor these risks and during the period the company implemented two additional functions in Supply Chain International Trade Compliance and the other being International Freight Logistics to mitigate Brexit risks.

## **COSTA INTERNATIONAL LIMITED**

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

#### **Principal risks and uncertainties for Costa Group (continued)**

##### **Coronavirus (COVID-19)**

**Risk:** In the first quarter of 2020 the COVID-19 global pandemic emerged and introduced significant uncertainty for the UK and global economy.

**Mitigation:** COVID-19 has had a significant impact on the Costa Group finances during 2020, global retail was significantly impacted as stores were forced to close promptly which continued throughout parts of 2020 for the UK and some European and International markets.

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

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

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

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

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

#### **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;

## **COSTA INTERNATIONAL LIMITED**

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

#### **Section 172 statement (continued)**

- 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
- 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 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***

The directors of Costa have integrated the strategic, planning and corporate governance practices of the Company with those of The Coca-Cola Company and its wider group. The directors continue to be excited about the opportunities presented by this and the positive impacts being forecasted for all stakeholders.

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

#### ***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 in to consideration when considering that subsidiary company's organisational changes, employee remuneration and rewards and capital investments in operational and support service infrastructure.

Costa & Me, our communication and engagement framework which launched earlier this year, will also add to those activities, and create even more listening opportunities for our teams to get involved and shape business decisions. Team views and feedback are taken into consideration when considering organisational changes, employee remuneration and rewards and capital investments in store, operational and support service infrastructure. We have robust governance in place over all employee remuneration and reward matters, which are overseen by the Costa Remuneration Committee. There were no significant changes to remuneration or incentive structures during 2020.

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

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

Directors review diversity reporting for leadership roles including gender and ethnicity balance in shortlists and offers. This is something we are looking to extend to the wider workforce in 2021.

## **COSTA INTERNATIONAL LIMITED**

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

#### **Section 172 statement (continued)**

##### ***Supply Chain agreements***

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

##### ***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](http://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](http://www.costa.co.uk).

##### ***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.

##### ***Capital Expenditure***

The group invested £13m in a finance ERP in 2020 by transforming finance process and capability across accounts, purchasing, and invoicing away from legacy systems and services to a modern, automated Microsoft Dynamics solution. Costa is now running on a modern, cloud-based solution globally supported by Microsoft and in line with Coca-Cola strategy and standards. The platform is able to support growth, scale and international ambitions.



## **COSTA INTERNATIONAL LIMITED**

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

#### **Section 172 statement (continued)**

##### ***IT Service Contracts***

During the period the Company entered a new long-term contract for the provision of IT services following its separation from the systems operated by its former parent company Whitbread Group plc. These leveraged the broader Coca-Cola system vendor relationships specifically with Microsoft, Adobe, Akamai and Amazon. The Company also entered a long-term contract for its new People Human Capital Management System with Ceridian Dayforce.

Approved by the Board on 01 October 2021 and signed on its behalf by:

*Robert Cornella*

R Cornella  
Director

## **COSTA INTERNATIONAL LIMITED**

### **Directors' Report for the Year Ended 31 December 2020**

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

#### **Directors of the Company**

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

G McDonald

G Mowat (appointed 23 June 2020)

J Crookall (appointed 11 March 2020)

N Lake (ceased 18 March 2020)

S Highfield (ceased 31 August 2020)

K Seljeflot (ceased 11 March 2020)

The following director was appointed after the year end:

R Cornella (appointed 14 July 2021)

The following secretaries were appointed or resigned after the year end:

S Savjani (appointed on 23 April 2021)

R Fairhurst (resigned on 14 May 2021)

#### **Principal activity**

The principal activity of the Company 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 year ended 31 December 2020 (43 weeks ended 31 December 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 Year Ended 31 December 2020 (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 2020 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 2020 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**

There were no significant events between the Balance Sheet date and the date of signing of the financial statements, which would require adjustment to or disclosure in the financial statements.

#### **Going concern**

The Directors have adopted the going concern basis for preparation of the financial statements of the Company and its UK domiciled subsidiaries for the financial period ended 31 December 2020.

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 the period to 31 December 2022. The Costa Group has a cash-pooling arrangement; as such, the going-concern assessment has been conducted on a Group basis. In forming their view ongoing concern, the Directors considered the Company's and Group strategic plan, balance sheet position, agreed financing and forward-looking forecasts up to the end of 2022.

The Directors stress tested the assumptions that fed into this exercise, considering the impacts of various risks occurring in isolation and in combination, as well as various risk mitigating actions that could be taken. The Directors in particular considered a number of potential impacts in respect of Covid-19 and a number of different Covid-19 recovery timeframes.

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

The review supported the Directors view that the Company and its UK domiciled subsidiaries will be able to continue to operate and meet their liabilities as they fall due for the period to 31 December 2022.

#### *Sensitivity Analysis*

Management have produced cashflows based off the Group budget position through to 31 December 2022. Various sensitivity analyses were performed on the cash flow, including a worst-case scenario to determine the periods in which the group will experience a cash deficit should performance be unfavourable to the plan. The sensitivities have been performed taking into consideration full discretionary spend and reduced discretionary spend. The scenarios considered are;

## **COSTA INTERNATIONAL LIMITED**

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

#### **Going concern (continued)**

1. Base - deliver Sales and Operating Income to base case scenario to 31 December 2022
2. 90% Sales/COGs - deliver sales 10% below plan, all costs and Capex in line with base
3. 80% Sales/COGs - deliver sales 20% below plan, all costs and Capex in line with base
4. 70% Sales/COGs, 50% DME/Capex - deliver sales 30% below plan, marketing spend and Capex reduced by 50% with all other operating costs in line with base. (Worst Case Scenario)

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

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

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

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

#### **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 and remains in place at the date of this report.

#### **Reappointment of auditor**

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

#### **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 01 October 2021 and signed on its behalf by:

*Robert Cornella*

.....  
R Cornella  
Director

## **COSTA INTERNATIONAL LIMITED**

### **Statement of Directors' Responsibilities**

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

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

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- in respect of the company financial statements; state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

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

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

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

### **Opinion**

We have audited the financial statements of Costa International Limited for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 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 company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 December 2022, 15 months from when the financial statements are authorised for issue.

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

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 11, 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.

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

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

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

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are; FRS101, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HMRC regulations, UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.

- We understood how Costa International Limited is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
  - Enquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed.
  - Enquiry of management, those charged with governance and the entity's in-house legal team around actual and potential litigation and claims.
  - Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities.
  - Reading minutes of meetings of those charged with governance.
  - Enquiry of management over reports to whistleblowing hotlines.
  - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
  - Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness agreeing back to source documentation or independent confirmations.
  - Using data analytics to highlight potentially anomalous transactions in areas of the business which are determined to have an elevated fraud risk.
  - Evaluating the business rationale of significant transactions outside the normal course of business, and;
  - Challenging judgements made by management. This included corroborating the inputs and considering contradictory evidence.

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



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

### **Use of our report**

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

*Ernst & Young LLP*

Joanne Mason (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Luton

Date 4 October 2021

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

		<b>Year ended 31 December 2020 £ 000</b>	<b>43 weeks ended 31 December 2019 £ 000</b>
	<b>Note</b>		
Revenue	4	9,999	21,355
Operating costs		<u>(12,333)</u>	<u>(7,308)</u>
<b>Operating (loss)/profit</b>	<b>5</b>	<b>(2,334)</b>	<b>14,047</b>
Finance income	7	<u>5</u>	<u>18</u>
<b>(Loss)/profit before tax</b>		<b>(2,329)</b>	<b>14,065</b>
Tax receipt/(expense)	9	<u>755</u>	<u>(3,069)</u>
<b>(Loss)/profit for the year</b>		<b><u>(1,574)</u></b>	<b><u>10,996</u></b>

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 2020**

	Note	31 December 2020 £ 000	31 December 2019 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	31,613	31,613
Investments	11	28	28
Deferred tax assets	9	15	16
		<u>31,656</u>	<u>31,657</u>
<b>Current assets</b>			
Trade and other receivables	12	35,786	38,134
Cash and cash equivalents		<u>2,059</u>	<u>1,435</u>
		<u>37,845</u>	<u>39,569</u>
<b>Total assets</b>		<b>69,501</b>	<b>71,226</b>
<b>Current liabilities</b>			
Trade and other payables	13	(779)	(306)
Current tax liabilities	9	(1,367)	(2,605)
Accruals and deferred income		<u>(798)</u>	<u>(184)</u>
		<u>(2,944)</u>	<u>(3,095)</u>
<b>Net assets</b>		<b>66,557</b>	<b>68,131</b>
<b>Equity</b>			
Called-up share capital	14	58,258	58,258
Retained earnings		<u>8,299</u>	<u>9,873</u>
<b>Total equity</b>		<b>66,557</b>	<b>68,131</b>

Approved by the Board on 01 October 2021 and signed on its behalf by:

*Robert Cornella*  
 .....  
 R Cornella  
 Director  
 Company Number : 1416662

The notes on pages 19 to 34 form an integral part of these financial statements.

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

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

	<b>Share-capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 January 2020	58,258	9,873	68,131
Loss for the year	-	(1,574)	(1,574)
Total comprehensive income	-	(1,574)	(1,574)
<b>At 31 December 2020</b>	<b>58,258</b>	<b>8,299</b>	<b>66,557</b>

The notes on pages 19 to 34 form an integral part of these financial statements.

## **COSTA INTERNATIONAL LIMITED**

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

#### **1 General information and basis of preparation**

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, Houghton Regis,  
Dunstable,  
Bedfordshire,  
LU5 5YG

These financial statements were authorised for issue by the Board on 01 October 2021.

#### **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 52 weeks to 31 December 2020 (prior financial period: 43 weeks ended 31 December 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**

The Directors have adopted the going concern basis for preparation of the financial statements of the Company and its UK domiciled subsidiaries for the financial period ended 31 December 2020.

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 the period to 31 December 2022. The Costa Group has a cash-pooling arrangement; as such, the going-concern assessment has been conducted on a Group basis. In forming their view on going concern, the Directors considered the Company's and Group strategic plan, balance sheet position, agreed financing and forward -looking forecasts up to the end of 2022.

The Directors stress tested the assumptions that fed into this exercise, considering the impacts of various risks occurring in isolation and in combination, as well as various risk mitigating actions that could be taken. The Directors in particular considered a number of potential impacts in respect of Covid-19 and a number of different Covid-19 recovery timeframes.

## **COSTA INTERNATIONAL LIMITED**

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

#### **1 General information and basis of preparation (continued)**

##### **Going concern (continued)**

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

The review supported the Directors view that the Company and its UK domiciled subsidiaries will be able to continue to operate and meet their liabilities as they fall due for the period to 31 December 2022.

##### *Sensitivity Analysis*

Management have produced cashflows based off the Group budget position through to 31st December 2022. Various sensitivity analyses were performed on the cash flow, including a worst-case scenario to determine the periods in which the group will experience a cash deficit should performance be unfavourable to the plan. The sensitivities have been performed taking into consideration full discretionary spend and reduced discretionary spend. The scenarios considered are;

1. Base - deliver Sales and Operating Income to base case scenario to 31 December 2022
2. 90% Sales/COGs - deliver sales 10% below plan, all costs and Capex in line with base
3. 80% Sales/COGs - deliver sales 20% below plan, all costs and Capex in line with base
4. 70% Sales/COGs, 50% DME/Capex - deliver sales 30% below plan, marketing spend and Capex reduced by 50% with all other operating costs in line with base. [Worst Case Scenario]

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

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

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

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

## **COSTA INTERNATIONAL LIMITED**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (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, because the share-based payment arrangement concerns the instruments of another group entity;
- (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;

##### **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.

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on the financial statements.

##### **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

## **COSTA INTERNATIONAL LIMITED**

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

#### **2 Accounting policies (continued)**

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.

#### **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.

#### **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.



## **COSTA INTERNATIONAL LIMITED**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (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 Year Ended 31 December 2020 (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 market place.

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

###### **Classification and measurement**

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

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

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

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

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

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

## **COSTA INTERNATIONAL LIMITED**

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

#### **2 Accounting policies (continued)**

##### **Financial assets at amortised cost**

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

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

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

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

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

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

##### **Financial liabilities at amortised cost**

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

##### **Financial liabilities at fair value through the profit or loss**

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

## **COSTA INTERNATIONAL LIMITED**

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

#### **2 Accounting policies (continued)**

##### **Impairment of financial assets**

###### *Measurement of Expected Credit Losses*

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

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

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

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

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

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

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

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

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

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

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

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

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

## **COSTA INTERNATIONAL LIMITED**

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

#### **2 Accounting policies (continued)**

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

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

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

#### **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 Year Ended 31 December 2020 (continued)**

#### **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.

In the process of applying the Group's accounting policies, the Directors have considered whether there are any such sources of estimation or critical accounting judgements in forming the financial statements and do not consider there to be any for the purposes of disclosure.

#### **Impairment**

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

The judgements and estimates underlying impairment testing have resulted in intangibles assets being impaired by £Nil in the period (43 weeks ended 31 December 2019: £nil); investments in subsidiaries being impaired by £Nil in the period (43 weeks ended 31 December 2019: £nil); and provisions against amounts owed by related parties of £724,000 being recognised in the period (43 weeks ended 31 December 2019: £nil).

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

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

	<b>52 weeks ended 31 December 2020 £ 000</b>	<b>43 weeks ended 31 December 2019 £ 000</b>
Franchise fees	9,530	20,451
Territory fees	469	822
Sale of goods	-	82
	<u>9,999</u>	<u>21,355</u>

Sale of goods in 2019 relate to equipment sales commission received from our supplier of coffee machines in Italy and design fees income from Kuwait.

**5 Operating (loss)/profit**

Arrived at after charging

	<b>52 weeks ended 31 December 2020 £ 000</b>	<b>43 weeks ended 31 December 2019 £ 000</b>
Operating lease expense - property	-	2
Operating lease expense - plant and machinery	20	18
Foreign Exchange losses	<u>83</u>	<u>41</u>

**6 Staff costs**

The Company has no employees (31 December 2019: no employees) other than the directors, who did not receive any remuneration (43 weeks ended 31 December 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 Year Ended 31 December 2020 (continued)****7 Finance income**

	<b>52 weeks ended 31 December 2020 £ 000</b>	<b>43 weeks ended 31 December 2019 £ 000</b>
Interest received from bank deposits	<u>5</u>	<u>18</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 £76,760 were borne by Costa Limited (43 weeks ended 31 December 2019: £76,000).

**9 Taxation**

Tax charged in the income statement

	<b>52 weeks ended 31 December 2020 £ 000</b>	<b>43 weeks ended 31 December 2019 £ 000</b>
<b>Current income tax</b>		
UK corporation tax on profits for the period	(1,237)	1,912
UK corporation tax adjustment to prior periods	<u>(8)</u>	<u>313</u>
Total current tax	(1,245)	2,225
Foreign tax	<u>489</u>	<u>860</u>
<b>Total current income tax</b>	<u>(756)</u>	<u>3,085</u>
<b>Deferred tax</b>		
Arising from origination and reversal of temporary differences	1	3
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>-</u>	<u>(19)</u>
Total deferred tax	<u>1</u>	<u>(16)</u>
<b>Total tax charge in the income statement</b>	<u>(755)</u>	<u>3,069</u>



**COSTA INTERNATIONAL LIMITED****Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****9 Taxation (continued)**

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

The differences are reconciled below:

	52 weeks ended 31 December 2020 £ 000	43 weeks ended 31 December 2019 £ 000
Profit/(loss) before tax	<u>(2,329)</u>	<u>14,065</u>
Corporation tax at standard rate	(443)	2,672
Increase in current tax from adjustment for prior periods	(8)	313
Increase arising from overseas tax suffered	398	103
Remeasurement of deferred tax for change in tax rates	(2)	-
Release of uncertain provisions	(700)	-
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	-	(19)
<b>Total tax (credit)/charge</b>	<u><b>(755)</b></u>	<u><b>3,069</b></u>

The corporation tax balance is a liability of £1,367,000 (43 weeks ended 31 December 2019: £2,605,000).

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

**Deferred tax****Deferred tax assets and liabilities**

**2020** **Asset  
£ 000**

Deferred tax asset 15

**2019** **Asset  
£ 000**

Deferred tax asset 16

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Deferred tax movement during the current period:			
Deferred tax asset	<u>16</u>	<u>(1)</u>	<u>15</u>

**COSTA INTERNATIONAL LIMITED****Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****9 Taxation (continued)**

	<b>At 1 March 2019 £ 000</b>	<b>Recognised in income £ 000</b>	<b>At 31 December 2019 £ 000</b>
Deferred tax movement during the prior period:			
Deferred tax asset	<u>-</u>	<u>16</u>	<u>16</u>

**10 Intangible assets**

	<b>Intellectual property rights £ 000</b>
<b>Cost or valuation</b>	
At 1 January 2020	<u>31,613</u>
At 31 December 2020	<u>31,613</u>
<b>Carrying amount</b>	
At 31 December 2020	<u>31,613</u>
At 31 December 2019	<u>31,613</u>

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

**11 Investments**

	<b>Investment in subsidiary companies £ 000</b>
<b>Subsidiaries</b>	
<b>Cost or valuation</b>	
At 1 January 2020	<u>58,311</u>
At 31 December 2020	<u>58,311</u>
<b>Provision</b>	
At 1 January 2020	<u>(58,283)</u>
At 31 December 2020	<u>(58,283)</u>
<b>Carrying amount</b>	
At 31 December 2020	<u>28</u>
At 31 December 2019	<u>28</u>

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

Details of the subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Country of incorporation, principal place of business and registered office	Proportion of ownership interest and voting rights held	
			31 December 2020	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 Coffee M.E.N.A DMCC.	Franchise business	Dubai Unit No. Almas-33-A, Almas Tower, Plot No. LT-2, Jumeirah Lakes Towers, Dubai, United Arab Emirates.	100%	100%

**12 Debtors**

	31 December 2020 £ 000	31 December 2019 £ 000
Trade receivables	5,380	10,882
Provision for impairment of trade receivables	(1,672)	(1,000)
Net trade debtors	3,708	9,882
Amounts owed by group undertakings	31,37	21,094
Prepayments and accrued income	1,342	6,999
Other receivables	363	159
<b>Total current trade and other debtors</b>	<b>35,786</b>	<b>38,134</b>
Total non-current other debtors	-	-
<b>Total debtors</b>	<b>35,786</b>	<b>38,134</b>

Amounts owed by group undertakings are repayable on demand.

Included in trade receivables are amounts owed by Hualian Costa Beijing Food & Beverage Management Company Limited (Hualian). Costa Beijing Limited, a subsidiary of Costa International Limited, owns a 50% joint venture investment in Hualian. As at 31 December 2020, Costa International Limited had a trade receivable balance of £3.2m with the joint venture.

**COSTA INTERNATIONAL LIMITED****Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****13 Trade and other payables**

	<b>31 December 2020 £ 000</b>	<b>31 December 2019 £ 000</b>
Other payables	22	-
Accrued expenses	<u>757</u>	<u>306</u>
	<u><u>779</u></u>	<u><u>306</u></u>

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

	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<b>No. 000</b>	<b>£ 000</b>	<b>No. 000</b>	<b>£ 000</b>
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.

**17 Events after the financial period**

There were no significant events between the Balance Sheet date and the date of signing of the financial statements, which would require adjustment to or disclosure in the financial statements.