

Co-operative Foodstores Limited

Financial statements

Registered number 32443R

Period ended 6 January 2024

Corporate Information**Directors**

M Hood

A Harwood (Appointed 11 May 2023)

Secretary

C J Sellers

Auditors

Ernst & Young LLP

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Water Lane

Leeds

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Registered Office

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M60 0AG

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Statement of Directors' Responsibilities in Respect of the Financial Statements

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

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' and in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 for the 53-week period ended 6 January 2024.

The Society financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that financial period.

In preparing the Society financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- State whether UK adopted accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 have been followed.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to Co-operative Foodstores Limited

Opinion

We have audited the financial statements of Co-operative Foodstores Limited for the 53 week period ended 6 January 2024 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24, 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) ('FRS101').

In our opinion, the financial statements:

- give a true and fair view of the Society's affairs as at 6 January 2024 and of its income and expenditure 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 Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for the period to 31 December 2025.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 themselves. 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.

Independent Auditor's Report to the members of Co-operative Foodstores Limited - continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of accounts; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Board

As explained more fully in the Directors' responsibilities statement set out on page 4, the Board 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 Board 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 Board are responsible for assessing the Society'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 Board either intends to liquidate the Society 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Independent Auditor's Report to the members of Co-operative Foodstores Limited - continued

Our approach was as follows:

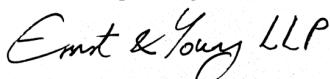
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the most significant are the direct laws and regulations relating to elements of society law and tax legislation, and the financial reporting framework i.e. Co-operative and Community Benefit Societies Act 2014 and FRS 101.
- We understood how Co-operative Foodstores Limited is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters. We reviewed the minutes of board meetings and made enquiries of management and those charged with governance to identify any matters which could have a material impact on the Society.
- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by considering areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. We also performed enquiries of management and those charged with governance to obtain an understanding of the Society's business and accounting practices. We also performed risk assessment analytical procedures and identified sources and types of journal entries in the Society's financial processes. Any fraud risk factors identified were evaluated to identify risk of material misstatement due to fraud as well as the presumptive risk of material misstatement due to fraud in respect of revenue recognition and management override. We determined that the most susceptible accounts to any such override are supplier income and revenue.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations, including in respect of fraud. In relation to revenue recognition, we performed procedures including testing manual journals outside the normal automated store EPOS process and performed journal analysis to identify sales journals that have not resulted in cash receipts. We also performed audit procedures around supplier income which included testing management's controls in this area, issuing direct requests to third party vendors to confirm the terms of arrangements and sales volumes use, as well as focusing procedures on areas where management apply judgement, where the processing is either manual or more complex and where the value of agreements is high. Our procedures also involved making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees and by inquiring about the Society's methods of enforcing and monitoring compliance with such policies.

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 Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and our engagement letter dated 13 January 2021. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



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Ernst & Young LLP
Manchester
Date

Income Statement
for the period ended 6 January 2024

	Notes	For period ended 6 January 2024*	For period ended 31 December 2022
		£m	£m
Revenue	3	983.1	1,083.6
Cost of sales		(660.8)	(761.1)
Gross profit		322.3	322.5
Operating expenses	4	(271.5)	(298.4)
Operating profit		50.8	24.1
Disposal of petrol forecourts		-	455.8
Finance costs	9	(7.9)	(9.6)
Finance income	10	89.2	31.0
Profit before taxation		132.1	501.3
Taxation	11	(35.0)	(10.4)
Profit for the period		97.1	490.9

Statement of Comprehensive Income
for the period ended 6 January 2024

	Notes	For period ended 6 January 2024*	For period ended 31 December 2022
		£m	£m
Profit for the period		97.1	490.9
Other comprehensive income/(expense): Items that will not be reclassified to profit or loss			
Remeasurement gains / (losses) on employee pension scheme	8	36.5	(77.5)
Tax impact on the above	11	(8.6)	19.3
Total comprehensive income for the period		125.0	432.7

* The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

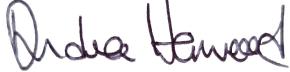
The notes on pages 11 to 26 form an integral part of these financial statements.

Balance Sheet
As at 6 January 2024

	Notes	As at 6 January 2024	As at 31 December 2022 (restated*)
		£m	£m
Non-current assets			
Property, plant and equipment	12	183.1	198.3
Right-of-use assets	13	78.6	92.7
Investment properties	14	1.2	1.2
Net employee benefit assets	8	68.6	31.7
Trade and other receivables	16	723.1	669.5
Deferred tax assets	19	60.6	89.7
Total non-current assets		1,115.2	1,083.1
Current assets			
Inventories	15	25.1	19.6
Cash and short term deposits	17	141.6	68.5
Total current assets		166.7	88.1
Total assets		1,281.9	1,171.2
Non-current liabilities			
Lease liabilities	13	(114.5)	(128.0)
Provisions	18	(1.7)	(2.1)
Total non-current liabilities		(116.2)	(130.1)
Current liabilities			
Lease liabilities	13	(19.8)	(20.2)
Total current liabilities		(19.8)	(20.2)
Total liabilities		(136.0)	(150.3)
Net assets		1,145.9	1,020.9
Equity			
Called up share capital	20	493.0	493.0
Retained earnings		652.4	527.4
Revaluation reserve		0.5	0.5
Total equity		1,145.9	1,020.9

The notes on pages 11 to 26 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27 June 2024 and were signed on its behalf by:



A Harwood
Director



M Hood
Director



C Sellers
Secretary

Statement of Changes in Equity
for the period ended 6 January 2024

	Notes	Called up share capital £m	Retained earnings £m	Revaluation reserve £m	Total equity £m
Balance at 1 January 2022		493.0	94.7	0.5	588.2
Profit for the period		-	490.9	-	490.9
Other comprehensive income:					
Remeasurement loss on employee pension scheme, net of tax	8	-	(58.2)	-	(58.2)
Balance at 31 December 2022		493.0	527.4	0.5	1,020.9
Profit for the period		-	97.1	-	97.1
Other comprehensive income:					
Remeasurement gain on employee pension scheme, net of tax		-	27.9	-	27.9
Balance at 6 January 2024		493.0	652.4	0.5	1,145.9

The notes on pages 11 to 26 form an integral part of these financial statements.

**Notes to the financial statements
(forming part of the financial statements)**

1 General information

Co-operative Foodstores Limited is a Registered Society and is registered and domiciled in England and Wales.

The address of the Society's registered office is 1 Angel Square, Manchester, M60 0AG.

The principal activity of the Society is food retail, operating convenience stores across the United Kingdom.

2 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 years presented, unless otherwise stated.

Basis of preparation

The Society meets the definition of a qualifying entity under Financial Reporting Standard 101 ('FRS 101') issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework' and the Co-operative and Community Benefit Societies Act 2014 for the 53 week period ended 6 January 2024. The comparative period was for the 52 week period ended 31 December 2022.

The financial statements have been principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy.

The Society is a wholly owned subsidiary of Co-operative Group Limited ('the Group'), a Registered Society under the Co-operative and Community Benefit Societies Act 2014 registered in England and Wales. The Society faces a lower level of risk and challenges in relation to climate change when compared with its ultimate parent undertaking (the Group) but continues to manage these risks in-line with the Group's approach to climate change.

The Group's overall approach to climate change is outlined in the Task Force on Climate related Financial Disclosures ('TCFD') section of the Group's 2023 Annual Report and Accounts (page 120). Climate related risks are also explained within the Principal Risks and Uncertainties (Environment and Sustainability) section of the ARA on page 59. The Group's assessment of the potential impact on the long term viability of the Group is also set out on page 116 of the Group's 2023 ARA.

Where applicable, the following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Society has taken advantage of are :

- IFRS 7 Financial instruments: Disclosures
- Para 91-99 of IFRS 13 Fair Value Measurements
- Para 38 of IAS 1 Presentation of Financial Statements in respect of comparative information
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- Para 17 and 18A of IAS 24 Related party disclosures
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

New and amended standards adopted by the Society

The Society has considered the following standards and amendments that are effective for the Society for the period commencing 1 January 2023 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements:

- IFRS 17 - Insurance Contracts
- Amendments to IAS 8 - Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies
- Amendments to IFRS 17 - Initial application of IFRS 17 & IFRS 9 Comparative information
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 - International Tax Reform Pillar Two Model Rules *

* Pillar 2 is being introduced into the UK to support the international actions promoted by the OECD to impose a minimum tax rate of 15%. The Co-op have considered the impact of the new rules and concluded that it has no application for the current year and is very unlikely to apply in 2024. This is because our prevailing Effective Tax Rate is above 15%.

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2023 reporting periods and the Society has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Society's accounts:

- Amendments to IAS 1 - Classification of Liabilities as current or non-current *
- Amendments to IAS 1 - Non-current liabilities with covenants *
- Amendments to IAS 16 - Lease liability in sale and leaseback *
- Amendments to IAS 7 - Supplier finance arrangements *
- Amendments to IFRS 10 and IAS 8 - Sale or contribution of assets between an investor and its associate or joint venture **

* Effective for annual periods beginning on or after 1 January 2024. ** In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key judgements:

In the process of applying the Society's accounting policies, management has made the following key judgements which have the most significant impact on the financial statements:

- Leases (note 13) - The Society 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 Society has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Society applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Society 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.

Key estimates and assumptions:

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Society based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

- Pensions (note 8) – the Society's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Society's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 8 along with associated sensitivities to those assumptions.

- Impairment of non-financial assets (notes 12 & 13) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets or intangibles) is reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit ('CGU') exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

This review is performed annually or in the event where indicators of impairment are present. At 6 January 2024 the Society has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases has the potential to represent a significant impairment indicator.

The Society estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows ('DCF') associated with that asset at a pre-tax rate of between 9.6% (2022: 10.1%).

The key assumptions used to determine the recoverable amount for the CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in note 12.

- Provisions (note 18) – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Society relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 19 for further details.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern

The Society generated a profit of £97.1m in the period (2022: £490.9m) and at the balance sheet dates holds net assets of £1,145.9m (2022: £1,020.9m).

The Society is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Society meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Society ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 31 December 2025. The Society has an inter-company receivable of £723.1m as at 6 January 2024.

As such, an assessment of the Group was undertaken by the Group Directors to determine the appropriateness of the going concern basis of preparation for its subsidiaries, including the Society.

The Group operates with net current liabilities as our working capital cycle means cash receipts from revenues arise in advance of the payments to suppliers for the cost of goods sold. We also borrow money from banks and others, and as part of this process we have checked that we can comply with the terms of those agreements - for example, banking covenants and facility levels. Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 31 December 2025. Although the Group has a robust planning process, the continuing economic uncertainty means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside scenarios. The following steps have been undertaken to allow the Directors to conclude on the appropriateness of the going concern assumption:

1. Understand what could cause the Group not to be a going concern in relation to facility headroom and covenant compliance.
2. Review and challenge of the base case forecast produced by management, including key investment choices.
3. Consider downside sensitivities across the base case forecast as part of going concern.
4. Examine what controllable mitigating actions would be taken in the event of these scenarios.
5. Perform a reverse stress test to assess under what circumstances liquidity and covenant headroom would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.
6. Conclude upon the going concern assumption.

1. Understand what could cause the Group not to be a going concern in relation to facility headroom and covenant compliance.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cashflow and covenant compliance; and available capital resources. The potential scenarios which could lead to the Group not being a going concern are:

- a. Not having enough cash to meet our debt liabilities as they fall due; and/or
- b. A breach of the financial covenants implicit in our bank facility agreement.

We note at the year end date, of the total £1,107m of facilities available to us, we were £664m draw-down. Note 27 to the Group's Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

2. Board review and challenge the base case forecast

We have conducted a detailed forward planning exercise as part of our strategic plan. The Group's base case forecast includes prudence following the uncertainty in the market due to geo-political factors, inflation and volatile energy costs. The Board has reviewed and approved these plans.

The key assumptions in the plan are:

- a. Sales growth is driven by volume recovery following significant membership price investment and wider strategic scaling activity.
- b. This growth is tempered with impact of cost headwinds (wage through Real Living Wage and continuing cost inflation) increasing the cost of goods.
- c. Whilst capital investment remains tightly controlled, growth plans and an improved balance sheet will allow room for higher investment into future growth.
- d. The sustainability bond due to mature in 2024 and the notes due to mature in 2025 will be repaid in full out of existing cash balances. The 2026 bond maturity is expected to be refinanced.

3. Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the uncertain economic environment, and modelled further severe but plausible downside sensitivities of internal and external factors on the financial projections including (but not limited to):

- A reduction in the sales in our Food retail business, with a 1% reduction to sales volume in FY24 and 1% thereafter.
- A reduction in the demand of our Funeralcare business, with a 1% reduction in volume of funerals delivered, a reduction in average sales price and a move to customer preferences towards lower cost funerals.
- An increase in energy costs of £10m in 2024 rising to £26m by end of 2025, which covers unhedged energy prices and significant escalation in the Middle East. Although we'd expect this risk to decrease overtime and don't foresee a long-term increase of this extent, we have assumed the same levels of risk across the outer years of the plan, increasing the risk to £51m by 2027.
- Assuming a slower salary inflation reversion to normal levels in FY25, representing £30m cost each year (the base plan assumes that salary inflation normalises over the life of the plan).
- Assuming a loss of a full third-party contract from Q2 2024, resulting an ongoing impact of circa £13m per annum.

The sensitivities identified above do not risk the validity of the Group as a going concern even before applying the mitigating actions set out below. Also, we have considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Even in the implausible scenario of all the sensitivities happening simultaneously we still have liquidity and covenant headroom.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

4. Examine what mitigating actions would be taken in the event of these scenarios

Whilst out of line with our strategic ambition, there are several options within the business' control we could exercise, if the above risks materialised. Options include the Group's ability to:

- Control the level and timing of its capital expenditure programme, saving a minimum of 10% of the total capital outlay.
- Apply cost control measures across both variable and overhead budgets of at least £25m, as well as flexibility to the level of pass-through of energy and cost inflation to the end customer.

5. Perform a reverse stress test and assess any further mitigating actions

Whilst our initial going concern approach assesses likely risks to our base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, we have modelled that a negative cash impacting event of £585m could occur before we would be at risk of breaching our covenant and/or liquidity headroom.

We note that whilst all remain undesirable strategically, we could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of our investment into operational improvements. There is also the option to apply further cost control measures and flexibility to pass a higher level of energy and cost inflation onto the end customer.

6. Conclude upon the going concern assumption

For the purposes of going concern, we assume that no new facilities are required or needed. We do not anticipate any change in this assumption, but this will be kept under review. Beyond the going concern assessment period the Group's £350m 7.5% Bond matures in July 2026; our current forecast assumes that we will be able to refinance a broadly equivalent level of debt prior to its maturity. Based on the Group's past experience of successfully issuing bonds / raising debt, our credit rating and our expectations of the debt markets, the Directors are comfortable that this will be achievable as planned.

Based on all of the above considerations, the Directors have not identified any material uncertainties and have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

The Society Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Society Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Society Directors continue to adopt the going concern basis in preparing the Society's financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Assets and liabilities held for sale

The Society classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet.

Investment Properties

Properties held for long term rental yields that are not occupied by the Group or properties held for capital growth are classified as investment property. Investment properties are freehold land and buildings and Right-of-use assets. These are carried at fair value which is determined by either independent valuers or internally each year on a three-year cyclical basis in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

If we start to occupy or trade from one of our investment properties, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Other disclosures required by IAS 40 (Investment Properties) are not considered to be material.

Property, plant and equipment and depreciation

Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment. Cost includes purchase price plus any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on the cost or valuation less estimated residual value (excluding freehold land) on a straight-line basis over the anticipated working lives of the assets. The estimated useful lives are as follows:

Freehold buildings:	50 years
Long leasehold buildings:	Shorter of period of lease or 50 years
Plant and machinery:	3 - 12 years

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS 16 Leases

i) Right-of-use assets

The Society recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Society is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Society recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Society and payments of penalties for terminating a lease, if the lease term reflects the Society exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Society uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Society applies the short-term lease recognition exemption to its short-term leases of plant and machinery (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Impairment

At each reporting date, the Society reviews the carrying amounts of its property, plant and equipment, intangibles and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Society estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. The CGU is deemed to be each trading store.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Pensions and other post-retirement benefits

The Society's employees were members of a Co-operative Group Limited ('the Group') wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme), the United Norwest Co-operative Employees' Pension Fund, and the Somerfield Pension Scheme. This PACE Complete Scheme is a defined benefit scheme. The Society contributed to these schemes in respect of its employees who were members of the schemes up until the end of October 2015 when it was closed to future accrual. However, the Society is unable to identify its share of the underlying assets and liabilities of the PACE scheme and therefore contributions to the schemes up until the end of October 2015 were accounted for as if they were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Co-operative Foodstores Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme in note 8.

A defined contribution scheme is a pension plan under which the Society pays contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Net interest income arising from pension scheme assets and obligations is recognised in finance income.

Inventories

Inventory which comprises goods for resale is stated at the lower of cost, including attributable overheads, and net realisable value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. All borrowing costs are expensed when incurred except when they are directly attributable to the acquisition, construction or production of a qualifying asset. If this is the case, they are included in the cost of the asset.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Taxation

(i) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(ii) Deferred taxation

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

The Society recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue. Payment terms are net cash due at point of sale. If a customer is dissatisfied with any of our products and returns it, we would offer a single refund or a replacement product when accompanied by a proof of purchase that verifies the purchase of the product from one of our stores.

The majority of revenue is derived from the Society's principal activity of operating convenience stores and supermarkets in the United Kingdom. Rental income is derived from investment and non-investment properties. Income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term.

Member rewards

The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards then member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%).

Trade receivables

The Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. The main impact of this relates to trade and intercompany receivable balances where an expected credit loss model has been applied which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The impact of the calculated expected credit loss is not material.

Supplier income

Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at period end are included within trade and other receivables. Where amounts received are in the expectation of future business, these are recognised in the income statement account in line with that future business. There are three main types of income:

1. Long term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.
2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.
3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

Share Capital

Where the Society Board has an unconditional right to refuse redemption of co-operative share capital, such shares are treated as equity.

Provisions

A provision is recognised in the balance sheet when the Society has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements (continued)

3 Revenue

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Revenue by type		
Sale of products and services	986.1	1,086.4
Member reward on sale of products and services	(3.0)	(2.8)
	<u>983.1</u>	<u>1,083.6</u>

All revenue is generated within the United Kingdom

4 Operating profit

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Operating profit has been stated after charging / (crediting):		
Depreciation of property, plant and equipment	12	19.1
Depreciation of right-of-use	13	11.4
Pension scheme administrative expenses	8	1.1
(Gain)/loss on property, business disposals and closures (before impairments)	12	1.4
Impairment of property, plant and equipment	12	2.7
Impairment of right-of-use assets	13	1.5
Cost of inventories recognised as an expense	728.6	829.6
Supplier income	5	(67.8)
Employee benefits expense	6	95.7
Member reward expense	2.9	98.3
One-off items*	-	2.7
	<u>-</u>	<u>(0.3)</u>

The auditor's remuneration of £101,068 (2022: £45,196) is borne by the ultimate parent undertaking.

*One-off items represents income received for refunded business rates in relation to externally facing ATMs following the Supreme Court ruling that ATMs outside stores should not be separately assessed for business rates.

5 Supplier income

This note shows the different types of supplier income received. The income is deducted from cost of sales.

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Long term agreements	22.1	21.3
Bonus income	10.1	9.0
Promotional income	35.5	38.3
	<u>67.8</u>	<u>68.5</u>
Percentage of cost of sales before deducting supplier income:		
Long term agreements	3.0%	2.8%
Bonus income	1.4%	1.2%
Promotional income	4.9%	5.0%
	<u>9.3%</u>	<u>9.0%</u>

6 Staff costs

Staff were employed by the ultimate parent undertaking and the costs incurred and recharged amounted to £95.7m (2022: £98.3m). Staff are included within the average number of people employed by the Co-operative Group Limited which can be found on page 157 of the Co-op Annual Report 2023.

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Wages and salaries	84.7	86.9
Social security costs	5.0	5.2
Pension costs	6.0	6.2
	<u>95.7</u>	<u>98.3</u>

Directors' remuneration in respect of services provided to the Society were borne by the ultimate parent Society in both the period ended 6 January 2024 and the period ended 31 December 2022.

Notes to the financial statements (continued)

7 Profit/(loss) from property, business disposals and closures

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Disposals, closures and onerous contracts		
-net proceeds/(expenses)	(1.3)	(0.8)
- less net book value written off	(0.1)	(0.8)
	<u>(1.4)</u>	<u>(1.6)</u>
Disposal of Arthur Foodstores (note 21)		
- net proceeds	-	455.8
Profit/(loss) on disposals	<u>(1.4)</u>	<u>454.2</u>

Proceeds and disposals of property, plant and equipment relate to the sale of food stores to third parties. Transfers of property, plant and equipment relate to the transfer of food stores to other group companies.

8 Net employee benefit assets

(i) Co-operative Group Pension (Average Career Earnings) Scheme (PACE)

The Society is a wholly owned subsidiary of Co-operative Group Limited which participates in the Co-operative Group Pension Scheme ('Pace'). The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015 and all future service is provided on a DC basis. Full details of the Pace plan for the period ending 31 December 2022 are disclosed in the Co-operative Group Limited's consolidated financial statements for that period.

(ii) Somerfield Pension Scheme

Nature of scheme

The Somerfield Scheme is a defined benefit pension scheme which closed to future accrual in November 2012. Following closure of the Somerfield Scheme, all active members at the date of closure started to accrue benefits in Pace, unless they elected not to join Pace. All benefits in an historic defined contribution section were transferred out of the Somerfield Scheme in previous years and the defined contribution section completed winding-up during 2015.

Governance

TCG Southern Trustees Limited is the corporate body that acts as Trustee of the Somerfield Scheme.

The Trustee Board comprises up to nine Trustee Directors: One Group appointed professional independent Trustee Director, up to four Group appointed Trustee Directors and up to three Member Nominated Directors (MNDs) elected by scheme members. The Chair of Trustees is appointed by the Trustee Directors, having considered the Group's view on the appointment.

The Trustee is responsible for the development and implementation of appropriate policies for the investment of the scheme assets and for negotiating scheme funding with the Group. The Trustee consults with the Co-operative Group Limited in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to an Investment Committee.

Scheme funding regime

Under the scheme specific funding regime established by the Pensions Act 2004, the Trustee must undertake a full actuarial valuation at least every three years. The purpose of the valuation is to determine if the scheme has sufficient assets to pay the benefits when these fall due. Any shortfall in the assets, relative to the funding target, is financed over a period that ensures the contributions are reasonably affordable.

The valuation targets full funding (scheme assets equal to the value of pension liabilities) against a basis that prudently reflects the scheme's risk exposure. The basis on which DB pension liabilities are valued for funding purposes differs to the basis required under IAS19. Contributions to eliminate a funding shortfall may therefore be paid even when a surplus is reported in the IAS19 disclosure.

In 2020, the Scheme Actuary completed a full actuarial valuation of the Somerfield Scheme as at 31 March 2019. The results of the valuation showed that the Somerfield Scheme had a shortfall of £7m. This deficit is being recovered by additional asset outperformance. Deficit contributions of £2.6m pa ceased with effect from 30 June 2020.

Notes to the financial statements (continued)

8 Net employee benefit assets (continued)

Risks in relation to the scheme

Risk description	Mitigation
Risk of changes in contribution requirements - The contributions paid reflect the funding level of the schemes at the valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements.	The closure of the Scheme has reduced the exposure to this risk. Furthermore, the Society and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Society monitors the funding level of the Scheme in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Society to funding assumptions and deficit recovery contributions.
Interest rate risk - Pension liabilities are measured with reference to yields on bonds, with lower yields increasing the liabilities. The Scheme is therefore exposed to the risk of falls in interest rates.	The recently acquired pensioner buy-in annuity contract and investments in liability driven investment products which increase (decrease) in value when yields on Government bonds fall (rise), thus providing protection against interest rate risk. Approximately 80% of the liability is currently protected from movements in yields on Government bonds.
Risk associated with volatility in asset value - The market value of the assets held by the Scheme can be volatile. This creates a risk of short term fluctuations in funding level.	This risk has been mitigated by reducing the exposure of the Scheme to those asset classes which have the most volatile market values. In particular, the Scheme have limited allocation to return seeking assets such as equity.
Inflation risk - Many of the benefits paid by the scheme are linked to inflation. Therefore, the pension liabilities reflect expectations of future inflation with higher inflation leading to higher liabilities.	The pensioner buy-in annuity contract and investments in liability driven investment products which increase (decrease) in value when expectations of future inflation rates increase (fall), provide protection against inflation risk. Approximately 80% of the liability is currently protected from movements in inflation.
Risk associated with changes in life expectancy - Pensions paid by the scheme are guaranteed for life, and therefore if members are expected to live longer, the liabilities increase.	The pensioner buy-in annuity contract will provide some protection against increasing life expectancy. The Scheme's funding target also incorporates a margin for prudence to reflect uncertainty in future life expectancy.

Guarantees

Co-operative Group Limited (the Group) is the Principal Society in relation to the Somerfield Scheme, and is also a statutory employer. There are various guarantees in place in relation to the Somerfield Scheme:

- The Group provides a guarantee in respect of the Society's obligations to the Somerfield Scheme up to a maximum of the debt on insolvency or wind-up of the Somerfield Scheme. Co-operative Group Food Limited provides a guarantee to the Somerfield Scheme in the same terms.
- The Group provides an additional guarantee in respect of participating employers' liabilities in relation to the Somerfield Scheme, up to 105% on the section 179 Pensions Act 2004 valuation basis. If certified, this would enable the calculation of the risk-based element of the Pension Protection Fund levy to be based on the Group's insolvency rating.
- The Group's key subsidiaries (currently six entities) also guarantee the obligations of the Society to the Somerfield Scheme, up to a maximum of the debt on insolvency or wind-up of the Somerfield Scheme. This guarantee expires on 31 December 2034.

Financial assumptions

	As at 6 January 2024 % p.a.	As at 31 December 2022 % p.a.
Discount rate	4.76	4.76
RPI Inflation rate	3.32	3.50
Pension increases in payment (RPI capped at 5% p.a.)	3.12	3.25
Future salary increases	3.57	3.75

Sensitivities

	As at 6 January 2024 £m	As at 31 December 2022 £m
Change in liability from a 0.1% increase in discount rate	(7.9)	(9.6)
Change in liability from a 0.1% increase in RPI inflation	(3.8)	(4.8)
Change in liability from a 0.25% increase in long-term rate of longevity improvements	4.4	5.1

Notes to the financial statements (continued)

8 Net employee benefit assets (continued)

Mortality rates

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the schemes at 6 January 2024 are as follows:

		Member currently aged 65 (current life expectancy)		Member currently aged 45 (life expectancy at age 65) (current life expectancy)	
		Male	Female	Male	Female
		20.9	22.8	21.8	23.8

The fair value of plan assets at the period end were as follows:

	As at 6 January 2024 £m	As at 31 December 2022 £m
Cash and cash equivalents	262.7	282.0
Equity instruments	-	-
Debt instruments	427.8	394.7

The amounts recognised in the balance sheet are as follows:

	As at 6 January 2024 £m	As at 31 December 2022 £m
Present value of funded obligations	(621.9)	(645.0)
Fair value of plan assets	690.5	676.7
Net retirement benefit asset	68.6	31.7

The amounts recognised in the income statement are as follows:

	As at 6 January 2024 £m	As at 31 December 2022 £m
Interest expense on DBO*	(30.4)	(19.1)
Interest income on plan assets*	31.9	21.1
Administrative expenses and taxes	(1.1)	(1.0)
Settlement costs	-	-
Past service cost (including curtailments)	0.4	1.0

*The interest income on plan assets of £31.9m (2022: £21.1m) and the interest expense on DBO of £30.4m (2022: £19.1m) are shown net within Finance income of £1.5m (2022: £2.0m) in the income statement.

Changes in the present value of the defined benefit obligation (DBO) are as follows:

	As at 6 January 2024 £m	As at 31 December 2022 £m
Opening defined benefit liabilities	645.0	1,032.9
Interest expense on DBO	30.4	19.1
Remeasurements:		
a. Effect of changes in demographic assumptions	(10.1)	(7.3)
b. Effect of changes in financial assumptions	(9.0)	(391.8)
c. Effect of experience adjustments	0.6	42.7
Benefit payments from plan	(35.0)	(50.6)
Settlements	-	-
Past service cost (including curtailments)	-	-
Closing defined benefit liabilities	621.9	645.0

Changes in the fair value of the plan assets are as follows:

	As at 6 January 2024 £m	As at 31 December 2022 £m
Opening fair value of scheme assets	676.7	1,141.1
Interest income	31.9	21.1
Return on plan assets (excluding interest income)	18.0	(433.9)
Administrative expenses paid from plan	(1.1)	(1.0)
Employer contributions	-	-
Benefits paid	(35.0)	(50.6)
Closing fair value of scheme assets	690.5	676.7

Notes to the financial statements (continued)

9 Finance costs

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Interest expense on lease liabilities	7.9	9.6
	<u>7.9</u>	<u>9.6</u>

10 Finance income

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Net interest income on plan assets (see note 8)	1.5	2.0
Interest on intra-group loans	87.7	29.0
	<u>89.2</u>	<u>31.0</u>

11 Taxation

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
<i>UK corporation tax</i>		
Group relief payable	(33.3)	(15.0)
Current tax credit / (charge) - adjustments in respect of prior years	18.8	(0.2)
Total current tax charge	<u>(14.5)</u>	<u>(15.2)</u>
<i>Deferred tax (see note 19)</i>		
Deferred tax credit - adjustments in respect of current year	2.3	4.0
Deferred tax (charge) / credit - adjustments in respect of prior years	(22.4)	0.2
Effect of rate change on closing balance	(0.4)	0.6
Total deferred tax (charge) / credit	<u>(20.5)</u>	<u>4.8</u>
Tax credit charge on profit before taxation	<u>(35.0)</u>	<u>(10.4)</u>

The tax on the net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 23.5% (2022: 19%) as follows:

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
<i>Current tax reconciliation</i>		
Profit before tax	132.1	501.3
Current tax charge at 23.5% (2022: 19%)	<u>(31.0)</u>	<u>(95.2)</u>
<i>Effects of:</i>		
Non-qualifying depreciation	(0.9)	0.1
Non-deductible expenditure	(1.8)	(5.5)
Profit on disposal	0.4	87.5
Current tax prior year adjustment	18.8	(0.2)
Deferred tax prior year adjustment	(22.3)	0.2
Transfer pricing adjustment	2.2	2.1
Deferred tax rate change	(0.4)	0.6
Tax charge on continuing business	<u>(35.0)</u>	<u>(10.4)</u>
Income tax on items in the statement of comprehensive income		
	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Taxation for the period	(35.0)	(10.4)
Other comprehensive income:		
Defined benefit plan actuarial (losses)/ gains	(8.6)	19.3
Income tax on items taken to statement of comprehensive income	<u>(43.6)</u>	<u>8.9</u>

Following the Budget on the 3 March 2021, the Chancellor announced that the main rate of Corporation Tax will increase from 19% to 25%, with effect from the 1 April 2023. Therefore the pro-rated tax rate for the year to 2023 is 23.5%.

Under IFRS (IAS 12) it is the rate enacted at the balance sheet date that determines the amount of deferred tax to be recognised. As the 25% rate has been enacted at the balance sheet date, deferred tax assets and liabilities expected to crystallise post balance sheet are all valued using 25% (2022: 25%).

The impact in 2023 of recognising the net deferred tax movements at 25% rather than 23.5% has meant the tax charge through the income statement is increased by £0.4m.

The Group has the flexibility to claim capital allowances across a number of its subsidiaries which effect the amount of current tax and deferred tax charges booked to these companies. On final submission of the tax computations for these subsidiaries, a change in the split of which company claims capital allowances was made. This has resulted in the bulk of the prior year adjustment noted within current tax and deferred tax, the remainder being due to finalisation of rollover relief claims made in respect of prior years.

Notes to the financial statements (continued)

12 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Total £m
At 6 January 2024			
Cost			
At 31 December 2022	620.7	506.3	1,127.0
Additions	2.7	3.8	6.5
Disposals	(0.1)	(4.4)	(4.5)
Transfers from other group companies	0.6	-	0.6
	623.9	505.7	1,129.6
At 6 January 2024			
Depreciation			
At 31 December 2022	493.5	435.3	928.8
Charge for the period	3.5	15.6	19.1
Disposals	-	(4.1)	(4.1)
Impairment	1.9	0.8	2.7
Transfers to other group companies	-	-	-
	498.9	447.6	946.5
Net book value			
At 6 January 2024	125.0	58.1	183.1
At 31 December 2022	127.2	71.0	198.2
Assets with a book value of £0.4m (2022: £1.4m) were disposed during the period. The loss on disposal of £1.3m (2022: £0.8m loss) arising from the disposal of these assets has been recognised within operating profit.			
At 31 December 2022			
Cost			
At 1 January 2022	630.5	565.1	1,195.6
Additions	4.3	3.0	7.3
Disposals	(5.0)	(4.2)	(9.2)
Transfers to other group companies	(1.6)	0.1	(1.5)
Transfer to Arthur Foodstores Limited on 2 April (note 21)	(7.5)	(57.7)	(65.2)
	620.7	506.3	1,127.0
At 31 December 2022			
Depreciation			
At 1 January 2022	498.9	453.4	952.3
Charge for the period	3.6	19.4	23.0
Disposals	(4.0)	(3.8)	(7.8)
Impairment	(1.9)	4.4	2.5
Transfers to other group companies	(1.2)	-	(1.2)
Transfer to Arthur Foodstores Limited on 2 April (note 21)	(1.9)	(38.1)	(40.0)
	493.5	435.3	928.8
Net book value			
At 31 December 2022	127.2	71.0	198.2
At 1 January 2022	131.6	111.7	243.3

Notes to the financial statements (continued)

12 Property, plant and equipment (continued)

Impairment

The recoverable amount for cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for CGUs has been determined using discounted cash flow calculations where there are indicators of impairment.

The key assumptions in the value in use calculations are as follows:

Assumption	Detail
Structure of a CGU	Each individual food store is deemed to be an individual CGU.
Cash flow years / assumptions	<p>Future cash flows for FY24 and FY25 derived from Board approved four-year plan cash flow assumptions. These forecasts are based on the four-year plan for FY24 - FY25 and then subject to a long term growth rate of 0% for the remainder of the lease period and then 1.9% (2022: 1.9%) into perpetuity after the lease period reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where we have known lease exit dates then the remaining lease terms have been used. Perpetuities are included in cash flows with 1.9% growth (2022: 1.9%) where stores are expected to be operated beyond their current lease term (adjusted for rent expense given the impact of IFRS 16 leases).</p> <p>Cash flows include estimated periodic store capital maintenance costs based on the square footage of the store.</p> <p>Forecasted cash flows include an assumption about future leakage. Sensitivity analysis has been performed in relation to the leakage assumption. If leakage in forecasted cash flows was increased from 0.8% to 1.1% of net sales, then the impairment charge would increase by £1.6m.</p> <p>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.</p>
Discount rate	<p>A post tax discount rate has been calculated for impairment purposes, with the Food segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 9.6% (2022: 10.1%).</p> <p>The post tax discount rate has been calculated using the capital asset pricing model.</p> <p>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.</p> <p>In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing; if discount rate was increased by 1%, this would cause the impairment charge to increase by £1.1m. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p>

13 Leases

As a lessee

Right-of-use assets	Property £m	Plant and equipment £m	Total £m
Balance at 31 December 2022	92.6	0.1	92.7
Depreciation charge for the period	(11.3)	(0.1)	(11.4)
Additions	2.0	0.2	2.2
Disposals	(3.4)	-	(3.4)
Impairment	(1.5)	-	(1.5)
Transfers to other group companies	-	-	-
Balance at 6 January 2024	78.4	0.2	78.6
Balance at 1 January 2022	172.9	-	172.9
Depreciation charge for the period	(13.7)	-	(13.7)
Additions	9.8	0.1	9.9
Disposals	(2.3)	-	(2.3)
Impairment	(3.8)	-	(3.8)
Transfers to other group companies	(0.2)	-	(0.2)
Transfer to Arthur Foodstores Limited on 2 April	(70.1)	-	(70.1)
Balance at 31 December 2022	92.6	0.1	92.7

The Society leases many assets, principally it leases properties for its food retail stores as well as some vehicles and other equipment. The leases of retail stores are typically between 1 and 30 years in length. Vehicle and equipment leases are typically between 1- 4 years in length and in some cases the Society has options to purchase the assets at the end of the contract term.

Notes to the financial statements (continued)

13 Leases (continued)

Lease liabilities	As at 6 January 2024 £m	As at 31 December 2022 £m
Current	(19.8)	(20.2)
Non-current	(114.5)	(128.0)
Lease liabilities included in the balance sheet at 1 January 2022	(134.3)	(148.2)
Lease liabilities - undiscounted maturity analysis		
Less than 6 months	(10.2)	(10.0)
6 - 12 months	(10.2)	(10.0)
1 - 2 years	(18.4)	(19.0)
2 - 5 years	(48.8)	(51.0)
5 - 10 years	(56.6)	(60.0)
10 - 15 years	(19.4)	(22.0)
More than 15 years	(21.5)	(23.0)
Total lease liabilities	(185.1)	(195.0)
Opening lease liabilities		
Additions	(148.2)	(250.8)
Disposals	(2.3)	(10.0)
Interest expense	2.7	5.2
Payments	(7.9)	(9.6)
Transfers to other group companies	21.4	24.5
Transfer to Arthur Foodstores Limited on 2 April	-	29.6
Closing lease liabilities	(134.3)	(148.2)

Extension and termination options

Some leases of retail stores contain extension or termination options exercisable by the Society up to one year before the end of the non-cancellable contract period. Where practicable, the Society seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Society and not by the lessors.

The Society assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Society reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 6 January 2024, potential future cash outflows of £1.3m (2022: £1.2m) (discounted) have not been included in the lease liability because it is not reasonably certain that the Society will exercise the extension option. Included within the lease liability are future cash outflows of £10.3m (2022: £13.0m) (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

14 Investment properties

	For period ended 6 January 2024 £m	For period ended 31 December 2022 £m
Valuation at beginning of period	1.2	1.2
Transfers from right-of-use assets	-	-
Revaluation recognised in the SOCI	-	-
Valuation at end of period	1.2	1.2

15 Inventories

	As at 6 January 2024 £m	As at 31 December 2022 £m
Goods for resale	25.1	19.6

Notes to the financial statements (continued)

16 Trade and other receivables

	As at 6 January 2024 £m	As at 31 December 2022 £m
<i>Non-current assets</i>		
Amounts due from other group undertakings	<u>723.1</u>	<u>669.5</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17 Cash and cash equivalents

	As at 6 January 2024 £m	As at 31 December 2022 £m
Cash at bank	133.4	59.0
Cash in hand	<u>8.3</u>	<u>9.5</u>
	<u>141.6</u>	<u>68.5</u>

18 Provisions

	As at 6 January 2024 £m	As at 31 December 2022 £m	
Non-current	1.7	2.1	
Current	<u>-</u>	<u>-</u>	
	<u>1.7</u>	<u>2.1</u>	
	Property provisions £m	Other £m	Total £m
At 31 December 2022	0.2	1.9	2.1
Charge to income statement on creation of new provision	0.5	-	0.5
Credit to income statement on release of unutilised provision	(0.3)	(0.6)	(0.9)
At 6 January 2024	0.4	1.3	1.7
At 1 January 2022	0.2	1.5	1.7
Charge to income statement on creation of new provision	0.4	0.5	0.9
Credit to income statement on release of unutilised provision	(0.4)	(0.1)	(0.5)
At 31 December 2022	0.2	1.9	2.1

Other provisions represent amounts provided on acquisition of former Somerfield leasehold stores in respect of dilapidation and asbestos related costs in the estate. Upon disposal of a store, any unutilised balance held is written-off to income statement.

Property provisions are held for running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases.

19 Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective tax rate of 25% (2022: 25%).

	As at 6 January 2024 £m	As at 31 December 2022 £m
Deferred taxation asset		
At start of the period	89.7	68.2
Income statement (charge) / credit in the period	(20.5)	4.8
Disposals	<u>-</u>	<u>(2.6)</u>
Other comprehensive income (charge) / credit in the period	<u>(8.6)</u>	<u>19.3</u>
At end of the period	60.6	89.7
Comprising:		
Tangible fixed assets	85.5	103.7
Provisions	<u>-</u>	<u>-</u>
Pensions	(17.1)	(7.9)
Rollover relief/ gains	(14.0)	(13.2)
IFRS16 Leases	6.0	6.5
Losses	0.2	0.6
At end of the period	60.6	89.7

Due to the forecasts prepared by the Group for the next 4 years, we can see that the deferred tax asset will be steadily unwound. We therefore consider it appropriate to recognise the deferred tax asset.

Notes to the financial statements (continued)

20 Called up share capital

	As at 6 January 2024 £m	As at 31 December 2022 £m
Authorised, allotted, called up and fully		
493,002,892 ordinary shares of £1 each (1 January 2022: 493,002,892 ordinary shares of £1 each)	<hr/> <hr/> <hr/> 493.0	<hr/> <hr/> <hr/> 493.0

There is a single class of share capital.

All shares rank pari passu in all respects.

21 Commitments

The Society participates in the Group's notional cash pooling arrangement and as such provides a guarantee for all other group entities party to the arrangement. At 6 January 2024, the Society's cash balance included within the cash pool was £133m (2022: nil), with the Group cash pool at a net cash position of £3m (2022: £7m), and the overdraft facility of £45m being undrawn (2022: undrawn). As such, the Society has a contingent liability of £130m with respect to the unlikely event of being liable over other participating entities' balances. This should be considered in the context of the cash and cash equivalents available at group level of £595m as at 6 January 2024, comprising of cash balances of £395m (2022: £447m) and term deposits of £200m (2022: nil).

22 Contingencies

i) The Group has a revolving credit facility ('RCF') for which Co-operative Foodstores Limited is a guarantor under the facility. On the 20th of March 2023, Co-op concluded an amendment and extension exercise on its £400m Revolving Credit Facility. The facility increased in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. As at 6 January 2024, Co-operative Foodstores Limited continued to be a guarantor of the RCF agreement and the facility was undrawn.

Co-operative Foodstores Limited is also a guarantor of the Group's bond and loan notes, comprising a £300m Sustainability bond due in May 2024, £109m final repayment subordinated notes and the £20m instalment repayment notes due December 2025, and a £350m bond due in July 2026.

ii) As noted in the Co-op Group's 2023 Annual Report and Accounts (Note 28; Commitments and contingencies on page 216); the Society is a named entity in a claim by the liquidators of The Food Retailer Operations Limited in connection with transactions which took place in 2015 and 2016 relating to the Somerfield supermarket business acquired by Co-op in 2009. The Society has the benefit of an indemnity from Co-operative Group Limited in respect of all liabilities, costs, expenses, damages and losses and all other professional costs and expenses suffered or incurred by the Society arising out of or in connection with such claims.

23 Ultimate parent undertaking

The Society is a wholly owned subsidiary of Co-operative Group Limited, a Registered Society under the Co-operative and Benefit Societies Act 2014, registered in England and Wales. This is the smallest and largest group of which the Society is a member and for which consolidated accounts are prepared. A copy of the group accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.

24 Post balance sheet events

Sustainability bond

On the 17th of May 2024, the Sustainability Bond issued by Co-operative Group Limited, of which the Society has been a guarantor, reached maturity. The remaining £200m liability was fully repaid by Co-operative Group Limited.