

Costa Express Holdings Limited

Annual Report and Financial Statements

for the Period from 1 March 2019 to 31 December 2019

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COSTA EXPRESS HOLDINGS LIMITED

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COSTA EXPRESS HOLDINGS 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:	06543325
Statutory auditor	Ernst & Young LLP 400 Capability Green, Luton, Bedfordshire, LU1 3LU

COSTA EXPRESS HOLDINGS LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019

The Company is reporting a 43 weeks financial period ended 31 December 2019 to enable its year end to align with its ultimate parent The Coca-Cola Company, which acquired the Company in January 2019.

Fair review of the business

The result for the period after taxation, is £nil (28 February 2019: loss of £766,000).

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

	43 weeks ended 31 December 2019 £'000	52 weeks ended 28 February 2019 £'000	Change
Loss for financial year	-	(766)	100 %
Shareholder's equity	(23,396)	(23,396)	- %

As the Company is not involved in any trading activities, the directors are not required to monitor non-financial key performance indicators.

The Company is a holding company and has balances with group undertakings.

Principal risks and uncertainties

The following are the principal risks for the operations invested in:

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.

COSTA EXPRESS HOLDINGS LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

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 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 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.

COSTA EXPRESS HOLDINGS LIMITED

Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

S172 Statement

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

In doing this, the directors have specifically considered:

- the long-term consequences of any decisions;
- the interests and wellbeing of subsidiary company employees;
- the need to develop and maintain longstanding and collaborative relationships with suppliers, customers and other key trading partners;
- the impact of subsidiary business operations on the community and the environment;
- the reputation of the Company, known for its high standard of business conduct; and
- the need to act fairly between shareholders and other capital providers.

The Company is a subsidiary of Costa Limited, which holds title to the Costa brand, and acts as a holding company for Costa Express Limited. This subsidiary 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 only has debt with its parent Costa Limited, meaning the interests of all capital providers are aligned.

Employees

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

The directors advocate passionately for diversity in the subsidiary 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 subsidiary company's end consumers are very important. Consumer views on brand, product quality, product delivery and value for money are regularly assessed by the directors and are considered in subsidiary company product and supply chain planning, loyalty programs, digital offerings and other areas.

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

COSTA EXPRESS HOLDINGS LIMITED

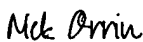
Strategic Report for the 43 Weeks Ended 31 December 2019 (continued)

Community and environment

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

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

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


.....
N Orrin
Director

COSTA EXPRESS HOLDINGS LIMITED

Directors' Report for the 43 weeks ended 31 December 2019

The directors present their report and the financial statements for the period from 1 March 2019 to 31 December 2019.

Principal activity

The principal activity of the Company during the year was that of a holding company, maintaining oversight over its subsidiary but not participating in any trading activity.

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 do not recommend a final dividend payment be made in respect of the financial period ended 31 December 2019 (28 February 2019: £nil).

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

Price risk

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

Credit risk

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

Liquidity risk

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

Cash flow risk

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

Future developments

No significant developments are expected.

COSTA EXPRESS HOLDINGS LIMITED

Directors' Report for the 43 weeks 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.

COSTA EXPRESS HOLDINGS LIMITED

Directors' Report for the 43 weeks ended 31 December 2019 (continued)

Going concern (continued)

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.

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.

COSTA EXPRESS HOLDINGS LIMITED

Directors' Report for the 43 weeks ended 31 December 2019 (continued)

Events after the balance sheet date (continued)

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.

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

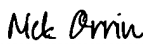
Appointment of auditor

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 02 March 2020.

Disclosure of information to the auditors

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

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


.....
N Orrin
Director

COSTA EXPRESS HOLDINGS 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 HOLDINGS LIMITED

Opinion

We have audited the financial statements of Costa Express Holdings 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 14, 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 results 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 Directors assessment of Going Concern, notes 1 and 14 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COSTA EXPRESS HOLDINGS LIMITED (continued)

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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COSTA EXPRESS HOLDINGS LIMITED (continued)

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Date: 23 December 2020

COSTA EXPRESS HOLDINGS LIMITED**Income Statement for the 43 Weeks Ended 31 December 2019**

		43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
	Note		
Operating profit/(loss)		-	-
Finance costs	5	-	(945)
Loss before tax		-	(945)
Tax credit	7	-	179
Loss for the period		<u>-</u>	<u>(766)</u>

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 16 to 27 form an integral part of these financial statements.

COSTA EXPRESS HOLDINGS LIMITED**Balance Sheet**

as at 31 December 2019

	Note	31 December 2019 £ 000	28 February 2019 £ 000
Assets			
Non-current assets			
Investments	8	11,703	11,703
Current assets			
Income tax asset	7	-	179
Total assets		11,703	11,882
Current liabilities			
Trade and other payables	9	(35,099)	(35,278)
Net liabilities		(23,396)	(23,396)
Equity			
Called-up share capital	10	1	1
Share premium reserve		65	65
Profit and loss account		(23,462)	(23,462)
Total equity		(23,396)	(23,396)

Company number : 06543325

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

Nick Orrin.....
 N Orrin
 Director

COSTA EXPRESS HOLDINGS LIMITED**Statement of Changes in Equity for the 43 Weeks Ended 31 December 2019**

	Called-up share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 2 March 2018	1	65	(22,696)	(22,630)
Loss for the period	-	-	(766)	(766)
Total comprehensive loss	-	-	(766)	(766)
At 28 February 2019	1	65	(23,462)	(23,396)

	Called-up share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 March 2019	1	65	(23,462)	(23,396)
Profit for the period	-	-	-	-
Total comprehensive income	-	-	-	-
At 31 December 2019	1	65	(23,462)	(23,396)

The notes on pages 16 to 27 form an integral part of these financial statements.

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks 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,
High Wycombe,
Buckinghamshire,
HP10 9QR

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

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.

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 The Coca-Cola Company. These financial statements are available upon request from The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

The financial period 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, which is the functional currency, and all values are rounded to the nearest thousand except when otherwise stated.

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 The Coca-Cola Company.

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

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.

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

1 General information and basis of preparation (continued)

Going concern (continued)

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 significant accounting policies

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

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 March 2019 have had a material effect on the financial statements.

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

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

Investments

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

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.

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 marketplace.

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

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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).

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

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

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

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 Key accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported as assets and liabilities at the balance sheet date and the amounts reported as revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. In the process of applying the Group's accounting policies, the Directors have considered whether there are any such sources of estimation or critical accounting judgements in forming the financial statements and do not consider there to be any for the purposes of disclosure.

4 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.

COSTA EXPRESS HOLDINGS LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****5 Finance costs**

	43 weeks ended 31 December 2019 £ 000	52 weeks ended 28 February 2019 £ 000
On amounts due to group undertakings	<u>-</u>	<u>945</u>

Finance costs have not accrued on amounts due to group undertakings since 3 January 2019, as further detailed in note 9.

6 Auditors' remuneration

Audit fees for the year of £10,000 were borne by Costa Limited (28 February 2019: £1,000 paid by Costa Limited).

7 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 losses for the period	<u>-</u>	<u>(179)</u>

The corporation tax balance is a debtor of £nil (28 February 2019: £179,000).

COSTA EXPRESS HOLDINGS LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****8 Investments**

	Investment in subsidiary company £ 000	Total £ 000
Subsidiaries		
Cost or valuation		
At 1 March 2019	11,703	11,703
At 31 December 2019	11,703	11,703
Provision		
Carrying amount		
At 31 December 2019	11,703	11,703

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation, principal place of business and registered office.	Proportion of ownership interest and voting rights held	
			31 December 2019	28 February 2019
Costa Express Limited	The sale of coffee and other beverages from branded self-serve coffee machines	England 3 Knaves Beach Business Centre, Davies Way, Loudwater, High Wycombe, Buckinghamshire, HP10 9QR.	100%	100%

The investment is directly held by the Company.

COSTA EXPRESS HOLDINGS LIMITED**Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019
(continued)****9 Trade and other payables**

	31 December 2019 £ 000	28 February 2019 £ 000
Amounts due to group undertakings	<u>35,099</u>	<u>35,278</u>

Amounts due to group undertakings 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.

10 Share capital**Allotted, called-up and fully paid shares**

	31 December 2019		28 February 2019	
	No. 000	£ 000	No. 000	£ 000
A Ordinary of £0.01 each	72	1	72	1
B Ordinary of £0.01 each	25	-	25	-
Deferred of £0.01 each	3	-	3	-
	<u>100</u>	<u>1</u>	<u>100</u>	<u>1</u>

The shares have attached to them full voting rights.

Rights, preferences and restrictions

A Ordinary have the following rights, preferences and restrictions:

The shares have attached to them full voting rights.

B Ordinary have the following rights, preferences and restrictions:

The shares have attached to them full voting rights.

Deferred have the following rights, preferences and restrictions:

The holders are entitled to receive notice of all General Meetings but are not entitled to attend or vote.

11 Parent of group in whose consolidated financial statements the Company is consolidated

The smallest and largest parent preparing consolidated financial statements is The Coca-Cola Company.

These financial statements are available upon request from The Coca-Cola Company, PO Box 1734, Atlanta, Georgia 30301, United States of America.

COSTA EXPRESS HOLDINGS LIMITED

Notes to the Financial Statements for the 43 Weeks Ended 31 December 2019 (continued)

12 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.

13 Parent and ultimate parent undertaking

The Company's immediate parent is Costa Limited.

The ultimate parent is The Coca-Cola Company, Atlanta, Georgia, USA.

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

The ultimate controlling party is The Coca-Cola Company.

14 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.