



**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**Registered Number 09170250**

**Report and Financial Statements**

**For the 53 week period ended 2 October 2016**

# STARBUCKS INTERNATIONAL (HOLDINGS) LTD

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**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**DIRECTORS AND OTHER INFORMATION  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**DIRECTORS**

K Engskov (resigned 29 July 2016)  
D Macdonald  
M Brok (appointed 29 July 2016)

**REGISTERED OFFICE**

Chiswick Park  
566 Chiswick High Road  
London  
W4 5YE  
United Kingdom

**AUDITOR**

Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

**BANKERS**

Citibank  
Citigroup Centre  
Canary Wharf  
London  
E14 5LB  
United Kingdom

**SOLICITORS**

Wragge & Co LLP  
55 Colmore Row  
Birmingham  
B3 2AS  
United Kingdom

## **STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

### **STRATEGIC REPORT FOR THE PERIOD ENDED 2 OCTOBER 2016**

The directors present their strategic report for the 53 week period ended 2 October 2016 (2015: 52 week period ended 27<sup>th</sup> September 2015), in preparing this Strategic Report, the directors have complied with s414C of the Companies Act 2006.

#### **STATE OF AFFAIRS**

The Company has adopted FRS 101 'Reduced Disclosure Framework' and has taken advantage of the disclosure exemptions allowed under this standard.

The principal activity of the Company is for the borrowing of inter-group funds, foreign exchange management and the subsequent investment of excess funds.

The Company's business is designed to operate within a sustainable low risk strategy that provides the Company with the ability to adapt to changing market conditions by managing risk and focusing on the core business funding requirements of Starbucks Corporation, outside of the United States of America.

#### **REVIEW OF THE BUSINESS**

The Directors, in preparing this business review, have complied with s417 of the Companies Act 2006.

The Company focuses on investing liquidity from the Starbucks group members, managing foreign exchange risk and providing liquidity to fund group activities.

The profit for the period, after taxation, was \$370,000 (2015: \$nil). The directors do not recommend the payment of a dividend for the period.

#### **KEY PERFORMANCE INDICATORS (KPIs)**

The Board continually monitors progress on the overall Company strategy and the individual strategic elements by reference to the following KPIs.

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Net interest income	168	-
Profit before tax	462	-
Operating Income	294	-
Available-for-sale investments	484,450	-
Cash and cash equivalents	195,116	-

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The results of the Company are influenced by a number of risk factors. The Company makes use of derivatives in its operations, such as interest rate swaps, currency swaps, options and foreign exchange forward contracts to enable the Company to manage risk. Further details on how the Company uses these derivative instruments and manages the associated risk as part of its activities are set out in notes 2.4, 9 & 20.

## **STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

### **STRATEGIC REPORT FOR THE PERIOD ENDED 2 OCTOBER 2016**

The Board is accountable for risk and is responsible for oversight of the risk management process. The Board has considered the key risks facing the Company and the exposure in relation to each of those risks. The key business risks are currency, interest rate, credit and liquidity (see note 20).

The Company has established a risk committee that meets quarterly and which evaluates the Company's risk appetite.

The Company has also established a risk management process to ensure that proper procedures are in place and that they are operating effectively in order to deal with strategic and operational issues.

The key elements of the system of internal control that minimise and mitigate against perceived risk:

**Internal audit:** an internal audit function, based in Seattle, conducts an annual evaluation of the Company's internal control over financial reporting which includes a written assessment of the effectiveness of such controls under section 404 Sarbanes-Oxley Act.

**Financial risk management:** The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the directors consider relevant to this Company are credit risk and liquidity risk. These risks are mitigated by the nature of the debtor balances owed, with these due from other group companies who are able to repay these if required.

By Order of the Board on

2017

**D Macdonald**  
Director

## **STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

### **DIRECTOR'S REPORT FOR THE PERIOD ENDED 2 OCTOBER 2016**

The directors present their report and the audited financial statements of the Company for the 53 week period ended 2 October 2016. Disclosures required under s416(4) which have been elevated to the strategic report are:

- Financial risk management objectives and policies.

### **DIRECTORS**

The directors of the Company who served throughout the period, were:

K Engskov (resigned 29 July 2016)

D Macdonald

M Brok (appointed 29 July 2016)

### **DIVIDENDS**

The directors do not recommend the payment of a dividend for the period.

### **EVENTS SINCE THE BALANCE SHEET DATE**

There have been no material events since the balance sheet date, which impact the results reported in these accounts or which require disclosure.

### **DIRECTORS' LIABILITIES**

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### **GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 3 to 4.

The Company is the holding entity of Starbucks EMEA Holdings Ltd, which ultimately in turn is the holding entity of Starbucks EMEA Ltd and therefore the results of the Company are significantly influenced by a number of risk factors experienced by Starbucks EMEA Ltd. For a comprehensive review of risk factors facing the Company, refer to Starbucks EMEA Ltd's Annual Report and Financial Statements.

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

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**DIRECTOR'S REPORT  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**AUDITOR**

A resolution to reappoint Deloitte LLP as auditors will be put to the members at the Annual General Meeting.

**DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO  
AUDITORS**

The directors who were members of the board at the time of approving the directors' report are listed on page 5. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board on

2017

**D Macdonald**  
Director

## **STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PERIOD ENDED 2 OCTOBER 2016**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework' 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 for that period.

In preparing those financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

We have audited the financial statements of Starbucks International (Holdings) Ltd for the period ended 2 October 2016 which comprise the Profit and loss account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22. 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), including FRS 101 'Reduced disclosure framework'.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 annual 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 2 October 2016 and of its profit for the period then ended; and
- 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 matters prescribed by the Companies Act 2006**

In our opinion 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**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.

Sukhbinder Kooner (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
2017

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**  
**PROFIT AND LOSS STATEMENT**  
**FOR THE PERIOD ENDED 2 OCTOBER 2016**

		<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
	<b>Note</b>		
Interest income		500	-
Interest expense		(332)	-
<b>Net interest income</b>	<b>4</b>	<b>168</b>	<b>-</b>
Loss on disposal of available-for-sale investments		(8)	-
Foreign exchange gain		302	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>5</b>	<b>462</b>	<b>-</b>
Tax	6	(92)	-
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>370</b>	<b>-</b>

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED 2 OCTOBER 2016**

**OTHER COMPREHENSIVE INCOME:**

		<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
Profit for the financial year		370	-
<b>Items that may subsequently be reclassified to profit or loss:</b>			
Available for Sale investments:			
Gains arising during the period	17	233	-
Tax on items relating to components of other comprehensive income		(44)	-
Other comprehensive loss for the period, net of tax		189	-
<b>Total comprehensive income for the period</b>		<b>559</b>	<b>-</b>

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**  
**BALANCE SHEET**  
**AS AT 2 OCTOBER 2016**

		<b>2 October</b>	<b>27 September</b>
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>FIXED ASSETS</b>			
Investments	7	2,069,157	2,069,157
Available-for-sale investments	8	458,217	-
		<u><b>2,527,374</b></u>	<u><b>2,069,157</b></u>
<b>CURRENT ASSETS</b>			
Available-for-sale investments	8	26,233	-
Amounts owed by Group undertakings		98,919	-
Other receivables	10	1,349	-
Cash and cash equivalents	11	195,116	-
		<u><b>321,617</b></u>	<u><b>-</b></u>
<b>CURRENT LIABILITIES</b>			
Derivative financial instruments	9	(4,986)	-
Borrowings	13	(771,653)	-
Other payables	14	(92)	-
Deferred tax liability	12	(44)	-
		<u><b>(776,775)</b></u>	<u><b>-</b></u>
<b>NET CURRENT (LIABILITIES)</b>		<u><b>(455,158)</b></u>	<u><b>-</b></u>
<b>NET ASSETS</b>		<u><b>2,072,216</b></u>	<u><b>2,069,157</b></u>
<b>CAPITAL AND RESERVES</b>			
Equity share capital	15	157	157
Share premium	16	2,071,500	2,069,000
Available for sale reserve	17	189	-
Retained earnings	18	370	-
<b>SHAREHOLDER'S FUNDS</b>		<u><b>2,072,216</b></u>	<u><b>2,069,157</b></u>

The notes on page 14 to 36 are an integral part of these financial statements.

The financial statements of Starbucks International (Holdings) Ltd (registered number 09170250) were approved by the board of directors on 2017 and were signed on its behalf by

**D Macdonald**  
 Director

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

	Equity Share Capital \$'000	Available for sale investment reserve \$'000	Share Premium \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>At 11 August 2014</b>	-	-	-	-	-
Profit for the period	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	-
Shares subscribed for	157	-	2,069,000	-	2,069,157
<b>At 27 September 2015</b>	<b>157</b>	<b>-</b>	<b>2,069,000</b>	<b>-</b>	<b>2,069,157</b>
Profit for the period	-	-	-	370	370
Other comprehensive income	-	189	-	-	189
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>189</b>	<b>-</b>	<b>370</b>	<b>559</b>
Shares subscribed for	-	-	2,500	-	2,500
<b>At 2 October 2016</b>	<b>157</b>	<b>189</b>	<b>2,071,500</b>	<b>370</b>	<b>2,072,216</b>

The notes on page 14 to 36 are an integral part of these financial statements.

# STARBUCKS INTERNATIONAL (HOLDINGS) LTD

## NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Starbucks International (Holdings) Ltd (the “Company”) for the 53 week period ended 2 October 2016 were authorised for issue by the board of directors on 2017 and the balance sheet was signed on the board’s behalf by D Macdonald.

Starbucks International (Holdings) Ltd is incorporated in the United Kingdom and registered in England and Wales.

The Company has applied Financial Reporting Standard 101 ‘Reduced Disclosure Framework’ (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The Company’s financial statements are presented in US Dollars because that is the currency of the primary economic environment in which the Company operates in and all values are rounded to the nearest thousand dollars (\$’000) except when otherwise indicated.

These financial statements are separate financial statements. The Company has taken advantage of the exemption under s401 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Starbucks Corporation.

The results of the Company are included in the consolidated financial statements of Starbucks Corporation which are available from the Investor Relations section of the Starbucks website at [investor.starbucks.com](http://investor.starbucks.com).

### 2. Summary of significant accounting policies

#### 2.1. Basis of preparation

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

The Company has adopted FRS 101 for all periods presented. The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 2 October 2016. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- (b) 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;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (d) the requirements of IAS 7 Statement of Cash Flows;
- (e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.1. Basis of preparation (continued)

- (g) 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

#### 2.2. Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic report, pages 3 to 4.

The Company is influenced by a number of risk factors experienced by Starbucks EMEA Ltd. For a comprehensive review of risk factors facing the Company, refer to Starbucks EMEA Ltd's Annual Report and Financial Statements, which can be obtained from Starbucks EMEA Ltd, Chiswick Park, 566 Chiswick High Road, London, W4 5YE.

The directors, having assessed the responses of the directors of the Company's parent, Starbucks Corporation, to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Starbucks Corporation, the Company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### 2.3. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

##### ***Functional currency***

The functional currency is the currency of the primary economic environment in which the Company operates. IAS 21 The effects of Changes in Foreign Exchange Rates requires the company to consider certain indicators when determining the functional currency of the Company. Management applies judgement to determine the functional currency of the Company based on the Company's relevant facts and circumstances. Management has determined the functional currency to be US Dollars.

##### ***Taxation***

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

##### ***Impairment of investments in subsidiaries***

Determining whether the Company's investments in subsidiaries have been impaired requires estimates of the investments' value in use. The value in use calculations require the entity to



## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.3. Significant accounting judgements, estimates and assumptions (continued)

estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values.

##### *Fair value of derivatives and other financial instruments*

As described in note 22, the Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported where possible, by observable market prices or rates.

##### *Impairment of available-for-sale investments*

The company assesses regularly whether there is any objective evidence that the available-for-sale securities are impaired (see 2.4 Significant accounting policies).

##### *Deferred tax*

The recovery of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of the existing taxable temporary differences. The directors have estimated the future profits of the Company and assessed that the deferred tax asset will be recovered in future years.

The details of major deferred tax assets and liabilities recognised by the company and movements thereon during the current and prior reporting period are shown in note 12.

#### 2.4. Significant accounting policies

##### *a) Foreign currency translation*

The company's financial statements are presented in US Dollars, which is also the company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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. Non-monetary items, measured at fair value in a foreign currency, are translated using the exchange rates at the date when fair value was determined.

##### *b) Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost less any provision for impairment.

##### *c) Cash and Cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

##### *d) Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

#### *e) Income taxes*

The income taxes are calculated in accordance with tax requirements in the UK. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised;
- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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 and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

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 credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### *f) Revenue Recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

#### *Interest income*

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

##### *Dividends*

Revenue is recognised when the Company's right to receive payment is established.

##### *g) Gains and losses arising from derivatives*

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into, and subsequently re-measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value movements exclude interest and are shown separately within non-interest income.

##### *h) Financial assets and liabilities*

The accounting policies for fair value, financial assets, financial liabilities and derivatives are set out as follows:

##### *Fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties within an arm's length transaction.

Financial instruments measured at fair value on an on-going basis include trading assets and liabilities, instruments designated at fair value (such as financial liabilities), derivatives and financial investments classified as available-for-sale.

##### *Determination of fair value*

Fair values are determined according to the following hierarchy that reflects the degree to which fair value is observable.

##### *i) Quoted market price*

Financial instruments valued with quoted prices for identical instruments in active markets.

##### *ii) Valuation technique using observable input*

Financial instruments with valuations derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

##### *iii) Valuation technique using non-observable input*

Financial instruments with valuations derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

##### *Financial Assets*

The Company classifies its financial assets in the following categories: financial instruments at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of financial assets at initial recognition.

Purchases and sales of financial assets at fair value through profit and loss, held to maturity and available-for-sale are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

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

This category has two subcategories: financial assets held for trading, and those designated at fair value through the profit and loss at inception. A financial asset is classified in this category if acquired principle for the purpose of selling in the short terms or if designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. The Company has chosen not to designate any financial assets at fair value through the profit and loss (2015: \$nil)

##### **ii) Loans and receivables**

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and which are not classified as available-for-sale. They arise when the Company provides cash directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. The latter are classified as non-current assets. Loans and other receivables are included in other receivables in the balance sheet. Loans are recognised when cash is advanced to borrowers. Loans and receivables are carried at amortised cost using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

The fair value of loans and advances/debt securities in issue is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. For impaired loans, fair value is estimated by discounting the expected future cash flows over the time period they are expected to be recovered.

##### **iii) Available-for-sale (AFS)**

Available-for-sale assets are non-derivative financial assets that are designated in this category or not categorised into any of the other categories described above. They are included in non-current assets unless they mature within 12 months or management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are subsequently held at fair value. The fair values of listed available-for-sale securities are determined using market bid prices. The fair values of unlisted available-for-sale securities are determined using valuation techniques that take into consideration either the prices of, or future earnings streams of, equivalent quoted securities. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is sold or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

The Company assesses at each balance sheet date whether there is objective evidence that an available-for-sale asset is impaired. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company such as a major change in price due to deterioration of credit ratings which has an impact on the Company's estimated cash flows of the financial assets. If an impairment loss has been incurred, the cumulative loss (measured as the difference between the original cost and fair value) less any impairment loss on that asset previously recognised, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

##### **iv) Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principle payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivable.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

##### ***Financial Liabilities***

##### **i) Financial liabilities at fair value through the profit and loss**

Borrowings are recognised initially at fair value, net of transactions costs incurred. Borrowings are subsequently stated either:

- At amortised cost: any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method; or
- As financial liabilities – designated at fair value through the income statement. The fair value option is used by the Company where the liabilities would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting.

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

##### *ii) Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the applicable contractual rates.

##### *Derivative financial instruments and hedge accounting*

Under IFRS, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The recognition of the movements in fair value of the derivatives depends on whether they are designated as hedging instruments, and if so, the nature of the items being hedged. In order to qualify for hedge accounting, the Company documents in advance the relationship between the item being hedged and the hedging instrument. The Company also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, to show that the hedge has been effective on an ongoing basis. This effectiveness testing is re-performed quarterly to ensure that the hedging remains effective.

The Company designates derivatives as either:

##### *i) Fair value hedges*

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

##### *ii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Where a hedging transaction is no longer hedge accounted the derivative is classified as held for trading and accounted for accordingly. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

If the hedge no longer meets the criteria for hedge accounting or if the hedge accounting ceases, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period of the maturity.

During the financial year, the Company only had fair value hedges. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 9.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases the derivative component is termed an embedded derivative. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 2.4. Significant accounting policies (continued)

contracts are not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. These derivatives are valued in a similar way as non-embedded derivatives, i.e. using quoted market prices in active markets and valuation techniques, including discounted cash flow and option pricing models.

Profits or losses cannot be recognised on the initial recognition of the embedded derivative unless the host contract is also carried at fair value.

#### 3. DIRECTORS AND EMPLOYEES

There are no employees of the Company in the current period (2015: nil). All UK employees of the Company are employed by the Company's indirect subsidiary, Starbucks EMEA Ltd. The details of the average monthly number of employees and remuneration for the period for employees of Starbucks EMEA Ltd are disclosed in the financial statements of Starbucks EMEA Ltd.

The directors of the Company are also directors of Starbucks EMEA Limited and it is not practicable to allocate their remuneration for the current financial period between the services to each company. The details of their remuneration for the period are disclosed in the financial statements of Starbucks EMEA Ltd, which bears the cost of their remuneration.

#### 4. NET INTEREST INCOME

		<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
<b>Interest Income</b>			
Available-for-sale	- Interest recognised on financial assets	338	-
Loans and receivables	- Held at amortised cost	162	-
		<hr/> 500	<hr/> -
<b>Interest expense</b>			
Financial liabilities	- Held at amortised cost	(332)	-
		<hr/> 168	<hr/> -

#### 5. AUDITOR REMUNERATION

Auditor's remuneration of £15,000 (2015: £2,000) in relation to the audit of the Company was borne by Starbucks EMEA Ltd.

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**NOTES TO THE FINANCIAL ACCOUNTS  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**6. TAXATION**

	<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
Corporation tax:		
UK corporation tax	92	-
	<u>92</u>	<u>-</u>
Deferred tax (see note 12)	-	-
	<u><b>92</b></u>	<u><b>-</b></u>

Corporation tax is calculated at 20.0% (2015: 20.5 %) of the estimated taxable profit for the year.

The Finance Act 2016 (which was substantively enacted on 15 September 2016) provides for further reductions in the main tax rate down to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020.

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
Profit before tax	<b>462</b>	-
Tax at the UK Corporation tax rate of 20.0% (2015: 20.5%)	92	-
Tax effect of expenses that are not deductible in determining taxable profit	-	-
Tax effect of income not taxable in determining taxable profit	-	-
<b>Tax expense for the year</b>	<u><b>92</b></u>	<u><b>-</b></u>
Effective tax rate	20.0%	0.0%

**7. SUBSIDIARIES**

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
<b>Cost</b>		
Balance brought forward	2,069,157	-
Additions	-	2,069,157
Balance carried forward	<u>2,069,157</u>	<u>2,069,157</u>
<b>Net Book Value</b>	<u><b>2,069,157</b></u>	<u><b>2,069,157</b></u>



## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 7. SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 2 October 2016 are as follows

Name	Place of incorporation and principal place of business	Proportion of ownership interest %	Proportion of voting power held %
<b><u>Direct subsidiaries</u></b>			
Starbucks EMEA Holdings Ltd	London, United Kingdom	100	100
<b><u>Indirect Subsidiaries</u></b>			
Starbucks Coffee Japan, Limited	Tokyo, Japan	100	100
Princi Global Limited	London, United Kingdom	100	100
Starbucks EMEA Investment Ltd	London, United Kingdom	100	100
Starbucks EMEA Ltd	London, United Kingdom	100	100
Starbucks Coffee EMEA BV	Amsterdam, Netherlands	100	100
Starbucks Manufacturing EMEA BV	Amsterdam, Netherlands	100	100
Starbucks Switzerland Austria Holdings BV	Amsterdam, Netherlands	100	100
Starbucks Coffee Switzerland AG	Zurich, Switzerland	100	100
Starbucks Coffee Austria GmbH	Vienna, Austria	100	100
Starbucks Coffee France SAS	Paris, France	100	100
Starbucks Coffee Trading Company Sarl	Lausanne, Switzerland	100	100
Starbucks Coffee Netherlands BV	Amsterdam, Netherlands	100	100
SCI Europe I, LLC	Washington, USA	100	100
SCI Europe II, LLC	Washington, USA	100	100
Emerald City CV	Amsterdam, Netherlands	100	100
Starbucks Farmer Support Center Ethiopia Plc	Addis Ababa, Ethiopia	100	100
Starbucks Farmer Support centre	Chiapas, Mexico	100	100
Corporacion Starbucks Farmer Support Center Colombia	Manizales, Colombia	100	100
Starbucks Farmer Support Center Tanzania Ltd	Mbeya, Tanzania	100	100
Starbucks Farmer Support Center Rwanda Ltd	Kigali, Rwanda	100	100
Starbucks Coffee Agronomy Company Srl	San Jose, Costa Rica	100	100
Starbucks Coffee Development (Yunan) Company Limited	Yunnan, China	100	100
Starbucks Singapore Investment Pte.	Singapore	51	51
Starbucks Aini Coffee (Yunnan) Company Limited	Yunnan, China	51	51
Starbucks Asia Pacific Investment Holding III Ltd	Hong Kong, China	30	30
Hubei Starbucks Coffee Company Ltd	Wuhan, China	30	30
Chengdu Starbucks Coffee Company Ltd	Sichuan, China	30	30
Xi'an Starbucks Coffee Company Ltd	Xian, China	30	30
Coffee Concepts (South China) Ltd	Hong Kong China	30	30
Guangdong Starbucks Coffee Company Limited	Guangdong, China	30	30
Starbucks Coffee (Shenzhen) Ltd	China	30	30

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 8. AVAILABLE-FOR-SALE INVESTMENTS

	2 October 2016 \$'000	27 September 2015 \$'000
<b>Cost</b>		
Balance brought forward	-	-
Exchange difference on monetary assets	-	-
Purchases	484,224	-
Disposals (through sale and redemption)	(7)	-
Gain/(Losses) from changes in fair value recognised in equity	233	-
Balance carried forward	<u>484,450</u>	<u>-</u>
<b>Net Book Value</b>	<b><u>484,450</u></b>	<b><u>-</u></b>
Of which:		
Current	<u>26,233</u>	<u>-</u>
Non-current	<u>458,217</u>	<u>-</u>

#### 9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses the following derivative instruments:

Currency forwards represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principle amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps results in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principle takes place, except for certain currency swaps.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Company and a customer (OTC). The Company is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The Company uses the following instruments to hedge various economic risks:

- Cross currency interest rate swaps to hedge foreign exchange and interest rate risks arising from medium-term notes issued.

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- Interest rate swaps to hedge interest rate risk arising from medium terms notes issued and loans granted to related parties.
- Forward foreign exchange contracts to hedge foreign exchange risk arising from AFS portfolio held in a currency other than the functional currency (USD).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

	Notional amount \$'000	As at 2 October 2016		Notional amount \$'000	As at 27 September 2015	
		Asset	Liability		Asset	Liability
		\$'000	\$'000		\$'000	\$'000
<b>Derivatives designated as fair value hedges</b>						
Cross Currency swaps	133,700	-	(4,986)	-	-	-
<b>Total derivatives</b>		<u>-</u>	<u>(4,986)</u>		<u>-</u>	<u>-</u>
Of which:						
Current		<u>-</u>	<u>(2,430)</u>		<u>-</u>	<u>-</u>
Non-current		<u>-</u>	<u>(2,556)</u>		<u>-</u>	<u>-</u>

#### 10. OTHER RECEIVABLES

	2 October 2016	27 September 2015
	\$'000	\$'000
Accrued Interest	1,349	-
	<u>1,349</u>	<u>-</u>

# STARBUCKS INTERNATIONAL (HOLDINGS) LTD

## NOTES TO THE FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 2 OCTOBER 2016

### 11. CASH AND CASH EQUIVALENTS

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Cash at bank and in hand	8,930	-
Cash equivalents	186,186	-
	<u>195,116</u>	<u>-</u>

### 12. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current reporting period.

	<b>Revaluation of financial assets \$'000</b>	<b>Total \$'000</b>
At 27 September 2015	-	-
Credit to profit or loss	-	-
Charge to other comprehensive income	(44)	(44)
At 2 October 2016	<u>(44)</u>	<u>(44)</u>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Deferred tax liabilities	(44)	-
	<u>(44)</u>	<u>-</u>

### 13. FINANCIAL LIABILITIES - BORROWINGS

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Amounts owed to Group Undertakings	771,653	-
	<u>771,653</u>	<u>-</u>

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 2 OCTOBER 2016****14. OTHER PAYABLES**

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Other taxation	92	-
	<u>92</u>	<u>-</u>

**15. CALLED UP SHARE CAPITAL**

	<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
Issued and fully paid up 100,110 ordinary shares of £1.00 each	157	157

During the year 10 shares of £1.00 each were issued, at a premium of \$2,499,987

**16. SHARE PREMIUM**

	<b>Period ended 2 October 2016 \$'000</b>	<b>Period ended 27 September 2015 \$'000</b>
Balance brought forward	2,069,000	-
Premium arising on issue of equity shares	2,500	2,069,000
Balance carried forward	<u>2,071,500</u>	<u>2,069,000</u>

**17. AVAILABLE FOR SALE RESERVES**

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Balance brought forward	-	-
Gain recognised on available for sale investments:	233	
Income tax related to losses recognised in other comprehensive income	(44)	-
Balance carried forward	<u>189</u>	<u>-</u>

**18. PROFIT AND LOSS ACCOUNT**

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Balance brought forward	-	-
Profit for the financial year	370	-
Balance carried forward	<u>370</u>	<u>-</u>

## **STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 2 OCTOBER 2016**

#### **19. CONTROLLING PARTY**

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is Starbucks Corporation, a company registered in the state of Washington, USA, and is the largest, and smallest, group in which the results of the Company are consolidated.

Copies of the consolidated accounts of Starbucks Corporation can be obtained from the Investor Relations section of the Starbucks website at [investor.starbucks.com](http://investor.starbucks.com).

The Company's immediate controlling party is Starbucks Coffee International Inc.

#### **20. FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks; market risks (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance by using derivative financial instruments to mitigate certain risk exposures identified below.

##### **a) Market risk**

##### **i. Foreign currency risk management**

The Company is mainly exposed to the currency fluctuations of Canadian Dollars, British Pounds, Swiss Francs and Japanese Yen. The Company's exposure to currency risk arises in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company has fair value hedges in place to hedge the economic foreign exchange rate risk.

The Company's policy is to have no material open foreign currency positions. As part of its normal operation, the Company borrows and invests in funds in currencies other than USD. The foreign exchange risks of these activities are hedged with the Company limits which are approved by the risk committee.

The carrying amounts of the Company's foreign currency denominated exposures at the reporting date are as follows:

# STARBUCKS INTERNATIONAL (HOLDINGS) LTD

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 2 OCTOBER 2016

### 20. FINANCIAL RISK MANAGEMENT (continued)

	<b>2 October 2016 \$'000 Exposure</b>	<b>27 September 2015 \$'000 Exposure</b>
<b>Currency</b>		
Canadian dollars	(132,668)	-
British pounds	(59,805)	-
Swiss Francs	(38,121)	-
Japanese Yen	98,919	-

#### Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 10 percent strengthening of the US Dollar against respective foreign currencies. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to senior management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 per change in foreign currency rates. A positive number below indicates an increase in profit and net assets where US dollar strengthens 10 percent against the relative currency. For a 10 percent weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the profit and net assets, and the balances below would be negative.

Foreign currency sensitivity to a 10% increase against the US dollar

	<b>2 October 2016 \$'000</b>	<b>27 September 2015 \$'000</b>
Canadian dollars	12,152	-
British pounds	5,437	-
Swiss Francs	3,466	-
Japanese Yen	(8,993)	-

#### ii. Interest rate risk management

The Company's interest-rate risk arises from long term borrowings and investments. Borrowings issued as variable rates expose the Company to liquidity-based interest-rate risk. Borrowings at fixed rates expose the Company to fair value interest-risk. Additionally, fair value interest rate risk arises from investments.

Interest rate risk is managed through the use of interest rate and cross currency swaps. In order to hedge against unfavourable market movements in the interest rates inherent in the underlying assets and liabilities.

The Company manages its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. Generally, the Company raises long-term borrowings at fixed rates and swaps them into floating rates that are lower than those available if the Company borrowed at floating rates directly.

Under the interest rate swaps, the Company agrees with the other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principle

## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 20. FINANCIAL RISK MANAGEMENT (continued)

amounts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

##### **Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure of nominal amounts to interest rate change for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount for the liability outstanding at the balance sheet date was outstanding for the whole year.

At the reporting date, if interest rates have been 100 basis points for USD, GBP, JPY and CAD higher/lower and all other variables were held constant, the Company's net profit would increase/decrease by \$nil/(\$nil) million (2015: \$nil). This is mainly attributable to the Company's exposure to interest rate risk on its variable financial instruments.

##### **iii. Other price risk**

The Company is exposed to price risks arising from investments in asset and mortgage backed securities classified as available-for-sale. The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. The fair value of impaired available-for-sale securities is for the most part, based on non-observable market date. As a result the disclosure below highlights what an alternative fair value would be:

- If the prices had been one percent higher/lower as a result of changes in fair value of the available-for-sale securities which have not been impaired; hedging reserves would increase/decrease by \$4.8 million (2015: \$nil).

##### **b) Credit risk management**

Credit risk is the risk of loss arising from a counterparty which fails to meet their financial obligations to the Company as and when they fall due, resulting in a financial loss to the Company.

The Company diversifies its investments to reduce its credit risk exposure. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Company also has policies that limit the amount of credit exposure to any financial institution.

For derivatives contracts, the Company's credit risk represents the potential cost to replace the swap and forward rate contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The type of financial instruments that are most exposed to credit risks are available-for-sale investments (see note 8), derivative financial instruments (see note 9) and cash and cash equivalents (see note 11).



## STARBUCKS INTERNATIONAL (HOLDINGS) LTD

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 2 OCTOBER 2016

#### 20. FINANCIAL RISK MANAGEMENT (continued)

##### Exposure to credit risk

Excluding amounts from Starbucks group companies, the Company does not have any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is believed to be limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The following table details the carrying value of financial assets recorded in the financial statements which represents the Company's maximum exposure to credit risk at the reporting date:

		2 October 2016 \$'000	27 September 2015 \$'000
<b>Non-current assets</b>			
Available-for-sale investments	8	458,217	-
Amounts owed by group undertakings		98,919	-
		<u>557,136</u>	<u>-</u>
<b>Current assets</b>			
Available-for-sale investments	8	26,233	-
Accrued interest	10	1,349	-
Cash and cash equivalents	11	195,116	-
		<u>222,698</u>	<u>-</u>
<b>Total assets</b>		<u>779,834</u>	<u>-</u>

##### c) Liquidity risk management

Liquidity risk is the risk that the Company is unable to meet the payment obligations associated with its financial liabilities when they fall due.

The Company is responsible for all treasury activities outside of the United States of America for the Starbucks Group and liquidity management is an important part of the financing function for the Starbucks Group and subsidiaries.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through adequate credit facilities and the ability to close out market positions.

The table below details the Company's financial liabilities into relevant maturity profiles. The tables on non-derivative financial liabilities represent undiscounted cash flows of financial liabilities including interest based on the earliest date which the Company can be required to pay. The tables are based on contractual rather than expected maturities. Where the company has a right to repay a facility, that facility is recognised at the earliest contractual cash flow date rather than maturity. The tables on derivative instruments are based on undiscounted net cash flows.

STARBUCKS INTERNATIONAL (HOLDINGS) LTD

NOTES TO THE FINANCIAL STATEMENTS  
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20. FINANCIAL RISK MANAGEMENT (continued)

	Contractual Amount \$'000	Less than 1 month \$'000	1 – 12 months \$'000	Greater than 12 months \$'000
<b>At 2 October 2016</b>				
<b><u>Non derivative financial liabilities</u></b>				
Other borrowings	771,653	-	771,653	-
<b><u>Derivative financial liabilities</u></b>				
Foreign exchange contracts	4,986	2,430	-	2,556
<b>Total liabilities</b>	<b>776,639</b>	<b>2,430</b>	<b>771,653</b>	<b>2,556</b>

	Contractual Amount \$'000	Less than 1 month \$'000	1 – 12 months \$'000	Greater than 12 months \$'000
<b>At 27 September 2015</b>				
<b><u>Non derivative financial liabilities</u></b>				
Other borrowings	-	-	-	-
<b><u>Derivative financial liabilities</u></b>				
Foreign exchange contracts	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Ultimate responsibility for liquidity risk management resides with the Board of Directors. The Directors believe that the Company has ready access to sufficient liquid funds in view of the good credit ratings of its parent company including global credit lines arranged by the parent company.

The Company's liquidity risk management process is carried out and monitored by a separate team within the Company, and includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by related parties;
- Maintaining a portfolio of highly marketable assets that can be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal targets; and
- Managing the concentration and profile of debt maturities.

Liquidity management is monitored and reported on an active basis.

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**21. CLASSIFICATION OF FINANCIAL INSTRUMENTS**

The table below summarises the classification of the carrying amounts of the Company's financial instruments as 2 October 2016.

	Derivative instruments in designated hedge accounting relationships	Available- for-sale	Loans and receivables	Total
Note	\$'000	\$'000	\$'000	\$'000
<b>At 2 October 2016</b>				
<b><u>Assets</u></b>				
Available-for-sale investments	-	484,450	-	484,450
Amounts owed by group undertakings	-	-	98,919	98,919
Other receivables	-	1,349	-	1,349
Cash and cash equivalents	-	-	195,116	195,116
<b>Total</b>	-	485,799	294,035	779,834
<b><u>Liabilities</u></b>				
Derivative financial instruments	(4,986)	-	-	(4,986)
Financial liabilities - borrowings	-	-	(771,653)	(771,653)
<b>Total</b>	<b>(4,896)</b>	-	<b>(771,653)</b>	<b>(776,639)</b>

The table below summarises the classification of the carrying amounts of the Company's financial instruments as 27 September 2015.

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**21. CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)**

<b>Note</b>	<b>Derivative instruments in designated hedge accounting relationships \$'000</b>	<b>Available- for-sale \$'000</b>	<b>Loans and receivables \$'000</b>	<b>Total \$'000</b>
<b>At 27 September 2015</b>				
<b><u>Assets</u></b>				
Available-for-sale investments	-	-	-	-
Derivative financial instruments	-	-	-	-
Other receivables	-	-	-	-
Cash and cash equivalents	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Liabilities</u></b>				
Derivative financial instruments	-	-	-	-
Financial liabilities - borrowings	-	-	-	-
Foreign exchange contracts	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**22. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Quoted market price – Financial instruments valued with quoted prices for identical instruments in active markets.
- Level 2: Valuation technique using observable inputs – Financial instruments with valuations derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).
- Level 3: Valuation technique with non-observable inputs – Financial instruments with valuations derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

**STARBUCKS INTERNATIONAL (HOLDINGS) LTD**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 2 OCTOBER 2016**

**22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

<b>2 October 2016</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Available for sale financial assets</b>					
Other available-for-sale assets	8	484,450	-	-	484,450
		484,450	-	-	484,450
<b>Total Assets</b>		<b>484,450</b>	<b>-</b>	<b>-</b>	<b>484,450</b>
<b>Financial liabilities at FVTPL</b>					
Derivative financial assets	9	-	4,986	-	4,986
<b>Total liabilities</b>		<b>-</b>	<b>4,986</b>	<b>-</b>	<b>4,986</b>

<b>27 September 2015</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Available for sale financial assets</b>					
Corporate bonds		-	-	-	-
Other available-for-sale assets		-	-	-	-
<b>Total Assets</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at FVTPL</b>					
Derivative financial assets		-	-	-	-
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>