

Funeral Services Limited

Financial statements

Registered number 30808R

Period ended 4 January 2025

Corporate Information

Directors

G Stewart
J Hore (appointed 26th September 2024)
C Hurley (appointed 12th July 2024)
H Smith (resigned 12th July 2024)

Secretary

K Arnold (appointed 31st March 2025)
C J Sellers (resigned 31st March 2025)

Auditors

Ernst & Young LLP, Statutory Auditor
No. 1 Colmore Square
Birmingham
B4 6HQ

Registered Office

1 Angel Square
Manchester
M60 0AG

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Statement of Directors' responsibilities in respect of the financial statements

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

Co-operative and Community Benefit Society Law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Under that 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 Society (Funeral Services Limited) and of the income and expenditure of the Society for that period.

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society financial position and financial performance;
- in respect of the financial statements, state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the Society financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website.

Independent auditor's report to Funeral Services Limited ("the Society")

Opinion

We have audited the financial statements of Funeral Services Limited ("the Society") for the 52-week period ended 4 January 2025 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 27, including material accounting policy information. 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".

In our opinion, the financial statements:

- give a true and fair view of the Society's affairs as at 4 January 2025 and of its income and expenditure for the 52 week 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 2026.

Our responsibilities and the responsibilities of the Board 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.

Independent auditor's report to Funeral Services 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 Board is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and 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 this gives rise to 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.

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 account; or
- we have not received all the information and explanations we required for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, 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 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 directors either intend 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 Funeral Services Limited (continued)

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the most significant are direct laws and regulations related to elements of Society law and tax legislation, and the financial reporting framework.
- We understood how the Society is complying with those frameworks by making enquiries of management, those charged with governance and those responsible for legal and compliance matters. We reviewed specialist reports and correspondence with regulators and made enquiries of legal counsel in relation to a cyber incident. We also reviewed minutes of the Board and gained an understanding of the Society's approach to governance, demonstrated by the internal control processes.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Society's methods of enforcing and monitoring compliance with such policies.
- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by considering the entity level controls that the Society has established to address risks identified by the Society, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. We considered the risk of management override and designated the risk of fictitious journals impacting revenue recognition to be a fraud risk. Our audit procedures included confirming revenue was recorded by the Society in accordance with the signed transfer pricing arrangement in place, testing the appropriateness of a sample of revenue related and other journal entries recorded in the general ledger, as well as entries related to these risks, posted outside of the general ledger into the financial statements with a specific focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing to address each identified fraud risk, including procedures to test journals that appear to be high risk.

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 in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society 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, for our audit work, for this report, or for the opinions we have formed.

Signed by:

Ernst & Young LLP

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Ernst & Young LLP
Statutory Auditor
Birmingham
30 June 2025

Income statement

(for the 52 week period ended 4 January 2025)

	Notes	For period ended 4 January 2025	For period ended 6 January 2024*
		£'000	£'000
Revenue	3	240,540	235,688
Cost of sales		(31,353)	(27,193)
Gross profit		209,187	208,495
Administrative expenses		(217,352)	(224,490)
Exceptional expenses	7	(72)	(163)
Operating loss	4	(8,237)	(16,158)
Finance income	9	13,114	13,224
Finance costs	8	(2,183)	(2,202)
Profit / (loss) on ordinary activities before taxation		2,694	(5,136)
Taxation	10	(2,420)	1,052
Profit / (loss) for the period		274	(4,084)

All amounts relate to continuing activities.

* The comparative figures represent the 53 week period to 6th January 2024.

Statement of comprehensive income / (loss)

(for the 52 week period ended 4 January 2025)

	For period ended 4 January 2025	For period ended 6 January 2024*
	£'000	£'000
Profit / (loss) for the period	274	(4,084)
<u>Items that are or might be reclassified to the income statement:</u>		
Revaluation gain on properties prior to transfer to Investment Properties (Note 18)	657	-
Tax on the above (Note 21)	(164)	-
Other comprehensive income / (loss) for the period net of tax	493	-
Total comprehensive income / (loss) for the period	767	(4,084)

* The comparative figures represent the 53 week period to 6th January 2024.

The notes on pages 11 to 37 form an integral part of these financial statements.

Balance sheet
(as at 4 January 2025)

		As at 4 January 2025	As at 6 January 2024
	Notes	£'000	£'000
Non-current assets			
Property, plant and equipment	12	151,903	148,343
Investment Properties	18	960	-
Right-of-use assets	13	33,509	34,380
Goodwill and intangible assets	14	32,764	50,178
Trade and other receivables	17	133,340	124,359
Contract assets	16	5,887	6,210
Total non-current assets		358,363	363,470
Current assets			
Inventories	15	3,258	3,848
Trade and other receivables	17	10,157	11,006
Contract assets	16	494	609
Corporation tax	10	-	622
Cash and cash equivalents		110,066	108,060
Total current assets		123,975	124,145
Total assets		482,338	487,615
Non-current liabilities			
Lease liabilities	13	(31,903)	(32,069)
Trade and other payables	19	(693)	(353)
Deferred tax liabilities	21	(10,245)	(7,702)
Total non-current liabilities		(42,841)	(40,124)
Current liabilities			
Lease liabilities	13	(8,343)	(9,233)
Trade and other payables	19	(47,780)	(55,637)
Provisions	20	(165)	(323)
Total current liabilities		(56,288)	(65,193)
Total liabilities		(99,129)	(105,317)
Equity			
Called up share capital	22	-	-
Retained earnings		(383,209)	(382,298)
Total equity		(383,209)	(382,298)
Total equity and liabilities		(482,338)	(487,615)

The notes on pages 11 to 37 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 June 2025 and were signed on its behalf by:


J Hore
Director


G Stewart
Director


K Arnold
Secretary

Statement of changes in equity
(for the period ended 4 January 2025)

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2022	-	386,382	386,382
Loss and total comprehensive losses for the period	-	(4,084)	(4,084)
Balance at 6 January 2024	-	382,298	382,298
Profit and total comprehensive income for the period	-	274	274
Revaluation gain on properties prior to transfer to Investment Properties	-	657	657
Tax on revaluation gain on properties prior to transfer to Investment Properties	-	(164)	(164)
Other movements		144	144
Balance at 4 January 2025	-	383,209	383,209

The notes on pages 11 to 37 form an integral part of these financial statements.

Notes to the financial statements

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

Reporting entity

Funeral Services Limited ("the Society") is a 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 funeral directors and associated services in the United Kingdom.

Accounting date

The financial statements for the period are prepared for the 52 weeks to 4 January 2025 (the prior period was the 53 weeks to the 6 January 2024). The Co-operative Group Limited (the "Group") subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday in order to align with the year-end of the Group for reporting purposes.

The principal accounting policies adopted by the Society are set out in note 2.

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 FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' and the Co-operative and Community Benefit Societies Act 2014.

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's ultimate parent is Co-operative Group Limited (the Group). The Society faces the same risks and challenges in relation to climate change as the Group and manages these risks in-line with the Group's approach to climate change. The Group's overall approach to climate change is outlined in the Climate Related Financial Disclosures (CRFD) section of the Group's 2024 Annual Report and Accounts (ARA). Climate related risks are also explained within the Principal Risks and Uncertainties (Sustainability) section of the ARA. The Group's assessment of the potential impact on the long term viability of the Group is also set out in the Group's 2024 ARA.

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS Exemptions applied

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 7 January 2024 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements :

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 (Practice statement 2) - Non-current Liabilities with Covenants
- Amendments to IFRS 16 - Lease liability in Sale and Leaseback
- Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 7 January 2024 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 21 - Lack of Exchangeability*
- Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments**
- Annual Improvements to IFRS Accounting Standards - Volume 11**
- IFRS 18 - Presentation and Disclosure in Financial Statements***
- IFRS 19 - Subsidiaries without Public Accountability: Disclosures***

* Applicable for reporting periods on or after January 2025. ** Applicable for reporting periods on or after January 2026. *** Applicable for reporting periods on or after January 2027.

The Society is currently reviewing the likely impact of IFRS 18 on its statutory reporting as well as any potential impact from the amendments to IFRS 9 and IFRS 7 in relation to credit and debit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

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 various judgements. None of the judgements are deemed material for disclosure in terms of their impact on the financial statements.

Notes to the financial statements (continued)

2 Accounting policies (continued)

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.

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. As at 4 January 2025, potential discounted future cash outflows of £1,290k (2023: £1,691k) have not been included in the lease liability because it is not reasonably certain that the Society will exercise the extension option.

Impairment of non-financial assets (notes 12, 13 & 14) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are 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 is measured using internal valuations based on the rental yield of the property.

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 9.7% (2023: 11.6%). The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in note 12.

Impairment of trade receivables (note 17) - trade receivables are stated at amortised cost which includes an impairment assessment for potential credit risk. The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. In estimating the provision for expected credit losses the Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. See note 17 for details.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern

The Society generated a profit of £274k in the period (2023: £4,084k loss) and at the balance sheet date holds net assets of £482,338k (2023: £487,615k).

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 joint account arrangement for its subsidiaries managed by the Group's central treasury function. In addition, the Society participates in facility arrangements provided by external lenders to the Group and certain of its subsidiaries ("the Group facilities"). The Society has an inter-company receivable of £133,340k as at 4 January 2025 due from its ultimate parent undertaking (The Co-operative Group Limited).

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 2026.

In assessing the ability of the Group to provide financial support to the Society, the Directors of the Society have considered the going concern disclosure included in the Annual Report and Accounts of the Group issued on 3rd April 2025 included below, updated for the impact of any significant events occurring between the 3rd April 2025 and the date of signing these financial statements. As described in the Subsequent events note to these financial statements, the Group has since the end of April 2025 been managing a cyber incident. Our early assessment of the expected worst case impact before mitigation on the Group, has been modelled against the Group going concern downside scenario, with sufficient liquidity and financial covenant headroom over the next 18 month period. The Board is expecting that the impact will be managed and reduced through management of costs and other trading actions.

Based on all of the above considerations, the directors of the Society 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, being the period to 31 December 2026. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

Going Concern assessment for the Co-operative Group Limited ("the Group")

In assessing the Group's ability to continue as a going concern, the Group directors have considered the Group's most recent forecasting process and specifically the Group's profitability, cashflows, committed funding and liquidity positions for the period to December 2026. 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 other funding sources, structuring our borrowings with phased maturities to manage our refinancing risk as well as maintaining sufficient levels of liquidity for the Group. As part of the going concern review, we have ensured that we remain in compliance with the terms of these agreements, for example related banking covenants and facility levels, for the period under assessment.

As part of strategic planning, the Group Directors make key assumptions about business performance and stress-test financial scenarios to ensure compliance with facility terms, even under principal risk events. Although the Group has a robust planning process, which reflects the continuing economic uncertainty and headwinds impacting the group, we have performed additional stress testing of the going concern basis under severe but plausible downside scenarios, and reflect our principal risks. The results of our stress testing of severe but plausible downside scenarios provided a reasonable basis to support the Group directors' conclusion over going concern.

In arriving at the conclusion of the appropriateness of the going concern assumption, the Group directors have considered the following:

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

The Group successfully extended its revolving credit facility ("RCF") in November 2024 at £400m for 5 years to the end of November 2029. 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 liquidity to meet our debt liabilities as they fall due; and/or b. A breach of the financial covenants implicit in our bank revolving credit facility.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

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

As at 4 January 2025, the Group had total available liquidity of £820m, being cash of £420m, including amounts on short term deposit, and headroom of £400m of the Group's Revolving credit facility ("RCF") that remained undrawn at year end. Total available facilities amounted to £862m at year end.

The Base case has sufficient liquidity and bank covenants headroom over the going concern period.

A definition of the Group's banking covenants is provided in Note 18 of the Group's Annual Report and Accounts (2024). Further details on capital management, financial instruments, and risk exposures are provided in Notes 25 and 26 to those financial statements.

2. Review and challenge management's base case forecast, including key choices

The Directors have also considered the Group's cash flow forecasts and profitability projections for the period to December 2026 ("Base Case"). Co-op's base case forecast takes into consideration the continued uncertainty in the market, and has also been adjusted for the impacts of the UK chancellor's autumn budget to provide a more accurate base case for going concern sensitivities. The Board has reviewed and approved these plans. The key assumptions in the plan are:

- a. Growth in price, volume and profit, whilst keeping net debt steady.
- b. This growth is tempered with impact of continued cost headwinds on payroll, goods not for resale inflation, and expected increase in packaging costs, being offset by margin and operating cost efficiencies.
- c. Whilst the impact of Chancellor's budget is market-wide, base case has been adjusted to quantify the national insurance and other impacts along with mitigations of these headwinds.
- d. Our healthy balance sheet position will allow us to repay the £112m 2025 subordinated notes (due December 2025). As disclosed in the subsequent events note, the Group has in June 2025 signed a new 5 year term loan for £350m which will allow us to repay the £350m bond maturing in July 2026.

The Base Case has sufficient liquidity and bank covenant headroom over the going concern period, with all bank covenant conditions met.

3. Assess downside scenarios against the base case:

The Directors have also considered the impact on forecasted performance of severe but plausible downside scenarios ("Downside Case"), including (but not limited to) the following: a reduction in trade volumes in our Food and Funeralcare business, increase in energy costs which covers unhedged energy prices, wage and other costs inflation.

The downside sensitivities identified do not risk the validity of the Group as a going concern even before applying the mitigating actions considered below. We have also considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Even in the unlikely scenario of all the sensitivities happening simultaneously we still have liquidity and covenant headroom over the Going concern period.

Whilst out of line with our strategic ambition, there are several options within the business' control we could exercise, if the above risks materialised and Co-op management wanted to implement mitigating actions. Options include the Group's ability to control the level and timing of its capital expenditure programme, saving a minimum of £25m per annum and applying cost control measures across both variable and overhead budgets. In addition, we have flexibility in the level of pass-through of energy and cost inflation to the end customer.

4. Conduct reverse stress tests to identify risks to liquidity and covenant headroom and assess their likelihood and mitigations:

Our going concern approach assesses risks to our forecasts through severe but plausible downside scenarios and mitigation options. A reverse stress test identifies the point where the model fails. Following our modelling, we consider this scenario to be remote.

Notes to the financial statements (continued)**2 Accounting policies (continued)****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. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

Bank overdrafts that are repayable on demand and form an integral part of the Society's cash management are included as a component of cash and cash equivalents.

Through its primary banking provider, the Co-operative Group operates a joint account arrangement for its subsidiary entities. Under this arrangement, the Group manages all funds through a joint MASS (Memorandum account statement system) account on behalf of all participating entities, whilst the individual entities have Memorandum accounts which are reflected in the header MASS account. All memorandum balances are grouped together in the MASS account for the purposes of applying interest from a Group perspective, but each entity records its own memorandum balance in its individual financial statements.

Each subsidiary presents the net aggregate balance of their Memorandum accounts as cash and cash equivalents as each participant is able to access their accounts as if it was a real individual bank account and is responsible for its own indebtedness as per the MASS agreement.

The Society participates in the Co-operative Group's joint account arrangement and as such provides a cross-guarantee for all participants in relation to all indebtedness owed to the bank. While the joint MASS account has an overall positive balance, certain individual group entities do have overdraft positions, for which the Society is jointly and severally liable with the rest of the Group in the event of a default. As at 4 January 2025, the Society has recognised liabilities of £nil in respect of the cross guarantees for other MASS account participants.

Property, plant and equipment and depreciation

Property, plant and equipment is measured initially at historical cost and includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Fixed assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Society's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	- 2% per annum
Plant and machinery	- 7.5% - 33.0% per annum
Fixtures and fittings	- 12.5% per annum
Motor vehicles	- 11% - 25% per annum

The residual value, if not insignificant, is reassessed annually. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. No depreciation is provided on freehold land.

Investment Properties

Properties held for long-term rental yields that are not occupied by the Society or properties held for capital growth are classified as investment properties. 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.

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.

Intangible assets**(i) Goodwill**

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Society. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back. Negative goodwill arising on an acquisition is recognised directly in the income statement. Acquisition costs are expensed to the income statement when incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software development costs	3 - 7 years
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(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

Notes to the financial statements (continued)**2 Accounting policies (continued)****Impairment**

At each reporting date, the Society reviews the carrying amounts of its property, plant and equipment, intangible assets, goodwill 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 a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

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.

Where an individual branch within a local network is to be closed, the CGU attributable to that branch is redefined as being solely that individual branch on the basis that the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

Funeral benefit options (FBOs)

FBOs are attached to Guaranteed Over 50's life insurance plans (GOFs) sold by the Society's third party insurance partners. An FBO is the assignment of the sum-assured proceeds of a GOF policy to the Society for the purposes of undertaking their funeral. In exchange the GOF customer is awarded a discount on the price of the funeral.

No revenue is recognised by the Society at the point of assignment and instead an element of the costs that have been incurred in obtaining the FBO are deferred onto the balance sheet. These are then expensed at the point of redemption when the revenue is recognised. Any plans that are cancelled are written off at the point at which the Society is made aware of the cancellation. A separate provision is also made to cover the expected cancellations of FBOs. No investment or liability is recognised for FBOs as the option does not guarantee a funeral and the liability for which remains with the insurance partner. Any difference between the funeral price and the sum assured at the point of redemption is the liability of the deceased estate or whoever takes responsibility for arranging the funeral.

Financial Assets and Liabilities**i) Recognition of financial assets**

Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Society's business model for managing them. The Society initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments).

ii) Recognition of financial liabilities

The Society recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVTPL. Financial liabilities costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The Societies non-derivative financial liabilities comprise: (i) Borrowings (ii) Trade and other payables and (iii) Lease liabilities.

Notes to the financial statements (continued)**2 Accounting policies (continued)****Financial Assets and Liabilities (continued)****iii) Derecognition of financial assets and financial liabilities**

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- the Society has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

Measurement

The Society calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

Payable and receivables with a remaining life in excess of one year are deemed to be financial assets or liabilities and are initially measured at the present value of the future cashflows. Such assets and liabilities are subsequently carried at amortised cost.

Dividend distribution

Dividend distributions to the Society's members are recognised as a liability in the Society's financial statements in the period in which the dividends are approved by the Society's members.

Pensions and other post-retirement benefits

The Society's employees were members of a Group (Co-operative Group Limited) wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace Complete Scheme). This Pace Complete Scheme is a defined benefit scheme. The Society contributed to the Pace Complete Scheme in respect of its employees who were members of the Scheme 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 scheme and therefore contributions to the scheme up until the end of October 2015 were accounted for as if it 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 Funeral Services 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 6.

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.

Inventories

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value. The cost of finished goods and work in progress includes the cost of materials and direct labour.

Notes to the financial statements (continued)**2 Accounting policies (continued)****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 occurred 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.

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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(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.

The deferred tax assets and liabilities of the Society are presented net in the Balance Sheet. This is because the Society is allowed, under UK legislation, to make a single net corporation tax payment giving it the right of off-set.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed).

The Society pays certain disbursements (such as burial plots, cremation fees) on behalf of its customers, which are recovered as part of the invoicing process. The charges are passed through to customers at cost with Co-op acting as an agent in the transaction and therefore no revenue is recognised.

If a customer has overpaid in advance of the funeral, or additional services are unused due to a change of mind or other circumstances, then the customer is entitled to a refund within 14 days of the request.

All revenue is derived from the Society's principal activity of funeral directors and associated services in the United Kingdom.

In the supply of monumental masonry, revenue is recognised at the point the masonry is fitted into place.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Member Discounts and Rewards

Member discounts are treated as a reduction in the transaction price of the service and hence a reduction in revenue. In the comparative periods Member and Community rewards were earned at 2% of member spend on selected Co-op products and services. Following a change to our membership proposition these rewards were no longer earned from 24 January 2024. Members have been able to redeem their rewards throughout 2024 with any unused reward recognised within revenue in the income statement based on an assessment of future redemption rates. Member rewards earned as part of our membership offer were recognised as a reduction in sales at the point they were earned with a corresponding liability being held on the balance sheet. The liability was then reduced when the rewards were redeemed.

Share capital

Where the 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 pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Functional currency

The functional currency for the Society is pound sterling which is also the presentation currency. All amounts are rounded to the nearest thousand unless otherwise stated.

3 Revenue

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Provision of services	242,594	237,993
Member discount on provision of services	(2,054)	(2,305)
Net revenue (as shown in the income statement)	240,540	235,688

Notes to the financial statements (continued)

4 Operating profit / (loss)

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
<i>Profit / (loss) on ordinary activities before taxation is stated after charging / (crediting):</i>		
Depreciation of property, plant and equipment	20,230	19,041
Depreciation of right-of-use assets	7,016	7,432
Profit / (loss) on sale of property, plant and equipment (Other assets)	(329)	(153)
Other impairment of property, plant and equipment	-	9
Other impairment of right-of-use assets	(29)	43
Impairment and profit / (loss) on disposal of property and fixed assets	<u>(358)</u>	<u>(101)</u>
Cost of inventory consumed	14,394	15,118
Staff costs (see note 5)	110,631	111,082
Expected credit loss on debtors	(62)	965
Community reward earned	<u>46</u>	<u>902</u>

The auditor's remuneration of £33,080 (2023: £20,055) is borne by the ultimate parent undertaking.

Notes to the financial statements (continued)

5 Staff numbers and costs

The average number of persons employed by the Society (including Directors) during the period, analysed by category, was as follows:

	Number of employees for period ended 4 January 2025	Number of employees for period ended 6 January 2024
Full-time	1,931	1,899
Part-time	1,750	1,811
	3,681	3,710

The aggregate payroll costs of these persons were as follows:

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Wages and salaries	93,937	94,763
Social security costs	7,940	7,632
Other pension costs (see note 6)	8,754	8,687
	110,631	111,082

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Directors emoluments	669	552
Society pension contributions to personal pension schemes	15	23
Total Director's remuneration	684	575

The emoluments of the highest paid Director amounted to £499k (2023: £353k).

Notes to the financial statements (continued)

6 Pension Scheme

The Society is a wholly owned subsidiary of Co-operative Group Limited ("Group") which operated a defined benefit scheme (the Pace Complete scheme) up until the end of October 2015 when it was closed to future accrual. The assets are held in a separately administered trust. Until December 2013, the Pace scheme was defined as a Group plan, as all participating entities were under the common control of Co-operative Group Limited (the sponsoring employer). Following the recapitalisation of The Co-operative Bank PLC in December 2013, the various entities participating in the Pace plan are no longer under common control of the Group and as a result, the Pace scheme became a multi employer scheme. Full details of the Pace plan for the period ending 4 January 2025 are disclosed in the Group's consolidated financial statements for that period.

This Society is neither the sponsoring entity nor legally defined as a participating employer of the Pace Complete scheme. However, as the Society either currently employs or has historically employed members of the Pace scheme, the charge made to the Society up until the end of October 2015 by the ultimate parent Society for employment costs included a charge in respect of the Pace scheme at an agreed percentage of the pensionable wage. The agreed percentage of pensionable wage was determined by an independent qualified actuary.

As the Pace Complete Scheme was closed to future accrual at the end of October 2015, the Pace DC scheme was expanded. The amount recognised as an expense in respect of the Pace DC scheme for this Society was £8,754k (2023: £8,687k). This is included in the staff costs as disclosed in note 5. The employer contributions made by the Society have been charged to the income statement when incurred.

7 Exceptional expenses

During the current year, certain historic balances on the bank reconciliation that can no longer be substantiated were written-off. In the prior year, the Society offered a number of cost of living payments / support to its employees including a 30% employee discount and £50 and £75 payments onto membership cards. As these items were generated in the normal course of the business, they were treated as exceptional expenses through the income statement.

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Write-off of historic balances (bank reconciliation)	72	-
Cost of living	-	163
	72	163

Notes to the financial statements (continued)

8 Finance costs

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Interest on leases	2,183	2,202
	<u>2,183</u>	<u>2,202</u>

9 Finance income

	For period ended 4 January 2025 £'000	For period ended 6 January 2024 £'000
Interest on intra-group loans	13,114	13,224
	<u>13,114</u>	<u>13,224</u>

Notes to the financial statements (continued)

10 Taxation

<i>Analysis of tax charge in period</i>	For period ended 4 January 2025	For period ended 6 January 2024
	£'000	£'000
<i>UK corporation tax:</i>		
Group relief (payable) / receivable	(6)	249
Current tax (payable) / receivable - adjustments in respect of prior periods	(35)	373
Total current tax	<u>(41)</u>	<u>622</u>
<i>Deferred tax (see note 21):</i>		
Deferred tax credit - current period items	(1,758)	646
Deferred tax adjustments in respect of prior periods	(621)	(257)
Effect of rate of change on closing balance	-	41
Total deferred tax	<u>(2,379)</u>	<u>430</u>
Tax (charge) / credit for the period	<u><u>(2,420)</u></u>	<u><u>1,052</u></u>

Factors affecting the tax charge for the current period

The tax on the profit / (loss) before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 25.0% (6 January 2024: 23.5%) as follows:

	For period ended 4 January 2025	For period ended 6 January 2024
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit / (loss) before tax	2,694	(5,136)
Tax at 25.0% (2023: 23.5%)	<u>(673)</u>	<u>1,207</u>
<i>Effects of:</i>		
Expenses not deductible for tax	(23)	(10)
Depreciation and amortisation on non-qualifying assets	(1,221)	(918)
Transfer pricing	701	538
Adjustments to tax charge in respect of previous periods	(656)	116
Deferred tax rate change adjustment	-	41
Capital losses transferred	184	62
Profit / (loss) on disposal of fixed assets	(732)	16
Total income tax charge (see above)	<u><u>(2,420)</u></u>	<u><u>1,052</u></u>

Based on previously enacted legislation, the rate of corporation tax increased to 25% with effect from 1 April 2023. The rate of tax applicable to the whole year is therefore 25%. The rate of tax applied to deferred tax movements in the year is also 25% on the basis that this was the enacted rate at the balance sheet date. This applies to deferred tax movements in the year and post balance sheet values.

Notes to the financial statements (continued)

11 Dividends

No dividend was declared in the period or the prior period.

12 Property, plant and equipment

	Freehold land and buildings	Fixtures and fittings and Plant and Machinery	Motor vehicles	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 6 January 2024	136,487	181,284	54,597	7,590	379,958
Additions	2,134	1,054	7,797	14,316	25,301
Disposals	(295)	(1,488)	(3,809)	(372)	(5,964)
Transfer to Investment Properties	(469)	-	-	-	(469)
Transfers from assets under construction	2,838	14,251	1,682	(18,771)	-
Transfers from other group companies	6	(42)	(604)	-	(640)
At 4 January 2025	140,701	195,059	59,663	2,763	398,186
Depreciation					
At 6 January 2024	51,447	129,844	50,324	-	231,615
Charge for the period	3,001	15,485	1,744	-	20,230
Impairment Charge	-	-	-	-	-
Disposals	(76)	(1,442)	(3,808)	-	(5,326)
Transfer to Investment Properties	(166)	-	-	-	(166)
Transfers from other group companies	-	(2)	(68)	-	(70)
At 4 January 2025	54,206	143,885	48,192	-	246,283
Net book value					
At 4 January 2025	86,495	51,174	11,471	2,763	151,903
At 6 January 2024	85,040	51,440	4,273	7,590	148,343
Capital work in progress included above	-	-	-	2,763	2,763

No impairment (2023: £nil) was recognised for funeral homes that are expected to close in 2025 within branch closures in the income statement.

Freehold land is not depreciated. Freehold land was £13,883k as at 4 January 2025 (2023: £13,883k).

The Society has assets in use which are fully written down with nil NBV. As at 4 January 2025, the cost of fully written-down assets was £127,913k (2023: £110,782k).

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.

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

Assumption	Detail
Structure of a CGU	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flows	<p>Future cash flows derived from Board approved four-year plan cash flow projections.</p> <p>These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties.</p> <p>Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms.</p> <p>A growth rate of 1.07% (2023: 1.9%) is applied beyond Board approved four-year plan horizon (reflecting the UK's long-term death rate (2023: reflecting the UK's long-term post war growth rate)) for the period of the lease and into perpetuity.</p>
Discount rate	<p>A post tax discount rate has been calculated for impairment purposes, with the Funeralcare segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 9.7% (2023: 11.6%).</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 Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p> <p>Sensitivity analysis has also been performed on our goodwill impairment testing, see below.</p>

Goodwill impairment - sensitivity

For the Society's goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the four-year plan. Although inherently uncertain this also includes our best estimate of future death rates. Cash flows have been projected based on the four-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 9.7% (2023: 11.6%). A long term growth rate of 1.07% has been applied beyond the three-year plan period (2023: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in growth by minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

Notes to the financial statements (continued)

13 Leases

As a lessee

	Property £'000	Other £'000	Total £'000
Right-of-use assets			
Balance at 6 January 2024	26,202	8,178	34,380
Depreciation charge for the year	(4,371)	(2,645)	(7,016)
Additions	5,021	944	5,965
Disposals	(42)	(271)	(313)
Impairment	(29)	-	(29)
Intra-group statutory transfer	(5)	527	522
Balance at 4 January 2025	26,776	6,733	33,509
Balance at 31 December 2022	27,319	9,626	36,945
Depreciation charge for the year	(4,552)	(2,880)	(7,432)
Additions	3,692	1,451	5,143
Disposals	(96)	(139)	(235)
Impairment	(43)	-	(43)
Intra-group statutory transfer	(118)	120	2
Balance at 6 January 2024	26,202	8,178	34,380

The Other category noted in the table above includes both plant and machinery and motor vehicles.

The Society leases many assets, principally it leases properties for its funeralcare branches as well as some vehicles and other equipment. The leases of funeralcare branches are typically between 1-25 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.

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Current	(8,343)	(9,233)
Non-Current	(31,903)	(32,069)
Lease liabilities included in the balance sheet	(40,246)	(41,302)
	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Less than 6 months	(4,550)	(4,812)
6 - 12 months	(4,406)	(4,640)
1 - 2 years	(7,563)	(8,001)
2 - 5 years	(14,651)	(14,412)
5 - 10 years	(10,754)	(10,675)
10 - 15 years	(5,225)	(5,574)
More than 15 years	(6,764)	(3,894)
Total lease liabilities	(53,913)	(52,008)

Notes to the financial statements (continued)

13 Lease liabilities (continued)	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Opening lease liabilities	(41,302)	(45,145)
Additions	(6,427)	(5,048)
Disposals	262	232
Interest expense	(2,194)	(2,199)
Payments	9,364	10,546
Intra-group statutory transfer	51	312
Closing lease liabilities	(40,246)	(41,302)

Extension and termination options

Some leases of funeral branches 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 4 January 2025, potential future cash outflows of £1.3m (2023: £1.7m) (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 £14.2m (2023: £12.9m) (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

14 Goodwill and intangible assets	Goodwill £'000	Computer Software £'000	Total £'000
Cost			
At 6 January 2024	33,113	25,532	58,645
Disposals	-	-	-
Transfers to other group companies*	-	(18,526)	(18,526)
Additions	-	1,337	1,337
At 4 January 2025	33,113	8,343	41,456
Amortisation			
At 6 January 2024	2,126	6,341	8,467
Transfers to other group companies*	-	(33)	(33)
Amortisation charge	-	258	258
At 4 January 2025	2,126	6,566	8,692
Net book value			
At 4 January 2025	30,987	1,777	32,764
At 6 January 2024	30,987	19,191	50,178
Capital work in progress included above	-	-	-

* In February 2024, Co-op Funeral Plans Limited (a fellow group society) introduced a new finance system, D365. The cost of the new system had been incurred by Funeral Services Limited and was classified as a work in progress intangible asset (computer software) in 2023. On implementation, this was transferred to Co-op Funeral Plans Limited at a NBV of £18,493k (being the net of cost of £18,526k and amortisation of £33k).

Notes to the financial statements (continued)

15 Inventories

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Raw materials and consumables	259	210
Work in progress	147	218
Finished goods	2,852	3,420
At end of year	3,258	3,848

16 Contract assets

(in respect of FBO's)

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Non-current	5,887	6,210
Current	494	609
At end of year	6,381	6,819

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Opening contract assets	6,819	7,381
Deferred costs in respect of FBOs	(438)	(562)
Closing contract assets	6,381	6,819

No provision for expected credit losses has been recognised against contract assets in either the current or prior period.

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For FBO's then an element of the costs incurred in obtaining the FBO are deferred on the balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in line with when the revenue is recognised).

Notes to the financial statements (continued)

17 Trade and other receivables

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
<i>Non-current assets:</i>		
Amounts owed by group undertakings	133,340	124,359
	133,340	124,359
<i>Current assets:</i>		
Trade receivables	8,731	9,744
Prepayments and accrued income	1,426	1,262
	10,157	11,006

Trade receivables are non-interest bearing and the Society's standard payment terms are 21 days (2023: 21 days).

Trade receivables are stated at amortised cost which includes a credit risk impairment of £2.1m (2023: £3.8m). The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables as shown in the table below.

	Months past due date				Total
	Current	Less than 3	3 to 6	More than 6	
Expected credit loss rate (%)	2%	20%	64%	100%	32%
Estimated gross total carrying amount (£k)	3,181	1,699	214	1,594	6,688
Expected credit loss (£k)	68	332	136	1,594	2,130

Unprovided debts in the over 3 months and older categories are often being paid in regular instalments.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. There is no expectation of calling the debt repayment within the year therefore the amounts are classified as non-current.

18 Investment Properties

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Opening balance	-	-
Transfer from Property, plant and equipment (Note 12)	303	-
Revaluation gain recognised in OCI	657	-
Closing balance	960	-

Notes to the financial statements (continued)

19 Trade and other payables

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
<i>Non-current liabilities:</i>		
Accruals and deferred income	693	353
	693	353
<i>Current liabilities:</i>		
Trade payables	18,723	18,151
Other payables including taxation and social security	734	394
Accruals and deferred income	28,323	37,092
	47,780	55,637

20 Provisions

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
<u>Property provisions:</u>		
At beginning of the period	323	285
Additional provisions made in the period	351	394
Amounts used during the period	(230)	(165)
Payments	(64)	(39)
Onerous lease transfer	(215)	(152)
At end of the period	165	323

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 which range from 1 to 25 years.

Notes to the financial statements (continued)

21 Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective tax rate of 25.0% (2023: 23.5%).

	As at 4 January 2025 £'000	As at 6 January 2024 £'000
Deferred tax liability brought forward	(7,702)	(8,132)
Income statement charge in the period	(2,379)	430
Other comprehensive income charge in the period	(164)	-
Deferred tax liability closing balance	<u>(10,245)</u>	<u>(7,702)</u>
Comprising:		
Capital allowances on fixed assets	6,942	8,227
Capital allowances on intangible assets	(1,340)	(1,279)
Provisions	300	157
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(17,279)	(16,025)
IFRS16 leases	1,132	1,218
Deferred tax liability	<u>(10,245)</u>	<u>(7,702)</u>

Based on previously enacted legislation, the rate of tax applied to deferred tax movements in the year is 25% on the basis that this was the enacted rate at the balance sheet date. This applies to deferred tax movements in the year and post balance sheet values.

22 Called up share capital

	As at 4 January 2025 £	As at 6 January 2024 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	3	3

There is a single class of share capital.

Notes to the financial statements (continued)

23 Commitments

Capital expenditure committed by the Society at period end was £786k (2023: £1,407k).

The Society participates in the Co-operative Group's joint account arrangement and as such provides a cross-guarantee for all participants in relation to the Co-operative Group's net liability. At 4 January 2025 there was no liability on the Society from other MASS account participants.

24 Contingencies

The Group has a £400m revolving credit facility (RCF) maturing in November 2029. Funeral Services Limited is a guarantor under the RCF.

As at 4 January 2025, Funeral Services Limited continued to be a guarantor of the facilities agreement. As at 4 January 2025, the facility was undrawn.

Funeral Services Limited is also a guarantor of Sterling bond notes issued by Co-operative Group Limited and Co-operative Group Holdings (2011) Limited, comprising £350m bond notes due in July 2026. Furthermore, there are £109m of subordinated repayment notes and £3m of subordinated instalment notes, issued by Co-operative Group Limited, due December 2025, to which Funeral Services Limited is also a guarantor.

25 Ultimate parent undertaking

The Society is immediately owned and a wholly owned subsidiary of Co-operative Group Holdings (2011) Limited, a Registered Society registered in England and Wales.

The Society's ultimate parent undertaking and controlling party is Co-operative Group Limited, a Registered Society 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.

26 Related parties

Identity of related parties

The Society has a related party relationship with its Directors as well as with fellow Group subsidiary undertakings. The Directors' emoluments are disclosed in Note 5 and balances receivable or payable to fellow Group undertakings are detailed in Notes 17 and 19 respectively.

Transactions with other Trading Group subsidiaries

The Society is involved in a Group set-off scheme whereby the bank accounts within the Trading Group are netted off against each other and any interest payable or receivable is settled or received by the ultimate parent Society, Co-operative Group Limited.

Amounts owed to the Society from fellow group subsidiaries total £133,340k (2023: £124,359k). See note 17.

Notes to the financial statements (continued)

27 Post balance sheet events

Cyber attack:

At the end of April 2025, the Society's ultimate parent undertaking The Co-operative Group (the Group) announced that the Group had been managing a targeted cyber attack. The incident has been treated as a non-adjusting post-balance sheet event and there has been no impact on the financial results reported for the Society for the year ended 4 January 2025.

The Group proactively managed the incident. The cyber attack and subsequent response resulted in a period of disruption across the Group's systems and operations, including the systems and operations of the Society. As a result, the Group and Society experienced a loss of sales and income from having restricted or no access to systems, in addition to the additional costs incurred to support the incident.

At this early stage, the Group remains in the recovery phase but operations are recovering and the Company is able to continue trading. The Group do not expect the impact to have an adverse impact on the valuation of assets and liabilities in the upcoming financial year. In response to the events, the Group have engaged external cyber security experts to assist with investigating and managing the incident. The Group have also engaged with the relevant authorities, including reporting the incident to the National Cyber Security Centre (NCSC), the National Crime Agency (NCA) and the Information Commissioners Office (ICO).

The Society has considered the impact of the cyber incident as part of its Going Concern Assessment (see Accounting Policies in section 2 for further details).

Term-loan:

On the 18 June 2025, the Group signed a new £350m sustainability-linked term loan agreement for a 5 year term committed to June 2030. The Society participates in this agreement as a guarantor. The facility remained undrawn at the time of approval of these accounts.