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**COSTA LIMITED**

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 1 MARCH 2012**



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**COSTA LIMITED**

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**COMPANY INFORMATION**

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**DIRECTORS**

C Bentley  
AJ Johnson  
MJ Price  
H Hardy  
KJ Slater  
A Marshall  
CCB Rogers (appointed 6 July 2012)

**COMPANY SECRETARY**

DC Lowry,RW Fairhurst

**COMPANY NUMBER**

1270695

**REGISTERED OFFICE**

Whitbread Court  
Houghton Hall Business Park  
Porz Avenue  
Dunstable  
Bedfordshire  
LU5 5XE

**AUDITORS**

Ernst & Young LLP  
Statutory Auditor  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1YE

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## COSTA LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 1 MARCH 2012

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The Directors present their report and the financial statements for the year ended 1 March 2012

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

The directors are satisfied with the Company's performance for the year and are confident that the Company's business strategy will result in sustainable growth in the coming year.

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

	2012	2011	Change %
Turnover - £m	458.6	377.3	21.5%
Operating profit (pre-exceptional) - £m	65.6	49.3	33.1%
Like for like sales growth (UK only)	5.5%	7.8%	
New stores opened (UK and International)	332	271	

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £45,294,000 (2011 - £34,391,000).

The directors do not recommend the payment of a dividend for the year (2011 - £nil).

#### DIRECTORS

The Directors who served during the year were:

J Derkach (resigned 19 July 2012)  
C Bentley  
AJ Johnson  
MJ Price  
H Hardy  
KJ Slater  
A Marshall  
CCB Rogers (appointed 6 July 2012)

#### PRINCIPAL RISKS AND UNCERTAINTIES

##### Marketplace risks

##### *Consumer trends*

It is possible that changes in consumer trends may reduce the appeal of Costa if those trends are not properly anticipated and action is not taken to address potential issues at an early stage. Costa mitigates this risk in a number of ways. First, Costa carries out market research and analyses consumer trends and uses this research to anticipate future consumer trends and to position itself to benefit from those trends. In addition, the Company places great importance on listening to the views of its customers. Costa obtains feedback from customers every month and uses this feedback to ensure that it continues to offer the type and quality of services that its customers expect. Costa believes that by listening to its customers it is significantly reducing the risks associated with changing consumer trends.

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## **COSTA LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 1 MARCH 2012**

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#### *Consumer spending*

The general health of the UK economy and its influence on consumer spending is important to the Company's success. Despite the difficulties being experienced in the general UK economy, the Company recorded like for like sales growth ahead of budget.

#### *Competition*

An important part of ensuring that Costa continues to compete effectively is the analysis that is carried out on its competitors. Competitors' sites are visited on a regular basis to keep abreast of changes in the market.

#### **Operational risks**

##### *People*

The successful delivery of service to Costa's customers depends on recruiting and retaining high quality people. Failure to employ the right people would put the Company's reputation at risk. Costa is proud of its people and believes that by taking care of them, they will take care of customers and financial performance will follow. Costa listens to the views of its employees, and has a range of employment policies designed to make it a rewarding place to work. The Company carries out a rigorous selection process and benchmarks the pay and benefits that it offers its employees in order to recruit and retain the best people for the role.

##### *Health and safety*

Costa takes health and safety very seriously and in order to guard against incidents resulting from a failure, the Safety and Security team ensures a consistency of approach. All business units have comprehensive health and safety policies and risk assessments covering significant areas of risk. The Company also has a robust health and safety audit programme in place.

#### **External financial risks**

##### *Coffee costs*

The Company mitigates the risk of fluctuations in coffee prices by purchasing coffee using forward contracts. The Company does not enter into speculative positions when entering forward contracts.

##### *Utility costs*

Recent years have seen large rises in utility costs and future cost increases are a risk. Costa has mitigated these cost rises by negotiating centralised utility contracts where possible.

##### *Wage inflation*

The minimum wage has increased faster than the rate of general wage inflation over the last five years. There is a risk that the minimum wage will continue to rise at a faster rate than the rate of inflation. Costa has mitigated this continuing risk by reviewing its operating procedures and improving productivity through the use of labour scheduling techniques.

#### **EMPLOYEE INVOLVEMENT**

The Company looks for effective ways to reward its employees, including a wide range of benefits. In addition, the parent company seeks to give group employees a direct stake in the business by means of granting options under the Sharesave Scheme, details of the scheme being disclosed in the accounts of Whitbread PLC. The Company is committed to increasing employee involvement by means of meetings with management and opinion surveys.

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## **COSTA LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 1 MARCH 2012**

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#### **DISABLED EMPLOYEES**

The Company is committed to the principle that the sole criterion for selection or promotion is the suitability of an applicant for a job. Training and development is available to all levels and categories of staff. Disabled people are offered the same opportunities as all others in respect of recruitment, training, promotion and career development. Employees who become disabled will, wherever possible, be retained and, if necessary, retrained.

#### **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.

#### **PROVISION OF INFORMATION TO AUDITORS**

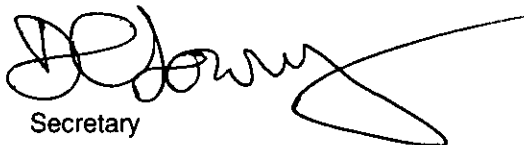
Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that

- so far as that Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

#### **AUDITORS**

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 15 NOVEMBER 2012 and signed on its behalf

  
Secretary  
D. LOWRY

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**COSTA LIMITED**

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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 1 MARCH 2012**

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The Directors are responsible for preparing the Directors' 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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.

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## **COSTA LIMITED**

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### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COSTA LIMITED**

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We have audited the financial statements of Costa Limited for the year ended 1 March 2012, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Auditors' 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.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 1 March 2012 and of its profit 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.

#### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**COSTA LIMITED**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COSTA LIMITED**

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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where 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

*Ernst & Young LLP*

Debbie O'Hanlon (Senior Statutory Auditor)

for and on behalf of

**Ernst & Young LLP**

Statutory Auditor

Reading

Date *20 November 2012*



**COSTA LIMITED**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 1 MARCH 2012**

		Year ended 1 March 2012 £000	Year ended 3 March 2011 £000
	Note		
<b>TURNOVER</b>	1,2	<b>458,596</b>	377,284
Cost of sales		<u>(131,121)</u>	<u>(101,019)</u>
<b>GROSS PROFIT</b>		<b>327,475</b>	276,265
Distribution costs		<u>(224,406)</u>	<u>(190,650)</u>
Administrative expenses		<u>(37,283)</u>	<u>(36,310)</u>
Other operating charges		<u>(231)</u>	<u>(39)</u>
<b>OPERATING PROFIT</b>	3	<b>65,555</b>	49,266
<b>EXCEPTIONAL ITEMS</b>	8		
Net loss on sale of tangible fixed assets	8	(251)	(344)
Other exceptional items	8	<u>(3,363)</u>	<u>146</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>61,941</b>	49,068
Interest receivable and similar income	7	<u>683</u>	<u>400</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>62,624</b>	49,468
Tax on profit on ordinary activities	9	<u>(17,330)</u>	<u>(15,077)</u>
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		<u><b>45,294</b></u>	<u><b>34,391</b></u>

All amounts relate to continuing operations

There were no recognised gains and losses for 2012 or 2011 other than those included in the Profit and Loss Account

The notes on pages 9 to 24 form part of these financial statements

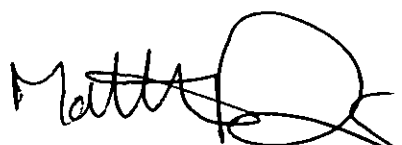
**COSTA LIMITED**  
**REGISTERED NUMBER: 1270695**

**BALANCE SHEET**  
**AS AT 1 MARCH 2012**

	Note	£000	1 March 2012 £000	£000	3 March 2011 £000
<b>FIXED ASSETS</b>					
Intangible assets	12		3,838		2,493
Tangible assets	13		108,533		92,245
Investments	14		68,241		71,410
			<u>180,612</u>		<u>166,148</u>
<b>CURRENT ASSETS</b>					
Stocks	15	7,775		4,906	
Debtors	16	53,813		17,095	
Cash at bank and in hand		3,887		3,745	
		<u>65,475</u>		<u>25,746</u>	
<b>CREDITORS:</b> amounts falling due within one year	17	(67,995)		(60,322)	
<b>NET CURRENT LIABILITIES</b>			<u>(2,520)</u>		<u>(34,576)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>178,092</u>		<u>131,572</u>
<b>PROVISIONS FOR LIABILITIES</b>					
Deferred tax	10	(1,020)		(1,608)	
Other provisions	11	(182)		(257)	
			<u>(1,202)</u>		<u>(1,865)</u>
<b>NET ASSETS</b>			<u>176,890</u>		<u>129,707</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19		33,000		33,000
Profit and loss account	20		143,890		96,707
<b>SHAREHOLDERS' FUNDS</b>	21		<u>176,890</u>		<u>129,707</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on  
19 NOVEMBER 2012

Director  
M PRICE



The notes on pages 9 to 24 form part of these financial statements

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## **COSTA LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 MARCH 2012**

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#### **1. ACCOUNTING POLICIES**

##### **1.1 Authorisation**

The financial statements of Costa Limited for the year ended 01 March 2012 were authorised for issue by the Board of Directors on ~~15 NOVEMBER~~ 2012

##### **1.2 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The Company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

##### **1.3 Going concern**

The Company's business activities together with the factors likely to effect its future development, performance and position are set out in the Business Review above. The financial position of the Company is set out in the following accounts.

The Company has considerable financial resources and, as a consequence, the directors believe that the Company is well placed to manage its business risks.

As at 01 March 2012, the Company's current liabilities exceeded its current assets by £2,520,000. The accounts have been prepared on the going concern basis on the grounds that the parent company has undertaken to provide continuing support for the foreseeable future.

##### **1.4 Cash flow**

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

##### **1.5 Turnover**

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

##### **1.6 Intangible fixed assets and amortisation**

Intangible assets include ERP costs associated with the setting up of Navision and are amortised on a straight line basis over their estimated useful life of 5 years. They are held at cost less provision for impairment.

Intangible assets also include Trademarks which are deemed to have an infinite life and hence not amortised.

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## **COSTA LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 MARCH 2012**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **1.7 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Land and Buildings	-	over the shorter of 50 years or the remaining useful life
Fixtures & fittings	-	mainly over 6 to 10 years

##### **1.8 Investments**

Investments held as fixed assets are shown at cost less provision for impairment.

##### **1.9 Operating leases**

Rentals under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

##### **1.10 Stocks**

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

##### **1.11 Deferred taxation**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse, using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted.

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## COSTA LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 MARCH 2012

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#### 1 ACCOUNTING POLICIES (continued)

##### 1.12 Pensions

Employees of the Company are entitled to participate in pension schemes operated by Whitbread PLC as described in note 32 of the Whitbread PLC 2012 financial statements

The Group operates a defined contribution Pension Scheme, with both the company and employee contributions being held in an externally invested trustee-administered fund. Contributions to the scheme are charged in the profit and loss account as they become payable.

The defined benefit (final salary) section of the principal Group Pension Scheme, the Whitbread Group Pension Fund, was closed to new members on 31 December 2001 and to future accrual on 31 December 2009. The scheme is funded, and contributions by both employees and Group companies are held in externally invested trustee administered funds.

##### 1.13 Share-based payments

FRS 20 requires the fair value of options and share awards which ultimately vest to be charged to the profit and loss account over the vesting or performance period.

For equity-settled transactions the fair value is determined at the date of the grant using an appropriate pricing model. For cash-settled transactions fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. If an award fails to vest as the result of certain types of performance conditions not being satisfied, the charge to the income statement will be adjusted to reflect this.

#### 2. TURNOVER

Turnover is the value of goods and services sold within the UK and the European Union, as part of the Company's continuing ordinary activities after deducting sales based taxes.

All turnover arose within the United Kingdom.

#### 3. OPERATING PROFIT

The operating profit is stated after charging

	Year ended 1 March 2012 £000	Year ended 3 March 2011 £000
Amortisation - intangible fixed assets	561	518
Depreciation of tangible fixed assets		
- owned by the company	21,739	18,145
Operating lease rentals		
- plant and machinery	1,061	937
- property	59,810	54,406
Difference on foreign exchange	231	39
Staff costs (note 5)	105,081	89,728

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**4. AUDITORS' REMUNERATION**

Audit fees for the year were paid by the parent company, Whitbread Group PLC. Information about the total audit fees paid by the Group can be found in the Whitbread PLC report and financial statements for the year ended 01 March 2012.

**5. STAFF COSTS**

Staff costs, including Directors' remuneration, were as follows

	<b>Year ended 1 March 2012 £000</b>	<b>Year ended 3 March 2011 £000</b>
Wages and salaries	98,168	83,496
Social security costs	6,206	5,573
Other pension costs	707	659
	<b>105,081</b>	<b>89,728</b>

The average monthly number of employees, including the Directors, during the year was as follows

	<b>Year ended 1 March 2012</b>	<b>Year ended 3 March 2011</b>
Number of employees	<b>6,865</b>	<b>5,629</b>

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

**6. DIRECTORS' REMUNERATION**

	<b>Year ended 1 March 2012 £000</b>	<b>Year ended 3 March 2011 £000</b>
Emoluments	<b>2,297</b>	<b>2,114</b>

The highest paid Director received remuneration of £673,000 (2011 - £591,000)

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**7. INTEREST RECEIVABLE**

	Year ended 1 March 2012 £000	Year ended 3 March 2011 £000
Interest receivable from group companies	644	385
Other interest receivable	39	15
	<u>683</u>	<u>400</u>

**8 EXCEPTIONAL ITEMS**

	Year ended 1 March 2012 £000	Year ended 3 March 2011 £000
Loss on disposal of tangible fixed assets	251	344
Impairment of loans to joint ventures	3,321	-
Impairment / Reversal of impairment of tangible fixed assets	42	(743)
Impairment of intangible fixed assets	-	597
	<u>3,614</u>	<u>198</u>

**9. TAXATION**

	Year ended 1 March 2012 £000	Year ended 3 March 2011 £000
<b>Analysis of tax charge in the year</b>		
<b>Current tax</b> (see note below)		
UK corporation tax charge on profit for the year	18,022	15,609
Adjustments in respect of prior periods	(103)	(158)
<b>Total current tax</b>	<u>17,919</u>	<u>15,451</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(492)	(378)
Adjustment in respect of prior periods	-	64
Change in UK tax rate	(97)	(60)
<b>Total deferred tax</b> (see note 10)	<u>(589)</u>	<u>(374)</u>
<b>Tax on profit on ordinary activities</b>	<u>17,330</u>	<u>15,077</u>

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**9. TAXATION (continued)**

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2011 - higher than) the standard rate of corporation tax in the UK of 26 17% (2011 - 28 00%). The differences are explained below

	<b>Year ended 1 March 2012 £000</b>	<b>Year ended 3 March 2011 £000</b>
Profit on ordinary activities before tax	<b>62,624</b>	49,468
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 17% (2011 - 28 00%)	<b>16,389</b>	13,851
<b>Effects of</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	<b>78</b>	591
Differences between capital allowances and depreciation	<b>452</b>	238
Adjustments to tax charge in respect of prior periods	<b>(103)</b>	(158)
Transfer pricing adjustment	<b>-</b>	(94)
Depreciation not in deferred tax	<b>1,103</b>	1,023
<b>Current tax charge for the year (see note above)</b>	<b>17,919</b>	15,451

**Factors that may affect future tax charges**

The Finance Act 2011 reduced the main rate of UK corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012

In his budget of 21 March 2012, the Chancellor of the Exchequer announced an additional 1% reduction in the rate of corporation tax, with effect from 1 April 2012. Further changes to corporation tax are also proposed, to reduce the main rate by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and consequently, in accordance with UK accounting standards, are not reflected in these financial statements

The additional 1% reduction in the rate of corporation tax, with effect from April 2012, was enacted on 26 March 2012 by virtue of the Provisional Collection of Taxes Act 1968. If the change had been enacted before the Company's balance sheet date, there would be no effect on the deferred tax liability

The effect of the remaining changes, if enacted, will be to reduce the deferred tax liability by a further £0.1m. The rate change will also impact the amount of the future cash tax payment to be made by the Company

Further UK tax changes are a reduction from 1 April 2012 in the rate of capital allowances applicable to plant & machinery and to integral features from 20% to 18% and from 10% to 8% respectively



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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**10 DEFERRED TAXATION**

	<b>1 March 2012 £000</b>	<b>3 March 2011 £000</b>
At beginning of year	1,608	1,982
Released during year	(491)	(374)
Change in UK tax rate to 25%	(97)	-
At end of year	<u>1,020</u>	<u>1,608</u>

The provision for deferred taxation is made up as follows

	<b>1 March 2012 £000</b>	<b>3 March 2011 £000</b>
Accelerated capital allowances	<u>1,020</u>	<u>1,608</u>

**11. PROVISIONS**

	<b>Onerous Contracts £000</b>
At 4 March 2011	257
Amounts used	(75)
At 1 March 2012	<u>182</u>

**Onerous Contracts**

Onerous contract provisions are expected to be used over periods of up to 5 years

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**12. INTANGIBLE FIXED ASSETS**

	Trademarks £000	Other £000	Total £000
<b>Cost</b>			
At 4 March 2011	-	3,880	3,880
Additions	1,281	46	1,327
Transfers	1,161	(582)	579
	<u>2,442</u>	<u>3,344</u>	<u>5,786</u>
At 1 March 2012			
<b>Amortisation</b>			
At 4 March 2011	-	1,387	1,387
Charge for the year	-	561	561
Transfers	582	(582)	-
	<u>582</u>	<u>1,366</u>	<u>1,948</u>
At 1 March 2012			
<b>Net book value</b>			
At 1 March 2012	<u>1,860</u>	<u>1,978</u>	<u>3,838</u>
At 3 March 2011	<u>-</u>	<u>2,493</u>	<u>2,493</u>

Other Intangibles represent ERP costs associated with the setting up of Navision and are amortised on a straight line basis over their estimated useful life of 5 years

**COSTA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

**13. TANGIBLE FIXED ASSETS**

	Land & Buildings £000	Fixtures & fittings £000	Total £000
<b>Cost</b>			
At 4 March 2011	50,678	102,847	153,525
Additions	9,185	30,569	39,754
Disposals	(581)	(539)	(1,120)
Assets written off	(2,230)	(7,406)	(9,636)
At 1 March 2012	<u>57,052</u>	<u>125,471</u>	<u>182,523</u>
<b>Depreciation</b>			
At 4 March 2011	19,489	41,791	61,280
Charge for the year	5,344	16,395	21,739
On disposals	(402)	(434)	(836)
Assets written off	(2,175)	(6,060)	(8,235)
Impairment charge	-	42	42
At 1 March 2012	<u>22,256</u>	<u>51,734</u>	<u>73,990</u>
<b>Net book value</b>			
At 1 March 2012	<u>34,796</u>	<u>73,737</u>	<u>108,533</u>
At 3 March 2011	<u>31,189</u>	<u>61,056</u>	<u>92,245</u>

**14. FIXED ASSET INVESTMENTS**

	Investments in subsidiary companies £000	Loans to subsidiaries £000	Investment in joint ventures £000	Loans to joint ventures £000	Total £000
<b>Cost or valuation</b>					
At 4 March 2011	64,410	2,140	1,929	2,931	71,410
Additions	592	-	-	-	592
Transfers intra group	-	(440)	(390)	390	(440)
At 1 March 2012	<u>65,002</u>	<u>1,700</u>	<u>1,539</u>	<u>3,321</u>	<u>71,562</u>
<b>Impairment</b>					
At 4 March 2011	-	-	-	-	-
Charge for the year	-	-	-	3,321	3,321
At 1 March 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,321</u>	<u>3,321</u>
<b>Net book value</b>					
At 1 March 2012	<u>65,002</u>	<u>1,700</u>	<u>1,539</u>	<u>-</u>	<u>68,241</u>
At 3 March 2011	<u>64,410</u>	<u>2,140</u>	<u>1,929</u>	<u>2,931</u>	<u>71,410</u>

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**14. FIXED ASSET INVESTMENTS (continued)**

**Subsidiary undertakings**

The following were subsidiary undertakings of the company

<b>Name</b>	<b>Holding</b>
Costa International Limited	100%
Costa Card ELMI Limited	100%
Costa Coffee India Private Limited	100%
Coffeeheaven International Limited	100%
Coffee Nation Limited	100%

<b>Name</b>	<b>Business</b>	<b>Registered office</b>
Costa International Limited	Franchise Business	England
Costa Card ELMI Limited	E-money issuer	England
Costa Coffee India Private Limited	Franchise Business	India
Coffeeheaven International Limited	Operator of coffee shops	England
Coffee Nation Limited	Operator of espresso based coffee vending machines	England

**Participating interests**

The Company's investments in participating interests comprised a 50% joint venture arrangement in Rosworth Investments Limited, a holding company incorporated and operating in Cyprus, which owned 100% of Brava LLC, an operator of coffee shops incorporated and operating in Russia. On 13 June 2012 the joint venture agreement was terminated and replaced with a new franchise arrangement. As a result the loans to the joint venture have been impaired. The investment in the joint venture is supported by adequate assets and hence no impairment has been deemed necessary.

The additions to investment in subsidiaries relates to Costa Coffee India Private limited

**15. STOCKS**

	<b>1 March 2012 £000</b>	<b>3 March 2011 £000</b>
Raw materials	3,789	2,105
Finished goods and goods for resale	3,986	2,801
	<hr/> <b>7,775</b> <hr/>	<hr/> <b>4,906</b> <hr/>

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**16. DEBTORS**

	<b>1 March 2012 £000</b>	<b>3 March 2011 £000</b>
<b>Due after more than one year</b>		
Trade debtors	2,056	2,073
<b>Due within one year</b>		
Trade debtors	13,504	10,247
Amounts owed by group undertakings	30,218	533
Other debtors	2,979	2,123
Prepayments and accrued income	5,056	2,119
	<u>53,813</u>	<u>17,095</u>

In line with the intercompany indebtedness agreement, dated 31 January 2012, all intercompany balances are due to / from Whitbread Group PLC. As a result a net intercompany position has been disclosed above.

**17. CREDITORS:  
Amounts falling due within one year**

	<b>1 March 2012 £000</b>	<b>3 March 2011 £000</b>
Trade creditors	9,447	6,347
Amounts owed to group undertakings	-	3,543
Corporation tax	17,920	15,451
Other creditors	15,530	12,360
Accruals and deferred income	25,098	22,621
	<u>67,995</u>	<u>60,322</u>

**18. SHARE BASED PAYMENTS**

Shares referred to in this note are in the ultimate parent company, Whitbread PLC. Disclosures are calculated on an allocation of these shares based on the number of employees employed by the Company.

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**18. SHARE BASED PAYMENTS**

**Long-term incentive plan (LTIP)**

The LTIP awards shares to directors and senior executives of the Whitbread Group. Vesting of shares under the scheme will depend on continued employment and Whitbread PLC meeting total shareholder return (TSR) and earnings per share (EPS) performance targets over a three year period. LTIP conditions have been amended post year end to exclude TSR as a vesting condition.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows

	<b>2012 Awards</b>	<b>2011 Awards</b>
Outstanding at the beginning of the year	<b>106,453</b>	91,413
Granted during the year	<b>79,417</b>	41,447
Exercised during the year	<b>(27,322)</b>	(20,094)
Expired during the year	<b>(7,830)</b>	(6,313)
Outstanding at the end of the year	<b><u>150,718</u></b>	<b><u>106,453</u></b>

Exercisable at the year end

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**Deferred equity awards**

Awards are made under the Whitbread Leadership Group Incentive Scheme.

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If employment ceases prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health or disability, the awards will be released in full. If employment ceases for any other reason the proportion of the awards which vests depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the award vests, between the first and second anniversary 25% vests and between the second and third anniversary 50% vests.

Movements in the number of share awards are as follows

	<b>2012</b>	<b>2011</b>
Outstanding at the beginning of the year	<b>32,799</b>	42,202
Granted during the year	<b>71,298</b>	71,487
Exercised during the year	<b>(74,094)</b>	(80,287)
Expired during the year	<b>(422)</b>	(603)
Outstanding at the end of the year	<b><u>29,581</u></b>	<b><u>32,799</u></b>

Exercisable at the year end

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**COSTA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

**18. SHARE BASED PAYMENTS**

**Executive Share Option Scheme**

Annual grants of share options have been discontinued, and there is no intention to grant any further options

Movements in the number of share options and the related weighted average exercise price (WAEP) are as follows

	<b>2012</b>		<b>2011</b>	
	<b>Options</b>	<b>WAEP</b>	<b>Options</b>	<b>WAEP</b>
		<b>(£ per share)</b>		<b>(£ per share)</b>
Outstanding at the beginning of the year	-	-	99	5.39
Exercised during the year	-	-	(99)	5.39
Expired during the year	-	-	-	-
Outstanding at the year end	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exercisable at year end	-	-	-	-

No executive share options remained outstanding as at 1 March 2012

**Employee share scheme - Save As You Earn**

The Whitbread employee share save scheme is open to employees with the required minimum period of service and provides for a purchase price equal to the market price on the date of grant, less a 20% discount. The shares can be purchased over the six-month period following the 3rd or 5th anniversary of the commencement date, depending on the length chosen by the employee.

Movements in the number of share options and the related WAEP are as follows

	<b>2012</b>		<b>2011</b>	
	<b>Options</b>	<b>WAEP</b>	<b>Options</b>	<b>WAEP</b>
		<b>(£ per share)</b>		<b>(£ per share)</b>
Outstanding at the beginning of the year	77,768	9.74	79,921	8.76
Granted during the year	30,688	13.39	18,703	14.14
Exercised during the year	(27,159)	7.53	(8,526)	10.72
Expired during the year	<u>(12,111)</u>	<u>11.55</u>	<u>(12,330)</u>	<u>9.37</u>
Outstanding at the end of the year	<u>69,186</u>	<u>11.91</u>	<u>77,768</u>	<u>9.74</u>
Exercisable at year end	3,103	7.46	1,376	11.50

The weighted average contractual life for the share options outstanding as at 01 March 2012 is between two and three years and they are exercisable at prices between £7.28 and £14.17 (2011: £7.28 and £14.17). The fair value of share options granted is estimated as at the date of grant using a stochastic model, taking into account the terms and conditions upon which the options were granted.

**COSTA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

**Total profit and loss account charge**

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Long-Term Incentive Plan and uplift awards	<b>567</b>	465
Deferred equity	<b>873</b>	845
Executive Share Option Scheme	-	-
Employee share scheme	<b>449</b>	339
	<b>1,889</b>	1,649

The inputs to the model used for the years ended 01 March 2012 and 3 March 2011 can be found in the consolidated accounts of Whitbread PLC for the year ended 01 March 2012

At 01 March 2012 there were outstanding options for employees to purchase up to 249,485 Whitbread PLC ordinary shares of 76 80 pence each between 2011 and 2016 at prices ranging from £7 28 to £14 17 per share (2011 217,021 options at prices between £5 39 and £14 17 per share)

**19. SHARE CAPITAL**

	<b>1 March</b>	<b>3 March</b>
	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>Allotted, called up and fully paid</b>		
33,000,100 (2011 - 33,000,100) Ordinary shares of £1 each	<b>33,000,100</b>	33,000,100

**20. RESERVES**

	<b>Profit and loss account</b>
	<b>£000</b>
At 4 March 2011	96,707
Profit for the year	45,294
Share based payments	1,889
	<b>143,890</b>
At 1 March 2012	

**21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<b>1 March</b>	<b>3 March</b>
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Opening shareholders' funds	129,707	93,667
Profit for the year	45,294	34,391
Share based payments	1,889	1,649
	<b>176,890</b>	129,707



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## COSTA LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 1 MARCH 2012

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#### 22. PENSION COMMITMENTS

Employees of the Company are entitled to participate in the pension scheme operated by Whitbread Group PLC, the Whitbread Group Pension Fund. The scheme was closed to new members on 31 December 2001 and closed to future service accrual on 31 December 2009. There was also a defined contribution scheme available to new members, operated by Whitbread Group PLC, which also closed to new members on 31 December 2001. Both schemes are funded and contributions by both employees and Group companies are held in externally invested trustee administered funds. Members of these schemes are contracted out of the State Earnings Related Pension Scheme. Employees of the Company are entitled to participate in a replacement, contracted-in, defined contribution arrangement which was established by Whitbread Group PLC as a section of the Whitbread Group Pension Fund with effect from 1 April 2002.

Pension costs are based on costs across all Whitbread group companies within the schemes. The pension charge in the accounts is equivalent to the contributions payable to the schemes.

Details of the actuarial valuation of the Whitbread Group PLC Pension Fund are contained in the accounts of Whitbread PLC for the year ended 01 March 2012.

The Company is unable to identify its share of the underlying assets and liabilities in the Whitbread Group Pension Fund as the scheme also covers employees of other Whitbread companies. Information concerning the assets and liabilities of the scheme calculated in accordance with FRS 17 can be found in the Whitbread PLC Report and Financial Statements for the year ended 01 March 2012.

#### 23. OPERATING LEASE COMMITMENTS

At 1 March 2012 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Plant & machinery	
	1 March 2012 £000	3 March 2011 £000	1 March 2012 £000	3 March 2011 £000
<b>Expiry date</b>				
Within 1 year	1,279	1,311	62	184
Between 2 and 5 years	27,708	23,992	921	542
After more than 5 years	22,979	23,203	-	-

#### 24. CONTINGENT LIABILITIES

The Company has provided guarantees to BNP Paribas Bank Polska S A in respect of facilities provided by the bank to CHI Polska amounting to £3.4m.

#### 25. RELATED PARTY TRANSACTIONS

The company is a wholly-owned subsidiary of Whitbread PLC, the ultimate controlling entity, and has taken advantage of the exemption given in Financial Reporting Standard No 8 not to disclose transactions with other group companies.

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**COSTA LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 1 MARCH 2012**

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**26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate parent undertaking is Whitbread Group PLC. The ultimate parent undertaking is Whitbread PLC.

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

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