Costa Express Limited

Annual Report and Financial Statements

for the Year Ended 28 February 2019

Company number : 03145187

Costa Express Limited

Contents

Costa Express Limited

Company Information

Directors	S Highfield S Martin N Orrin
Company secretary	R Fairhurst
Registered office	3 Knaves Beech Loudwater High Wycombe Buckinghamshire HP10 9QR
Registered number	03145187
Statutory auditor	Deloitte LLP 1 New Street Square London United Kingdom

Costa Express Limited

Strategic Report for the Year Ended 28 February 2019

The directors present their strategic report for the year ended 28 February 2019

Fair review of the business
The profit for the period, after taxation, is £40,325,261 (2018: £41,083,185).

The principal activity of the Company during the year was the sale of espresso based coffee and other beverages from branded self-serve machines. The Company has continued to innovate in respect of it's coffee vending technology and has continued to invest into its sales and marketing and customer service departments through the year. The Company is well placed to move into its next level of growth with exciting global plans and the potential to double in size, capitalising on Coca-Cola's strength and complimentary expertise in vending.

Investment into fixed assets totalled £23.9m (2018: £26.1m). The Company's continued focus on innovation and operational support helped support a 3% increase in turnover to £226,477,000 (2018: £218,980,000).

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

		2019 £'000	2018 £'000	Change
Turnover (continuing operations)		226,477	218,980	3 %
Operating profit		45,887	41,701	10 %
Net new installations	Units	1,046	1,237	-15 %
Total machines	Units	8,663	7,617	14 %

Principal risks and uncertainties
Risk: cyber and data security remains a key risk as it could reduce the effectiveness of systems or result in a loss of data. This in turn could result in loss of income and/or reputational damage.
Mitigation: A series of IT security controls is in place, including up-to-date antivirus software across the estate, network/system monitoring and regular penetration testing to identify vulnerabilities. A continuous security improvement programme is in place improving security and data controls. Specifically, during the year network security has been enhanced and a framework of industry-recognised security standards is being implemented.

Risk: a long-term decline in the customer perception of the Company's brand would impact its ability to grow and achieve appropriate levels of return.
Mitigation: To ensure the Company maintains and improves the strength of its brand, it continually completes market research and monitors opinion with focus groups and net guest scores to ensure the right levels of investment and innovation in customer offerings are maintained. The rate and level of investment in the refurbishments of Costa stores is also monitored as well as net promoter scores.

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

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

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

Risk: there is an inability to operate the Costa roastery for more than one week.
Mitigation: The workforce at the roastery is long standing and experienced thereby mitigating this risk and use is made of an independent risk engineering report. There is also a contingency plan which includes roasting coffee elsewhere if required which is regularly tested.

Climate Change
Risk: Climate change may impact the coffee bean prices.
Mitigation: Costa recognises that to have a sustainable coffee business we need to invest in a sustainable coffee supply, ensuring that our coffee is grown in a way that protects the environment and allows the communities growing our coffee to thrive. We closely monitor the risk of climate change on our coffee bean price and mitigate the risk through buying Rainforest Alliance certified coffee, as protecting the environment and using climate smart agriculture systems are built into their rating systems. The Rainforest Alliance is a non-profit organisation, working to create a future in which people and nature thrive in harmony. By working together with diverse stakeholders including farmers, businesses, consumers and more, the Rainforest Alliance is building an alliance to improve livelihoods, protect biodiversity, amplify the voices of farmers and forest communities, and help them mitigate and adapt to climate change.

Brexit
Risk: A 'no deal' Brexit carries the increased risk of disruption to coffee exports, raw material imports, the availability of labour and in addition, an increased financial exposure on foreign exchange and duty tariffs.
Mitigation: The directors of the company are closely monitoring the impact of UK's exit from the European Union. The risks being identified and mitigated are split between macro and micro-economics. The macro-economic risks relate to consumer attitude and behaviour, whilst micro-economic risks are the export supply of roasted coffee, raw material imports, the hiring and retention of labour, plus financial related risks around foreign exchange and duty tariffs. We have contingency plans firmly in place and continue to evolve these with our major suppliers to help maintain the supply of key products lines and alternatives. The Company will continue to monitor the progress of Brexit and mitigate the risks identified.

Approved by the Board on 6 November 2019 and signed on its behalf by:

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S Highfield
Director

Directors' Report for the Year Ended 28 February 2019

The directors present their report and the audited financial statements for the year to 28 February 2019.

Principal activity

The principal activity of the Company during the year was the sale of espresso based coffee and its other beverages from branded self-serve machines. The Company has continued to innovate in respect of it's coffee vending technology and has continued to invest into its sales and marketing and customer service departments through the year. The Company is well placed to move into its next level of growth with exciting global plans and the potential to double in size, capitalising on Coca-Cola's strength and complimentary expertise in vending.

Directors of the Company

The directors who held office during the year and up to the date of this report were as follows:

S Highfield
S Martin
N Orrin

Dividends

The directors do not recommend a dividend payment be made in respect of the financial period ended 28 February 2019.

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

Price risk

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

Credit risk

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

Liquidity risk

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

Cash flow risk

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

Employment of disabled persons

All employee services are provided to the Company by Costa Limited. For further information on the Company's policy on the employment of disabled persons please refer to the accounts of Costa Limited for the year ended 28 February 2019 which are available from Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5YG.

Employee involvement

All employee services are provided to the Company by Costa Limited. For further information on employee involvement please refer to the accounts of Costa Limited for the year ended 28 February 2019 which are available from Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5YG.

Events after the balance sheet date

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

Future developments

No significant future developments are expected.

Directors' Report for the Year Ended 28 February 2019 (continued)

Acquisition of Costa
On 3 January 2019 European Refreshments, a wholly owned subsidiary of The Coca-Cola Company, acquired the group of companies owned by Costa Ltd ("the Costa Group"), which includes this Company, from Whitbread Group PLC.

Going concern
The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to risk are described in the Strategic Report on pages 2 to 3.

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.

Directors' liabilities
A qualifying indemnity provision (as defined in section 236(1) of the Companies Act 2006) is in force for the benefit of the directors for the year ended 28 February 2019 and remains in place at the date of this report.

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

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

This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.
Following the change in ownership of the Company, Deloitte LLP will resign as auditor following the issuance of the Annual report and Financial Statements.

Appointment of auditor
Ernst &Young will be proposed for appointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board on 6 November 2019 and signed on its behalf by:

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S Highfield
Director

Costa Express Limited

Statement of Directors' Responsibilities

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

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

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

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

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the Income Statement;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the related notes 1 to 18 including the Accounting Policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent Auditor's Report (continued)

Report on other legal and regulatory requirements
Opinion on other matters prescribed by the Companies Act 2006

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

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

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Nicola Mitchell

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

Date: 6 November 2019

Costa Express Limited

Income Statement for the Year Ended 28 February 2019

	Note	Year ended 28 February 2019 £ 000	Year ended 1 March 2018 £ 000
Revenue	4	226,477	218,980
Operating costs		(180,590)	(177,279)
Operating profit	5	**45,887**	**41,701**
Finance revenue	6	1,235	887
Profit before tax		**47,122**	**42,588**
Tax expense	9	(6,797)	(1,505)
Profit for the year		**40,325**	**41,083**

The above results were derived from continuing operations.

There are no items to be included in the Statement of Comprehensive Income and accordingly a separate Statement of Comprehensive Income has not been presented.

The notes on pages 13 to 28 form an integral part of these financial statements.

Costa Express Limited

Balance Sheet
as at 28 February 2019

	Note	28 February 2019 £ 000	01 March 2018 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	58,319	55,255
Intangible assets	10	8,083	5,180
Deferred tax assets	9	2,611	2,004
		69,013	62,439
Current assets			
Inventories	12	9,319	7,770
Trade and other receivables	13	89,912	63,702
Cash and cash equivalents		14,618	26
		113,849	71,498
Total assets		**182,862**	**133,937**
Current liabilities			
Trade and other payables	15	(19,863)	(16,759)
Income tax liability	9	(7,261)	(1,765)
		(27,124)	(18,524)
Net assets		**155,738**	**115,413**
Equity			
Called up share capital	16	72	72
Share premium reserve		4,652	4,652
Profit and loss account		151,014	110,689
Total equity		**155,738**	**115,413**

Approved by the Board on 6 November 2019 and signed on its behalf by:

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S Highfield
Director
Company number 03145187

Costa Express Limited

Statement of Changes in Equity for the Year Ended 28 February 2019

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 3 March 2017	72	4,652	69,606	74,330
Profit for the period	-	-	41,083	41,083
Total comprehensive income	-	-	41,083	41,083
At 1 March 2018	72	4,652	110,689	115,413

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 2 March 2018	72	4,652	110,689	115,413
Profit for the period	-	-	40,325	40,325
Total comprehensive income	-	-	40,325	40,325
At 28 February 2019	72	4,652	151,014	155,738

The notes on pages 13 to 28 form an integral part of these financial statements.

1 General information

The Company is a private company limited by share capital incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales.
The address of its registered office is:
3 Knaves Beech
Loudwater
High Wycombe
Buckinghamshire
HP10 9QR
These financial statements were authorised for issue by the Board on 6 November 2019.

2 Accounting policies

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

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

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). The financial statements have therefore been prepared in accordance with FRS 101.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Costa Limited. The group accounts of Costa Limited are available to the public and can be obtained from Companies House.

The financial year represents 52 weeks to 28 February 2019 (prior financial year: 52 weeks to 1 March 2018).

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

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

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

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective
The following have been applied for the first time from 2 March 2018 and have had an effect on the financial statements:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company has assessed there is no impact on the financial statements.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied the modified retrospective method of adoption of IFRS 9 Financial Instruments from 2 March 2018, which had no impact on retained earnings, or the values of assets and liabilities in these financial statements.

None of the other standards, interpretations and amendments effective for the first time from 2 March 2018 have had a material effect on the financial statements.

Revenue recognition

Recognition

The Company earns revenue through the sale of espresso based coffee and other beverages from branded self-service machines.
The principles in IFRS are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

2 Accounting policies (continued)

Finance revenue and finance costs
Interest income is recognised as the interest accrues, using the effective interest method.

Borrowing costs are recognised as an expense in the period in which they are incurred, except for gross interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

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

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

Income tax
The income tax charge represents both the income tax payable, based on profit for the year and deferred income tax.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

Deferred income tax is recognised in full, using the liability method, in respect of temporary differences between the tax base of the Company's assets and liabilities and their carrying amounts that have originated but have not been reversed by the balance sheet date. No deferred tax is recognised if the temporary difference arises from goodwill, or the initial recognition of an asset or liability, in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Gross interest costs incurred on the financing of qualifying assets are capitalised until the time that the assets are available for use.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the values of property, plant and equipment is charged to the income statement.

Profits and losses on disposal of property, plant and equipment reflect the difference between net selling price and carrying amount at the date of disposal and are recognised in the income statement.

Payments made on entering into, or acquiring, leaseholds that are accounted for as operating leases are amortised on a straight-line basis over the lease term.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as shown below and charged through profit and loss. The residual values are reviewed annually.

Asset class	Depreciation method and rate
Leasehold buildings	over the period of the lease
Plant and equipment	4 - 7 years

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is calculated on a straight-line basis over the estimated life of the asset and charged to profit and loss as follows:

Asset class	Amortisation method and rate
Development and other contract intangibles	Over estimated useful lives
Internally generated computer software costs	Over three to six years

Cash and cash equivalents

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

Stocks

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs to sell.

2 Accounting policies (continued)

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

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined with reference to the CGU to which the asset belongs. Impairment losses are recognised in the consolidated income statement within operating costs.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimated future cashflows used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's carrying amount, less any residual value, on a straight-line basis over its remaining useful life.

For the purposes of impairment testing, all centrally held assets are allocated in line with IAS 36 to CGUs based on management's view of the consumption of the asset. Any resulting impairment is recorded against the centrally held asset.

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

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

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

2 Accounting policies (continued)

Financial instruments

Initial recognition
Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, excluding tangible assets, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the Company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

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

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

Financial assets are classified into one of the following three categories:-
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

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

2 Accounting policies (continued)

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

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

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

If the terms of a financial liabilities are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the Company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.
Evidence that the financial asset is credit-impaired include the following;

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

2 Accounting policies (continued)

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 28 February 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

The were no key estimates or judgements made by management in the process of applying the Group's accounting policies.

4 Turnover

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

	Year ended 28 February 2019 £ 000	Year ended 1 March 2018 £ 000
Sale of goods	223,885	216,403
Rendering of services	1,444	1,413
Other revenue	1,148	1,164
	226,477	218,980

Revenue generated in the United Kingdom was £222,771,000 (2018: £214,625,000) and non-UK revenue was £3,706,000 (2018: 4,355,000).

5 Profit before tax

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Included in administrative expenses:		
Depreciation of tangible fixed assets	15,904	16,910
Amortisation expense	1,943	1,265
Operating lease expense	1,632	1,462
Disposal of plant and equipment	(145)	33
Impairment of tangible asset	1,251	-
Changes in inventories of finished goods and work in progress	20,611	20,069
Foreign exchange (gains)	(59)	(219)

6 Finance revenue

	Year ended 28 February 2019 £ 000	Year ended 1 March 2018 £ 000
Interest received from group undertakings	1,235	887

Following the acquisition of the Costa Group by The Coca-Cola Company on 3 January 2019, finance costs have not been charged on loans with group undertakings from this date to 28 February 2019.

7 Staff costs

The Company has no employees (2018: no employees) other than the directors, who did not receive any remuneration (2018: £Nil). All fees paid to directors as remuneration are borne by Costa Limited (2018: all fees were paid by the former parent company, Whitbread Group PLC) and it is not practical to allocate the amount for services in respect of this Company.

8 Auditors' remuneration

Audit fees for the audit of financial statements for the year of £6,000 were borne by Costa Limited (2018: £6,000 were paid by the former parent company, Whitbread Group PLC). Information about the total audit fees paid by the Group can be found in the Costa Limited Annual Report and Accounts for the year ended 28 February 2019.

9 Taxation

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current income tax		
UK corporation tax on profits for the period	7,261	4,760
UK corporation tax adjustment to prior periods	106	(2,889)
Total current tax	7,367	1,871
Foreign tax	37	48
Total current income tax	7,404	1,919
Deferred tax		
Arising from origination and reversal of temporary differences	(275)	(441)
Arising from previously unrecognsied tax loss, tax credit or temporary difference of prior periods	(332)	27
Total deferred tax	(607)	(414)
Total tax charge in the income statement	6,797	1,505

9 Taxation (continued)

The tax on profit before tax for the period is lower than the standard rate of corporation tax in the UK of 19% (2018 - lower than the standard rate of corporation tax in the UK - 19.08%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	47,122	42,588
Corporation tax at standard rate	8,953	8,128
Increase (decrease) in current tax from adjustment for prior periods	106	(2,889)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	185	225
Increase (decrease) from transfer pricing adjustments	(2,127)	(4,008)
Increase (decrease) from effect of foreign tax rates	32	48
Increase (decrease) arising from overseas tax suffered (expensed)	(20)	(26)
Increase (decrease) in current tax from unrecognised temporary difference from a prior period	(332)	27
Total tax charge	6,797	1,505

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

The corporation tax balance is a liability of £ 7,261,000 (2018: liability of £1,765,000).

The deferred tax included in the balance sheet is as follow:

Deferred tax

Deferred tax movement during the period:

	At 2 March 2018 £ 000	Recognised in income £ 000	At 28 February 2019 £ 000
Deferred tax asset	2,004	607	2,611

Deferred tax movement during the prior period:

	At 3 March 2017 £ 000	Recognised in income £ 000	At 1 March 2018 £ 000
Deferred tax asset	1,590	414	2,004

10 Intangible assets

	Internally generated software development costs £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation			
At 2 March 2018	5,915	4,353	10,268
Additions	4,846	-	4,846
Disposals	(168)	(2,200)	(2,368)
At 28 February 2019	10,593	2,153	12,746
Amortisation			
At 2 March 2018	1,576	3,512	5,088
Amortisation charge	1,621	322	1,943
Disposals	(332)	(2,036)	(2,368)
At 28 February 2019	2,865	1,798	4,663
Carrying amount			
At 28 February 2019	7,728	355	8,083
At 1 March 2018	4,339	841	5,180

11 Tangible assets

	Leasehold buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost or valuation			
At 2 March 2018	1,288	101,144	102,432
Additions	(7)	22,857	22,850
Disposals	(102)	(6,389)	(6,491)
At 28 February 2019	1,179	117,612	118,791
Depreciation			
At 2 March 2018	67	47,110	47,177
Charge for the period	90	15,814	15,904
Eliminated on disposal	(144)	(3,716)	(3,860)
Impairment	-	1,251	1,251
At 28 February 2019	13	60,459	60,472
Carrying amount			
At 28 February 2019	1,166	57,153	58,319
At 1 March 2018	1,221	54,034	55,255

12 Stocks

	28 February 2019 £ 000	1 March 2018 £ 000
Finished goods and goods for resale	9,319	7,770

13 Trade and other receivables

	28 February 2019 £ 000	1 March 2018 £ 000
Trade receivables	19,966	16,162
Provision for impairment of trade receivables	(196)	(315)
Net trade receivables	19,770	15,847
Receivables from related parties	67,713	45,560
Prepayments and accrued income	2,429	2,295
Total current trade and other receivables	89,912	63,702

13 Trade and other receivables (continued)

Amounts receivable from related parties are repayable on demand and carry an average quarterly interest rate based upon the group funding, however following the acquisition of the Costa Group by The Coca-Cola Company on 3 January 2019, finance costs have not been accrued on loans with group undertakings from this date to 28 February 2019.

14 Obligations under leases and hire purchase contracts

Operating leases

The Company leases a building which is used within the business. The lease is a non-cancellable operating lease. The Company also leases various plant and equipment under non-cancellable operating lease agreements.

The weighted average lease life of future minimum rentals payable under non-cancellable operating leases is 4.5 years (2018 5.5 years).

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

	28 February 2019 £ 000	01 March 2018 £ 000
Within one year	215	215
In two to five years	757	859
In over five years	-	112
	972	1,186

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,632,000 (2018: £1,461,000).

15 Trade and other payables

	28 February 2019 £ 000	1 March 2018 £ 000
Trade payables	5,209	4,094
Other payables	2,276	4,191
Accrued expenses	12,378	8,474
	19,863	16,759

16 Share capital

Allotted, called up and fully paid shares

	No. 000	28 February 2019 £ 000	No. 000	1 March 2018 £ 000
Alloted, called up and fully paid 721,079 Ordinary shares of £0.10 each	721	72	721	72

17 Related party transactions

The Company is a wholly-owned subsidiary of The Coca-Cola Company (2018: Whitbread PLC), the ultimate controlling entity, and has taken advantage of the exemption given in Financial Reporting Standard 101 (8(k)) not to disclose transactions with other group companies.

18 Parent and ultimate parent undertaking

On 3 January 2019 the Costa Group was purchased by The Coca-Cola Company.

The company's immediate parent is Costa Express Holdings Limited.

The largest and smallest parent producing consolidated financial statements is Costa Limited. These financial statements are available upon request from Companies House.

The ultimate parent is The Coca-Cola Company and the ultimate controlling party is The Coca-Cola Company, Atlanta, Georgia, USA.