Costa Express Limited

Annual Report and Financial Statements

for the Period from 1 March 2019 to 31 December 2019

COSTA EXPRESS LIMITED

Contents

COSTA EXPRESS LIMITED

Company Information

Directors	S Martin N Orrin
Company secretary	R Fairhurst
Registered office	3 Knaves Beech Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR
Registered number	03145187
Statutory auditor	Ernst & Young LLP 400 Capability Green, Luton, Bedfordshire, LU1 3LU

COSTA EXPRESS LIMITED

Strategic Report for the Period Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business
The profit for the period after taxation is £37,641,000 (28 February 2019: £40,325,000).

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 its 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 The Coca-Cola Company's strength and complimentary expertise in vending.

Investment into fixed assets totalled £26.5m (28 February 2019: £23.9m). The Company's continued focus on innovation and operational support helped support a 14% like for like 10 months increase in turnover to £214,565,000 (28 February 2019: £226,477,000).

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

	43 weeks ended 31 December 2019	Year ended 28 February 2019	
Turnover continuing operations (£'000)	214,565	226,477	(5)%
Operating profit (£'000)	43,936	45,887	(4)%
Net new installations (units)	1,149	1,046	10%
Total machines (units)	9,437	8,663	9%

Principal risks and uncertainties

Cyber and data security
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.

Brand perception
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.

Change Management
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.

Political and economic climate impact
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.

Staff engagement and retention
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.

COSTA EXPRESS LIMITED

Principal risks and uncertainties (continued)

Roastery
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 coffee bean prices.

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

Brexit
Risk: Brexit carries the increased risk of disruption to coffee exports, raw material imports, the availability of labour and in addition, an increased financial exposure on foreign exchange and duty tariffs.

Mitigation: The directors of the company are closely monitoring the impact of UK's exit from the European Union. The risks being identified and mitigated are split between macro and micro-economics. The macro-economic risks relate to consumer attitude and behaviour, whilst micro-economic risks are the export supply of roasted coffee, raw material imports, the hiring and retention of labour, plus financial related risks around foreign exchange and duty tariffs. We have contingency plans firmly in place and continue to evolve these with our major suppliers to help maintain the supply of key products lines and alternatives. The Company will continue to monitor the progress of Brexit and mitigate the risks identified.

Cyber and data security
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.

Brand perception
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.

Principal risks and uncertainties (continued)

Change Management
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.

Coronavirus (COVID-19)
Risk: From March 2020 the COVID-19 global pandemic arose in the UK and introduced significant uncertainty for the UK economy.

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

The Company's Directors have updated the plans for 2020 based on the impact of COVID-19 and have built a strategy for reset and growth in three phases:
• Managing the crisis - focusing on looking after our people and ruthlessly prioritising spend;
• Resetting to emerge stronger - preparing to win in our core markets and support winning propositions such as Costa Express, Proud to Serve and Ready to Drink;
• Invest in growth for the future - investing in initiatives that allow us to stay ahead of long-term trends and for future international launches.

Strong steps have been taken to protect the business and manage cash through the crisis to ensure the business can come out of the crisis stronger and ready to grow in the future. The following 9 areas have been identified as priorities:
• Prioritise the health and wellbeing of our people, customers and consumers. The Company ensuring that it follows government guidelines, delivered a rapid response to close stores (97% of the UK stores were initially closed) and set up Costa Express to continue to operate safely. The Company is monitoring the situation and following the Government guidelines to reassure its customers and employees on any decisions taken to re-open shops. The business has offered goodwill gestures to support the national efforts including free coffee to medical teams and care packages to key workers.
• Ruthless focus on discretionary spend and thoughtful access to government support where necessary.
• Must win in the UK Retail and Costa Express as footfall returns to recover sales at pace. The Company is focusing on changes in customer sentiment and needs and providing contactless Drive-Thru and deliver to support re-opening and contactless Costa Express ordering.
• Review retail basics and franchise opportunities.
• Continue to support Costa Express, Proud to Serve, Ready to Drink and At Home launches.
• Invest in initiatives that allow the business to stay ahead of long-term changes in consumer trends.
• Plan for launches in key international markets to ensure we maximise in 2021.
• Continue 'Must Do' technology programmes.

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

Nick Orrin

N Orrin, Director

Section 172 statement
The board of directors of the Company have individually and collectively acted to promote the success of the Company for the benefit of its shareholders and other stakeholders as defined in S172 of the Companies Act 2006.

In doing this, the directors have specifically considered:

•the long-term consequences of any decisions;

•the interests and wellbeing of the Company's employees;

•the need to develop and maintain longstanding and collaborative relationships with suppliers, customers and other key trading partners;

•the impact of business operations on the community and the environment;

•the reputation of the Company, known for its high standard of business conduct; and

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

The following summarises how the directors have performed their duties during the period:-Section 172 statement (continued)
The Company is an indirect subsidiary of Costa Limited, which holds title to the Costa brand. The Company utilises the Costa brand in the sale of espresso based coffee and other beverages from self-serve machines.

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

Shareholders and other capital providers
Following the 3 January 2019 acquisition of the Costa group by European Refreshments, a wholly owned subsidiary of The Coca-Cola Company, the directors have integrated the strategic, planning and corporate governance practices of the Company with those of The Coca-Cola Company and its wider group. The directors are excited about the opportunities presented by this and the positive impacts being forecasted for all stakeholders.

The Company has no long term debt with other capital providers.

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

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

Customers and Suppliers
As the operator of a global brand, the views of the Company's end consumers are very important. Consumer views on our brand, product quality, product delivery and value for money are regularly assessed by the directors, and are considered in product and supply chain planning, loyalty programs, digital offerings and other areas.

Suppliers are regularly and robustly assessed for their standards and compliance with Costa Coffee supplier guiding principles, the details of which can be found in the responsible sourcing section of the Costa brand website www.costa.co.uk.

Section 172 statement (continued)

Community and environment

The directors have implemented sustainability practices, planning and initiatives that operate with the guiding principle that to inspire the world to love great coffee, the business must respect the planet and support communities behind the coffee.

The Costa brand is a member of the Rainforest Alliance, has established the Costa Foundation and is working on numerous recycling, waste management and carbon footprint reduction initiatives, details of which can be found in the Behind the Beans section of the Costa brand website www.costa.co.uk.

Key Decisions

The key decisions made during the period related principally to the approval of capital expenditure, entering into contracts for IT services and customer agreements.

Capital Expenditure

During the period the Company invested £25m in new Costa Express machines either to be placed with customers during the period or in the next financial year. The Company also approved expenditure in relation to research and development for its vending machines.

Customer Agreements

During the period the Company renewed a number of significant customer agreements with long established partners along with a number of new customer agreements in line with our strategy for growth.

COSTA EXPRESS LIMITED

Directors' Report for the Period Ended 31 December 2019

The directors present their report and the audited financial statements for the year to 31 December 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 its 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 period, were as follows:

S Highfield (resigned 31 August 2020)

S Martin

N Orrin

Dividends
The directors recommend a final dividend payment of £nil be made in respect of the financial period ended 31 December 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 cash flow risk through various measures including regularly updating business plans, conducting market research, tighter debt control and conducting cash flow 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 period ended 31 December 2019 which are available from Costa House, Houghton Hall Business Park, Porz Avenue, Dunstable, Bedfordshire LU5 5YG.

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

Future developments
No significant future developments are expected.

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

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

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

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

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

COSTA EXPRESS LIMITED

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

Going concern

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

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

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

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

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

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.
In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

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

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

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

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

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

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

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

Appointment of auditor

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

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

Nick Orrin
....

N Orrin

Director

COSTA EXPRESS LIMITED

Statement of Directors' Responsibilities

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

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

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

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

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

Opinion

We have audited the financial statements of Costa Express Limited for the period from 1 March 2019 to 31 December 2019, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

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

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

Emphasis of matter – Effects of COVID-19

We draw attention to the Directors assessment of Going Concern, notes 1 and 21 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19, which is impacting finances, supply chains, consumer demand and personnel available for work. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

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

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

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

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

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

expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Ernst & Young LLP

....

Anup Sodhi (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

Date: 23 December 2020

COSTA EXPRESS LIMITED

Income Statement for the Period Ended 31 December 2019

	Note	Period ended 31 December 2019 £ 000	Year ended 28 February 2019 £ 000
Revenue	4	214,565	226,477
Operating costs		(170,629)	(180,590)
Operating profit	5	**43,936**	**45,887**
Finance income	6	39	1,235
Finance costs	7	(33)	-
Profit before tax		**43,942**	**47,122**
Tax expense	10	(6,301)	(6,797)
Profit for the year		**37,641**	**40,325**

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

COSTA EXPRESS LIMITED

Balance Sheet
as at 31 December 2019

	Note	31 December 2019 £ 000	28 February 2019 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	64,161	58,319
Right-of-use assets	13	1,861	-
Intangible assets	11	11,712	8,083
Deferred tax assets	10	2,391	2,611
		80,125	69,013
Current assets			
Inventories	15	10,107	9,319
Trade and other receivables	16	125,769	89,912
Cash and cash equivalents		6,192	14,618
		142,068	113,849
Total assets		**222,193**	**182,862**
Current liabilities			
Trade and other payables	17	(22,051)	(19,863)
Income tax liability	10	(6,531)	(7,261)
		(28,582)	(27,124)
Non-current liabilities			
Long term lease liabilities	14	(232)	-
Net assets		**193,379**	**155,738**
Equity			
Called up share capital	18	72	72
Share premium reserve		4,652	4,652
Profit and loss account		188,655	151,014
Total equity		**193,379**	**155,738**

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

....
N Orrin
Director

Company number: 03145187

The notes on pages 19 to 39 form an integral part of these financial statements.

COSTA EXPRESS LIMITED

Statement of Changes in Equity for the Period Ended 31 December 2019

	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**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 March 2019	72	4,652	151,014	155,738
Profit for the period	-	-	37,641	37,641
Total comprehensive income	-	-	37,641	37,641
At 31 December 2019	**72**	**4,652**	**188,655**	**193,379**

The notes on pages 19 to 39 form an integral part of these financial statements.

COSTA EXPRESS LIMITED

Notes to the Financial Statements for the Period Ended 31 December 2019

1 General information and basis of preparation

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 Business Centre,
Davies Way,
Loudwater,
High Wycombe,
Buckinghamshire,
HP10 9QR

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

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

Basis of preparation
The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards.

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

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

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

The financial statements are presented in pounds sterling, rounded to the nearest thousand.

1 General information and basis of preparation (continued)

Going concern

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

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

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

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

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

To enable the safe opening of stores and drive thru lanes, the Group put in place social distancing measures for employees that align to Government recommendations. The Group also enhanced hygiene procedures and adapted operations such as contactless payments, PPE, and providing designated pick-up points for delivery drivers to allow the Group to continue serving great coffee, as safely as possible.
In forming their view on going concern, the Directors considered the Group's strategic plan, balance sheet position and forward-looking forecasts, which covered the period to 31 December 2021. Specifically, the following scenarios were prepared:

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

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

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

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

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

2 Accounting policies

Summary of disclosure exemptions

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

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(f) the requirements of IAS 7 Statement of Cash Flows;

(g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and

(i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

2 Accounting policies (continued)

Adoption of new accounting policy

Changes resulting from adoption of IFRS 16
IFRS 16 Leases became mandatorily effective under FRS101 for financial periods beginning on or afterl January 2019. The Company has applied this for the first time in this accounting period which resulted in changes to the accounting policies.

The Company transitioned to IFRS 16 using the modified retrospective approach and as a result the cumulative effect of initial application is recognised in retained earnings at 1 March 2019. The prior period figures were not adjusted. On adoption of IFRS 16, the Company elected to apply the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 March 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases under IAS 17, except for short-term leases and leases of low value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:
• Applied a single discount rate to a portfolio of leases with similar characteristics;
• Applied the short-term lease exemptions to leases with a lease term not exceeding 12 months from the date of initial application;
• Applied the low-value assets recognition exemption;
• Relied on its assessment of whether the leases are onerous immediately before the date of initial application;
• Excluded the initial direct costs from measurement of the right-of-use assets at the date of initial application;
• Used hindsight in determining the lease term where the contract contains options to extent or terminate the lease

The impact on the balance sheet as at the 1 March 2019 date of transition is as follows:

	£ 000
Right-of-use assets	2,040
Lease liabilities	(2,040)

COSTA EXPRESS LIMITED

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

2 Accounting policies (continued)

	Note	As originally reported 28 February 2019 £ 000
Operating lease commitments at 28 February 2019		972
Discounted operating lease commitments using the weighted average incremental borrowing rate 2.24 % at 1 March 2019		805
Extension and termination option reasonably certain to be exercised		1,235
Lease liabilities recognised at 1 March 2019		**2,040**

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:

Sale of food and beverage

The contract is established when the customer orders the drink item and the performance obligation is the provision of drinks by the branded self-service machines. The performance obligation is satisfied when the customer receives the drink, and revenue is recognised at this point at the price for the items purchased. Payment is made on the same day and consequently there are no contract assets or liabilities

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

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

Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

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**
Internally generated software development costs	Over estimated useful life of five years
Trademarks	Indefinite useful life hence not amortised
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. The fair value less costs of disposal is calculated using a multiple of 9 (Year ending 28 February: 2019:10.4). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate of 6.29%, 9 (Year ending 28 February: 7.00%) which 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.

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:-

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).

2 Accounting policies (continued)

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.

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

2 Accounting policies (continued)

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

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.

2 Accounting policies (continued)

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Impairment

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

The judgements and estimates underlying impairment testing have resulted in property, plant and equipment being impaired by £1,150,000 in the period (52 weeks ended 28 February 2019: £5,315,000); intangibles assets being impaired by £284,000 in the period (52 weeks ended 28 February 2019: £Nil); investments in subsidiaries being impaired by £32,249,000 in the period (52 weeks ended 28 February 2019: £935,000); and provisions against amounts owed by related parties of £36,290,000 being recognised in the period (52 weeks ended 28 February 2019: £Nil).

Onerous contracts provisions

Judgement involving estimates issued in determining the value of provisions carried for onerous contracts. This is primarily based around assumptions on rent and property-related costs for the period the property is vacant as well as assumptions of future rental incomes or potential reverse lease premiums paid. Note 20 provides details of the value of the provisions carried.

Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

COSTA EXPRESS LIMITED

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

4 Turnover

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

	Period ended 31 December 2019 £ 000	Year ended 28 February 2019 £ 000
Sale of goods	213,129	223,885
Rendering of services	596	1,444
Other revenue	840	1,148
	214,565	226,477

Revenue generated in the United Kingdom was £204,449,000 (28 February 2019: £222,771,000) and non-UK revenue was £10,116,000 (28 February 2019: £3,706,000).

5 Operating profit/(loss)

Arrived at after charging/(crediting)

Included in operating costs:	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Depreciation of tangible fixed assets	12,661	15,904
Right-of-use asset depreciation	179	-
Amortisation expense	1,938	1,943
Operating lease expense	-	1,632
Operating lease expense – short term leases	1,184	-
Disposal of plant and equipment	62	(145)
Impairment of tangible fixed assets	492	1,251
Impairment of intangible assets	110	-
Changes in inventories of finished goods and work in progress	20,416	20,611
Foreign exchange (gains) / losses	(1)	(59)

COSTA EXPRESS LIMITED

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

6 Finance income

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Interest income on bank deposits	39	-
Interest received from group undertakings	-	1,235
	39	1,235

Interest has not accrued on amounts owed by group undertakings since 3 January 2019, as further detailed in note 16.

7 Finance costs

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Interest expense on leases - Property	33	-

8 Staff costs

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

9 Auditors' remuneration

Audit fees for the audit of financial statements for the year of £290,000 were borne by Costa Limited (28 February 2019: £6,000).

10 Taxation

Tax charged/(credited) in the income statement

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Current income tax		
UK corporation tax on profits for the period	6,550	7,261
UK corporation tax adjustment to prior periods	(490)	106
Total current tax	6,060	7,367
Double taxation relief	(19)	-
Foreign tax	40	37
Total current income tax	**6,081**	**7,404**
Deferred tax		
Arising from origination and reversal of temporary differences	(55)	(275)
Arising from return to provision true ups	275	(332)
Total deferred tax	220	(607)
Total tax charge in the income statement	**6,301**	**6,817**

COSTA EXPRESS LIMITED

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

10 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% (2019 - lower than the standard rate of corporation tax in the UK - 19%).

The differences are reconciled below:

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
Profit before tax	43,941	47,122
Corporation tax at standard rate	8,349	8,953
(Decrease)/increase in current tax from adjustment for prior periods	(490)	106
Increase from effect of fixed asset differences	170	-
Decrease in opening and closing deferred tax to average rate of 19%	(26)	-
Increase from effect of expenses not deductible in determining taxable Profit	132	165
Decrease from transfer pricing adjustments	(1,874)	(2,127)
Increase from effect of foreign tax rates	40	32
Deferred tax credit from unrecognised temporary difference from prior period	-	(332)
Total tax charge	**6,301**	**6,797**

The Corporation tax liability is a liability of £6,531,000 (28 February 2019: £7,261,000).

COSTA EXPRESS LIMITED

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

Deferred tax

Deferred tax movement during the period:

	At 1 March 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Deferred tax asset	2,611	(220)	2,391

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

The main UK corporation tax rate applicable from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. This change was enacted after the balance sheet date. The effect of this change will be to increase the net deferred tax asset from £2,391,657 to £2,673,029.

COSTA EXPRESS LIMITED

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

11 Intangible assets

	Internally generated software development costs £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation			
At 1 March 2019	10,593	2,153	12,746
Additions	5,554	123	5,677
Transfers	13	(13)	-
At 31 December 2019	16,160	2,263	18,423
Amortisation			
At 1 March 2019	2,865	1,798	4,663
Amortisation charge	1,840	98	1,938
Impairment	110	-	110
Transfers	(112)	112	-
At 31 December 2019	4,703	2,008	6,711
Carrying amount			
At 31 December 2019	**11,457**	**255**	**11,712**
At 28 February 2019	**7,728**	**355**	**8,083**

Impairment charges of £110,000 relates to internally generated software and development asset which relate to reducing the carrying value of these assets to their recoverable amount.

Included within Intangible assets at 31 December 2019 was an amount of £7,836,000 (28 February 2019: £4,183,000) relating to internally generated software and development costs in the course of construction.

12 Tangible assets

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 March 2019	1,179	117,612	118,791
Additions	-	26,470	26,470
Disposals	-	(7,661)	(7,661)
At 31 December 2019	1,179	136,421	137,600
Depreciation			
At 1 March 2019	13	60,459	60,472
Charge for the period	73	12,588	12,661
Eliminated on disposals	-	(186)	(186)
Impairment	-	492	492
At 31 December 2019	86	73,353	73,439
Carrying amount			
At 31 December 2019	**1,093**	**63,068**	**64,161**
At 28 February 2019	1,166	57,153	58,319

Impairment charges of £492,000 relates to Furniture, fittings and equipment asset which relate to reducing the carrying value of these assets to their recoverable amount.

Included within furniture fittings and equipment at 31 December 2019 was an amount of £13,735,000 (28 February 2019: £10,706,000) relating to expenditure for machines in the course of construction.

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

13 Right-of-use assets

	Property £ 000	Total £ 000
Cost or valuation		
At 1 March 2019	2,040	2,040
At 31 December 2019	2,040	2,040
Depreciation		
Charge for the period	179	179
At 31 December 2019	179	179
Carrying amount		
At 31 December 2019	**1,861**	**1,861**

14 Leases

Leases included in creditors

	31 December 2019 £ 000	28 February 2019 £ 000
Current portion of long-term lease liabilities	1,604	-
Long term lease liabilities	232	-

Total cash outflows related to leases
Total cash outflows related to leases are presented in the table below:

Payment	31 December 2019 £ 000	28 February 2019 £ 000
Right of use assets	236	-
Interest	(33)	-
Total cash outflow	203	-

15 Stocks

	31 December 2019	28 February 2019
Finished goods and goods for resale	10,107	9,319

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

16 Trade and other receivables

	31 December 2019 £ 000	28 February 2019 £ 000
Trade receivables	18,516	19,966
Provision for impairment of trade receivables	(191)	(196)
Net trade receivables	18,325	19,770
Receivables from related parties	104,489	67,713
Prepayments and accrued income	2,955	2,429
Total current trade and other receivables	**125,769**	**89,912**

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

17 Trade and other payables

	31 December 2019 £ 000	28 February 2019 £ 000
Trade payables	4,811	5,209
Other payables	1,428	2,276
Accrued expenses	14,208	12,378
Current portion of long-term lease liabilities	1,604	-
	22,051	19,863

18 Share capital

Allotted, called-up and fully paid shares

	31 December 2019		28 February 2019	
	No. 000	£ 000	No. 000	£ 000
Allotted, called up and fully paid 721,079 Ordinary shares of £0.10 each	721	72	721	72

Nil shares allotted

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

19 Related party transactions

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

20 Parent and ultimate parent undertaking

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

The ultimate parent is The Coca-Cola Company.

The most senior parent entity producing publicly available financial statements is The Coca-Cola Company.

The ultimate controlling party is The Coca-Cola Company.

Relationship between entity and parents

The parent of the smallest and largest group in which these financial statements are consolidated is The Coca-Cola Company, incorporated in United States of America.

The address of The Coca-Cola Company is:
The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

21 Events after the balance sheet date

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

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

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

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

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