The Manx Co-operative Society Limited

Annual Report and Financial Statements

Registered number IM 25

1 January 2022

Corporate Information

Directors
The Directors who held office during the period and to date are as follows:

S Etherington (Chair) (appointed 23 March 2022)
H Thomas (appointed 17 March 2022, resigned 23 March 2022)
M Laine-Toner (resigned 30 November 2021)
J McNeill
W Shimmin (resigned 31 December 2021)
W Tomlinson
D Aram (appointed 01 January 2022)

Officers
C Sellers (Secretary)
A Corrie (Operations Manager)

Auditors
Ernst & Young LLC
Rose House
51 - 59 Circular Road
Douglas
Isle of Man
IM1 1AZ

Registered Office
4 Myrtle Street
Douglas
IM1 1ED

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Directors' Report

The Directors are pleased to present their annual report and financial statements for the 52 week period ended 1 January 2022.

Principal activities

The principal activity of The Manx Co-operative Society Limited (the 'Society') is the operation of convenience stores.

Business review

The Directors are pleased to report reasonable performance, with operating profits for the period of £520,000 (2020: £1,554,000).

Relatively stable sales has been achieved despite customer numbers down by 1.0% (2020: 18.8% down) and with average basket spend down 4.0% (2020: 24.1% up). Overall profitability has decreased with operating profit of 1.5% of sales (2020: 4.2%).

Similarly to 2020 the performance of the business was impacted by the COVID pandemic. Payroll costs remained high as COVID related absences and instore control measures continued to have a marked impact. The loss of the TT and a limited summer season had a detrimental effect on sales throughout the summer as did the lockdowns and various outbreaks during the year. A new Co-op store was opened in Crosby in September - the first for over 15 years and sales have exceeded expectations delivering £75k in the opening week and stabilising at close to £60k per week, thereafter. The addition of this store has ensured that sales and market share have increased on the island. The home delivery services at Ramsey and now at Crosby are growing at pace and a click and collect service has been added at Duke Street. The Manx Co-op was awarded the Isle of Man Business of the Year Award at the Annual Awards for Excellence in recognition of its contribution to the community of the Isle of Man and once again local causes benefitted by over £100,000 from the Co-op Local Community Fund and the Co-op Community Donations Fund.

While 2021 was a challenging year, our Co-op colleagues rose admirably to the challenge and the business is well placed to succeed as the pandemic period draws to a close with solid plans in place to grow the business during 2022 and ensure costs remain under tight control.

Dividend

The Directors do not recommend the payment of a dividend (2020: £nil). However, the membership structure is set up in such a way that, members of the Society who are also members of the Society's parent organisation, Co-operative Group Limited (the 'Parent Organisation'), are eligible for any recommended dividends paid by the Parent Organisation, based on their trade with the Society on the Isle of Man. The structure is the result of a long standing decision agreed by the Board of the Society in relation to the membership structure and payment of dividends.

Directors

The Directors who held office during the period and to date are as follows:

S Etherington (Chair) (appointed 23 March 2022)
H Thomas (appointed 17 March 2022, resigned 23 March 2022)
M Laine-Toner (resigned 30 November 2021)
J McNeill
W Shimmin (resigned 31 December 2021)
W Tomlinson
D Aram (appointed 01 January 2022)

Officers

C Sellers (Secretary)
A Corrie (Operations Manager)

Employees

The Board would like to pay thanks to its employees who have contributed to the success of the Society during the period.

By order of the Board

C Sellers
Secretary
Date: 28 June 2022

Registered Office:
4 Myrtle Street
Douglas
Isle of Man
IM1 1ED

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.

Industrial and Provident Society Law requires the Directors to prepare financial statements for each financial period, which meet requirements of Isle of Man Law. In addition, 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".

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 the 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 applicable UK Accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 Industrial and Provident Society Acts 1892 to 1986. 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 the Members of The Manx Co-operative Society Limited

Qualified Opinion

We have audited the financial statements of The Manx Co-operative Society Limited for the year ended 1 January 2022 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the Society's affairs as at 1 January 2022 and of its profit for the year 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 Industrial and Building Societies Act 1892 to 1986.

Basis for qualified opinion

Given the impact of Covid-19 we were unable to observe the counting of physical inventories at the end of the year ended 2 January 2021. We were unable to satisfy ourselves by alternative means concerning the inventory quantities of £780k held at 2 January 2021 by using other audit procedures. Consequently, we were unable to determine whether there was any consequential effect on the cost of sales for the year ended 2 January 2021. Our audit opinion on the financial statements for the period ended 2 January 2021 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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 qualified 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 a period to 30 June 2023.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the inventory quantities of £780k held at 2 January 2021. We have concluded that where the other information refers to the inventory balance or related balances such as cost of sales, it may be materially misstated for the same reason.

Responsibilities of the directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

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 company law and tax legislation, and the financial reporting framework i.e. the Industrial and Building Societies Act 1892 to 1986 and FRS 101.
- We understood how The Manx Co-operative Society Limited is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters.
- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur, through internal team conversations and inquiry of management and those charged with governance.

address manual journals to revenue throughout the year, and a focus on manual journals being posted to revenue using a lower threshold. We also performed heightened audit procedures around supplier income which included testing management's controls in this area, 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.

- We identified a risk that management may override controls in certain key processes in order to achieve a desired financial reporting outcome. We determined that the most susceptible accounts to any such override are supplier income and revenue, and our procedures to address the risk included testing journal entries from within a complete population of journals posted by the entity during the period.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures 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, 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. 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.

Ernst & Young LLC

Ernst & Young LLC
Chartered Accountants
Isle of Man

30 June 2022

Income Statement
for the 52 week period ended 1 January 2022

	Notes	**For period ended 1 January 2022 £'000**	For period ended 2 January 2021 £'000
Revenue		**34,806**	36,653
Cost of sales		**(23,378)**	(24,177)
Gross profit		**11,428**	12,476
Administrative expenses		**(7,373)**	(7,313)
Distribution costs		**(3,535)**	(3,609)
Other operating expenses		**-**	-
Operating profit	3	**520**	1,554
Finance expense		**(104)**	(113)
Profit before taxation		**416**	1,441
Taxation	6	**(82)**	(295)
Profit for the period		**334**	1,146

Statement of Comprehensive Income
for the 52 week period ended 1 January 2022

The Society has no recognised income or expenses in the current or prior period other than those included in the income statement shown above, therefore a separate Statement of comprehensive income has not been presented. The total comprehensive profit for the period ended 1 January 2022 was £334k (2020: £1,146k).

The notes on pages 11 to 22 form an integral part of these financial statements.

Balance Sheet
As at 2 January 2021

	Notes	1 January 2022 £'000	2 January 2021 £'000
Non-current assets			
Property, plant and equipment	7	**2,259**	2,735
Right-of-use assets	8	**1,271**	1,213
Intangible assets	9	**2,323**	2,323
Other investments	10	**35**	35
Total non-current assets		**5,888**	6,306
Current assets			
Inventories	11	**735**	780
Trade and other receivables	12	**6,992**	6,333
Cash and cash equivalents		**213**	180
Total current assets		**7,940**	7,293
Total assets		**13,828**	13,599
Non-current liabilities			
Deferred tax*	13	**(77)**	(118)
Lease liabilities	8	**(1,672)**	(1,633)
Total non-current liabilities		**(1,749)**	(1,751)
Current liabilities			
Lease liabilities	8	**(206)**	(205)
Corporate income tax	6	**(116)**	(220)
Total current liabilities		**(322)**	(425)
Total liabilities		**(2,071)**	(2,176)
Net assets		**11,757**	11,423
Equity			
Called up share capital	14	**209**	209
Retained earnings		**11,548**	11,214
Total equity		**11,757**	11,423

The notes on pages 11 to 22 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 June 2022 and were signed on its behalf by:

S Etherington
Director

J McNeill
Director

C Sellers
Secretary

Statement of Changes in Equity
for the 52 week period ended 1 January 2022

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 4 January 2020	211	10,068	**10,279**
Profit for the period	-	1,146	**1,146**
Share withdrawn	(2)	-	**(2)**
Balance at 2 January 2021	**209**	**11,214**	**11,423**
Profit for the period	-	334	**334**
Share withdrawn	-	-	**-**
Balance at 1 January 2022	**209**	**11,548**	**11,757**

The notes on pages 11 to 22 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 General information

The Manx Co-operative Society Limited is a Society domiciled in the Isle of Man. The address of the Society's registered office is 4 Myrtle Street, Douglas, IM1 1ED.

The principal activity of the Society is food retail, operating convenience stores in the Isle of Man.

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 periods 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 for the 52 week period ended 1 January 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 subsidary 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 the same risks and challenges in relation to climate change as it's ultimate parent undertaking (the Group) and manages these risks in-line with the Groups' approach to climate change. The Group's overall approach to climate change (including its 10-point plan) is outlined in the Group's 2021 Annual Report and Accounts (ARA) - 'Fairer for our planet' section on page 28. Climate related risks are also explained within the risk managment section on page 46 of the ARA and Principal Risks and Uncertainties (Environment and Sustainability) on page 52 of the ARA. The Group's assessment of the potential impact on the long term viability of the Group is also set out on page 108.

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 3 January 2021 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements:

- Covid-19 Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)

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 2022 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 IFRS 3 Reference to the Conceptual Framework *
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use *
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture *
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current **
- Amendments to IAS 8 – Definition of Accounting Estimates **
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies **
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction **
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **
- IFRS 17 Insurance Contracts *

* Effective for annual periods beginning on or after 1 January 2022 and ** 1 January 2023.

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 8) - 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.

- Impairment of non-financial assets (notes 7 - 9) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets or goodwill and 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.

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 7.3% (2020: 8.2%).

The Society 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.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern

The Society generated a profit of £334k in the period (2020: £1,146k) and at the balance sheet dates holds net assets of £11,757k (2020: £11,423k).

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 30 June 2023.

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 borrows money from banks and others, and as part of this process it has checked that it 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, although they do not specify how far beyond 12 months a Board should consider. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 June 2023. Although the Group has a robust planning process, the current economic uncertainty (driven by factors including ongoing Covid 19 impact, inflation and rising energy costs) means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside test scenarios. The following steps have been undertaken to allow the Group directors to conclude on the appropriateness of the going concern assumption:

1) Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.

In making their assessment the Group directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow 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 its liabilities as they fall due. Throughout the going concern period the facility limit within which the Group needs to operate is £1,179m, which includes £779m non-bank facilities and £400m bank syndicate facilities; and/or

b. A breach of the financial covenants implicit in its bank facility agreement.

• Net Debt Leverage: Consolidated net debt as a multiple of bank-defined EBITDA must not exceed 3.00:1.00 at each six-monthly covenant test date.

• Adjusted Interest Cover: The bank-defined EBITDA (further adjusted by a fixed rental figure) as a multiple of the consolidated net finance charges, must not fall below 1.75:1.00 measured at each six-monthly covenant test date.

At the year end date, of the total £1,179m of facilities available to the Group, there was £972m drawn-down. Post the balance sheet date, there have been positive changes to the liquidity position.

2) Board review and challenge the base case forecast

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

The key assumptions in the plan are:

1. Year on year modest sales growth driven by inflation. Such inflation will be driven by various cost inflationary pressures, primarily in the cost of goods.
2. Cost optimisation program to drive higher operational efficiencies.
3. A capital light store growth program to drive higher cash generation and reduce indebtedness.

3) Consider downside sensitivities across the base case forecast

In undertaking its going concern assessment, the Group has included assumptions related to the impact of the pandemic and 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 its Food Retail business, with a prudent 1% reduction to sales volume. Reducing the Net sales from the base case
• A reduction in the demand of its Funeralcare business, with a prudent 1% reduction in sales.
• An increase in cost price inflation of 0.5% incremental to what has been used within its base model. It is also assumed that none of that is passed through to the sales price inflation.
• An increase in energy cost for unhedged volumes priced at prevailing market rate adding a further 15% premium for 2022 and 7.5% premium for 2023.
• Assuming 75% of its cost saving initiative across 2022 and 2023, is not achieved.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern - *continued*

During the preparation of these various downside scenarios, the Group has also reviewed the impact of the Russia – Ukraine conflict and continue to monitor the scenario through the involvement of the senior members of the organisation with various industry bodies. The Group's sourcing of products from Russia and Ukraine is limited. The direct impact of the conflict to the Group is proportionately lower, driven by the British sourcing strategy and lesser exposure to National Brands with broader supply chains given tighter range offer.

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, the Group Directors have considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Only in the highly implausible scenario of all the sensitivities happening simultaneously will mitigating actions need to be taken.

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

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

• The Group's ability to control the level and timing of its capital expenditure programme
• Apply cost control measures across both variable and overhead budgets, 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 the initial going concern approach assesses likely risks to the Group's base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, the Group have modelled a significant downturn in the grocery market driven by cost of living inflation and geo-political uncertainty of a further -4% retraction in Retail sales and a further reduction in funeral volume of -5%. In addition, the Group has modelled the impact of a higher than expected Food cost inflation and further energy price rises.

The Group could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of its 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. Whilst all remain undesirable strategically there is also the option to apply further stringent cost control measures.

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 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 balances and call deposits. 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.

Property, plant and equipment and depreciation

PPE 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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	50 years
Plant, equipment, fixtures, fittings and vehicles	3 - 12 years

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.

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.

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, goodwill, 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.

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Intangible assets

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.

Pensions and other post-retirement benefits

The Society operates a defined contribution scheme. The assets of the scheme are held separately from those of the Society. The Society's contributions are charged to the income statement as they become payable, in accordance with the rules of the scheme.

Inventories

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value. All inventories are finished goods.

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.

All revenue is derived from the Society's principal activity of operating convenience stores in the Isle of Man.

Notes to the financial statements (continued)

2 Accounting policies (continued)

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%)).

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

Investments

Investments are stated at fair value.

3 Operating profit

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Operating profit has been stated after charging:		
Depreciation of PPE	**628**	617
Depreciation of right-of-use assets	**96**	93
Inventory recognised as an expense	**23,378**	24,177
Intercompany recharge	**1,086**	1,258
	25,188	26,145

The auditor's remuneration of £10,245 (2020: £17,905) is borne by the ultimate parent undertaking.

Notes to the financial statements (continued)

4 Staff costs

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

	For period ended 1 January 2022	For period ended 2 January 2021
Full-time	**142**	144
Part-time	**104**	106
	246	250

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Wages and salaries	**4,060**	3,990
Social security costs	**307**	292
Pension costs	**85**	80
	4,452	4,362

Directors' remuneration in respect of services provided to the Society were £6,000 (2020: £6,000)

5 Supplier income

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

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Long term agreements	**556**	507
Bonus income	**288**	471
Promotional income	**1,199**	1,286
	2,043	2,264
Percentage of cost of sales before deducting supplier income		
Long term agreements	**2.4%**	2.1%
Bonus income	**1.2%**	1.9%
Promotional income	**5.1%**	5.3%
	8.7%	9.3%

6 Taxation

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Current tax (charge) - current period	**(114)**	(215)
Current tax (charge) - adjustments in respect of prior periods	**(9)**	(112)
Deferred tax credit / (charge) - current period items	**39**	32
Deferred tax (charge) / credit - adjustments in respect of prior periods	**2**	-
Total tax charge	**(82)**	(295)

Notes to the financial statements (continued)

6 Taxation (continued)

The tax on the net profit before tax is applied using the Isle of Man applicable rates of corporation tax of 10%/20% (2020: 10%/20%) as follows:

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Profit before tax	**416**	1,441
Current tax charge at 10%/20% (2020: 10%/20%)	**(61)**	(169)
Effects of:		
Non qualifying depreciation	**(14)**	(14)
Current tax prior year adjustment	**(9)**	(112)
Deferred tax prior year adjustment	**2**	-
Total income tax charge on continuing business	**(82)**	(295)

The 2020 Budget Measures announced on 18 February 2020 maintained the 10% tax rates on profits from a retail trade and maintained the rate of income tax on profits from land and property at 20%.

7 Property, plant and equipment

	Land and buildings £'000	**Plant and machinery** £'000	**Total** £'000
Cost			
At 2 January 2021	668	6,318	6,986
Additions	25	127	152
At 1 January 2022	**693**	**6,445**	**7,138**
Depreciation			
At 2 January 2021	668	3,583	4,251
Charge for the period	25	603	628
At 1 January 2022	**693**	**4,186**	**4,879**
Net book value			
At 1 January 2022	**-**	**2,259**	**2,259**
At 2 January 2021	-	2,735	2,735

Notes to the financial statements (continued)

8 Leases

As a lessee

Right-of-use assets

	Property £'000	Total £'000
Balance at 2 January 2021	1,213	1,213
Additions	154	**154**
Depreciation charge for the period	(96)	**(96)**
Balance at 1 January 2022	1,271	1,271

The Society leases many assets, principally it leases properties for its food retail stores. The leases of retail stores are typically between 20 and 50 years in length and in some cases the Society has options to purchase the assets at the end of the contract term.

Lease liabilities

	As at 1 January 2022 £'000
Current	206
Non-Current	1,672
Lease liabilities included in the balance sheet at 1 January 2022	1,878

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Lease liabilities - undiscounted maturity analysis		
Less than 6 months	**109**	109
6 - 12 months	**109**	109
1 - 2 years	**218**	217
2 - 5 years	**598**	616
5 - 10 years	**992**	992
10 - 15 years	**464**	905
More than 15 years	**-**	-
Total undiscounted lease liabilities	2,490	2,948

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Opening lease liabilities	**1,838**	1,946
Additions	**154**	-
Interest expense	**104**	108
Payments	**(218)**	(216)
Closing lease liabilities	1,878	1,838

Extension 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 Group 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 1 January 2022, included within the lease liability are future cash outflows of £514k (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

Notes to the financial statements (continued)

9 Intangible assets

	Goodwill £'000
At 2 January 2021	2,323
At 1 January 2022	2,323

The goodwill balance relates to the Ramsey (£2,200,000) and Laxey (£122,717) stores and represents the difference between the fair value of the assets on the acquisition at these sites and the fair value of the consideration paid at that time.

In line with the Society's accounting policies an annual impairment review has been undertaken to compare the carrying value of the goodwill with the estimated recoverable amount. The recoverable amount of the Society's assets is the greater of their net selling price and value in use. In assessing value in use, current pre-tax cashflows, taken to perpetuity, have been discounted at a rate of 7.3% using growth rates from the 4 year plan. Key assumptions used in assessing value in use are past experience as well as forecast growth in the business.

This has been done on an individual store basis representing each relevant cash generating unit. On this basis, impairment of £nil (2020: £nil) relating to the Laxey store was booked. There is no impairment of the goodwill required at the Ramsey store as the expected value in use for the store exceeds the carrying value of its goodwill.

10 Other Investments

	£'000
Net book value	
At 2 January 2021	35
At 1 January 2022	**35**

The Society holds investments of £35,000 (2020: £35,000) in the following group company:

		£'000	**Nature of share capital**	**Principal activity**	**% Ownership**
Co-operative Group Limited	1 Angel Square, Manchester, M60 0AG	35	Ordinary	Food Retail	0.05%
		35			

11 Inventories

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Goods for resale	**735**	780

12 Trade and other receivables

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Current assets:		
Amounts owed by other Group undertakings	**6,992**	6,333

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

Notes to the financial statements (continued)

13 Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 10% (2019: 10%).

	£'000
Deferred taxation liability	
At 2 January 2021	(118)
Income statement credit	41
At 1 January 2022	(77)
Comprising:	
Tangible fixed assets	(142)
IFRS16 leases	65
At 1 January 2022	(77)

14 Share capital

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Authorised		
A class ordinary shares of £1 each	**306**	306
Allotted, called up and fully paid		
A class ordinary shares of £1 each	**209**	209

IFRIC 2 determines the features, which allow shares to be classified as equity capital.

The £209,000 (2020: £209,000) "A" class ordinary shares are voting, non transferable and redeemable at par. The Board took the decision to cease paying interest on share capital with effect from 1 February 2013 (historically interest was accrued annually to the shareholders based upon the prevailing Co-operative Bank base rate). The period on period movement on this balance represents the impact of the purchase and withdrawal of shares in the Society by members.

In addition there are 16 (2020: 16) "B" class ordinary shares are voting, transferable non-redeemable and are not entitled to any benefits arising out of the results of the Society.

15 Parent and controlling parties

The Society has a subsidiary relationship with Co-operative Group Limited, a Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered in England and Wales. The Society's results are included within the consolidated accounts that are prepared for Co-operative Group Limited. A copy of the Co-operative Group Limited accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG. Co-operative Group Limited also holds the Class B shares in the Society and retains certain controlling powers within the Rules of the Society, including appointing and removing Directors to and from the Board. Further details on the called up share capital of the Society and the rights attached to the share categories is detailed in Note 14 to these accounts.

16 Post balance sheet events

Conflict in Ukraine
The Society continues to monitor the ongoing tragic conflict in Ukraine and resulting international relationships, to understand how we can respond and the potential effects upon the Society. Our immediate direct financial exposure to the fallout from the conflict is limited and we do not expect there to be a material impact on the valuation of the Society's assets or liabilities going forward.