Registered number: 05265451

GREENE KING RETAILING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 52 weeks ended 1 January 2023

Company information

Director
R Smothers
M Starbuck
W Shurvinton
N Elliot
A Bush
N Mackenzie
P Kerrigan (resigned 31 March 2022)
K Bosher (resigned 23 December 2022)
A Wilson
M Sebastian
C Preston
A Malic (appointed: 3 May 2022)

Company secretary Mrs L A Keswick

Registered number 05265451

Registered office
Westgate Brewery
Bury St Edmunds
Suffolk
IP33 1QT

Auditor
Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Strategic report

The directors present their Strategic report for the 52 week period ended 1 January 2023.

Business review and future outlook

The principal activity of the company is that of pub retailing.

When comparing both periods, it is important to note that the 52 weeks ended 2 January 2022 were at times significantly impacted by the COVID-19 pandemic and therefore comparability is limited. The Omicron COVID variant started to become prevalent in late 2021, with restrictions remaining in place for the first couple of months of the year and low customer confidence associated with this. As 2022 progressed, the impact of COVID on wider society and our pubs reduced. Trading had largely returned to pre-pandemic levels by the Spring and no further COVID related restrictions were put in place in the year. In particular we saw the return of customer demand in London which was particularly low throughout the COVID pandemic.

On 24 February 2022, Russia invaded Ukraine, which resulted in significant wider economic consequences around the world. Inflation rose through the year, in particular utilities cost inflation was extremely high although the impact on the business was reduced due to our hedging strategy and food cost inflation, which was also very high, had a greater impact on the wider business. Rising costs were not only felt within the business; consumer confidence was also suppressed in light of increases in the cost of living. High cost-inflation was seen across all areas of the business.

Continuing the recovery from COVID remained a key priority for management. There were several large events in the year that presented big opportunities for the business, including the Platinum Jubilee weekend in June, the 2022 women's football Euros in July and the 2022 men's football World Cup which kicked off in November and had to be managed alongside the run up to the busy festive period.

There were no further government grants in 2022 for job retention. The company benefitted from a temporary reduction in VAT for the hospitality sector to 12.5%. This was in place at the start of the year and remained active until 31 March 2022. In the prior year VAT was at a reduced rate of 5% for the first nine months of the year before increasing to 12.5%.

The company returned to covenant compliance throughout 2022, with all financial covenants being passed in respect of each of the April 2022, July 2022, October 2022 and January 2023 test dates. The company's financial covenant waivers, which had been granted in 2021, covered the period up to and including the April 2022 test date and the company's expectation is that the return to covenant compliance is sustainable and that no further waivers are expected.

Financial and non-financial key performance indicators

The KPIs have been selected to understand the underlying performance of the pubs owned and operated by the group. The KPIs are a mixture of statutory and non-statutory measures.

	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m	Change %
Turnover (1)	**953.8**	591.2	61.3%
Adjusted operating profit (1,2)	**145.7**	61.3	137.7%
Adjusted operating margin (1,3)	**15.3%**	10.4%	47.1%
Operating profit (1)	**163.6**	71.0	130.4%
Adjusted EBITDA (1,4)	**183.5**	101.6	80.6%
Outstanding bond at nominal value	**1,123.0**	1,365.0	-17.7%
Number of pubs at year end:			
- Pub Partners	**641**	647	-0.9%
- Premium, Urban & Venture, Local Pubs and Destination Food Brands (5)	**832**	834	-0.2%

1. These KPIs have been materially impacted by COVID-19.
2. Adjusted operating profit is operating profit excluding adjusting items provided in note 5.
3. Adjusted operating margin is calculated as adjusted operating profit, as explained above, as a percentage of turnover as given on the face of the income statement.
4. Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and adjusting items.
5. The reduction in pub numbers relates to disposals during the period.

Existing KPIs have been measured on the same basis as in previous financial periods and there have been no changes to methodology of collection or manner of calculation, whether impacted by COVID-19 or otherwise.

Strategic report (continued)

Principal risks and uncertainties

During the period the priority has been the re-opening of all our venues and recovery from the pandemic. Recovery has been made more difficult due to the economic volatility and uncertainty experienced within the UK and globally. Supply chain disruption has been closely managed to continue to source products. Careful consideration of menu choice and pricing has been under constant review to mitigate inflationary pressures and availability of some products.

The management of safety risks within both our pub estate remains a high priority. Within our managed pubs divisions there has been a constant drive to improve our EHO ratings to achieve 5* across our estate. We successfully met our dartboard performance score with 99.75% of all pubs achieving a Food Hygiene Rating score of 4 or above.

The principal risks and uncertainties facing the business were largely similar in nature to those reported last year.

Formal risk management processes are in place across the Greene King Limited group to identify and evaluate risks, taking into account the likelihood of their occurrence and the scale of potential impact on the business.

The principal risks and uncertainties facing the company are broadly grouped as strategic risks, economic and market risks, financial risks, regulatory risks and operational and people risks. These risks are managed at a group level and details can be found in the Greene King Limited group accounts which are publicly available.

Strategic risk

The strategic risks to the company are failure to execute the right strategy and changing consumer trends. The overall strategy of the company is determined by the executive board and approved by the board and board committee of Greene King Limited.

Despite COVID-19 related challenges and uncertainties going into FY22, good progress has been made to further deliver on our group strategy to be the pride of British hospitality, famous for outstanding experiences with the launch of the strategy and five year strategic plan.

A strong focus on strategic planning has continued throughout the year. The volatile operating environment has required careful adjustment and prioritisation of commitments now and for the remainder of the strategic planning timeline. The introduction of the transformation Project Management Office (PMO) and Governance Board has been a key risk mitigation. Development and finalisation of the Annual Operating Plan for 2023 has been completed.

In recognition of the importance of Environmental, Safety and Governance (ESG) to our business a further strategic driver, 'Environment & Social' has been added and communicated across the business. Several key specialists across the business have formed working groups to develop individual strategies and plans in the 17 key areas of focus for our business. We have also employed specialist consultancy support to develop a detailed list of ESG related risks. Understanding of risks at the strategic and operational level will be used in 2023 to support our ESG targets, ambitions and TCFD reporting.

We are working to build a more balanced portfolio, in more segments of the market across value, mainstream and premium spaces and all our work and customer shows there is a compelling case for us to strengthen the potential of the Greene King brand as a pub chain alongside our other brands. The whole process from start to finish will take a number of years. This will sit alongside our Destination Brands division and the Partnership & Venture businesses which operates slightly more independently and pulls on the wider business for support. We have continued to invest in both maintenance and development capital expenditure, with £124.3m spent in our managed division in FY22. Out investment in Hickory's in October 2022 underpins our strategy of growing its reach through compelling brands and unlocking value by making the most of each of its sites. Hickory's is highly complementary to Greene King's current portfolio of brands and geographical reach. As part of this transaction, we plan to leverage its scale and expertise to accelerate the national roll out of the Hickory's brand beyond its North West heartland, with significant growth over time by optimising our assets.

In Pub Partners the business continues to grow its HIVE branded Franchise sites ending the year with 28. Business failure rates remained low, with ongoing pandemic recovery support from Greene King.

A number of reviews exist to ensure execution is in line with the agreed strategic plan. These include a structured approval processes, monitoring through the Dartboard balanced scorecard, monthly business reviews, a group transformation/IT board, executive board meetings and internal audit reviews.

Strategic development of our brands will continue to take increasing importance as we navigate recovery through a difficult macro economic and political environment. We continue to monitor and gain customer insight to ensure our work on brand development continues to evolve based on customer expectations.

We have segmented the managed pub estate into market brands and will be further developing these brands to create meaningful distinction to deliver growth across the portfolio.

Food development contains a greater focus on wellbeing and health to maintain and grow customer relevance. Our work on our ESG agenda is also feeding into thinking on future food offerings. Regular pulse of customer insights provide a measure of customer sentiment and expectation so we can respond tactically to any shift as we move on from the COVID-19 pandemic but continue to see adverse pressures on consumers.

Regular reporting and analysis of our market performance, of competitors and market trends is provided both through periodic executive board meetings and across the wider organisation.

Strategic report (continued)

Financial risk

The group is well funded with the principal elements of the group's capital structure being its £900m bank facilities, which were £820m drawn at the year end, a £1,500m revolving loan facility with CKA Holdings UK Limited, which was £311m drawn at the year end, and a long-term asset-backed financing vehicle. The group's £900m bank facilities includes a new £300m external revolving loan facility which was agreed with DBS Bank in November 2022. In April 2022 the revolving loan facility with CKA Holdings UK Limited was extended to November 2024.

At the year end the Greene King securitisation had secured bonds with a group carrying value of £1,073.7m (prior period: £1,314.6m) and an average life of seven years (prior period: eight years), secured against 1,473 pubs (prior period: 1,481 pubs) with a group property, plant and equipment carrying value of 1,995.0m (prior period: £1,945.7m).

Economic and market risk

We aim to mitigate many of the anticipated cost increases facing the business, such as labour and supply of goods, through procurement and productivity savings, with a particular focus on cross functional co-operation and the use of technology.

On procurement we aim to work closely with our key suppliers to reduce costs without impacting the customer offer. We have a well hedged portfolio, with a broad geographic spread of pubs across the country, including in London and the South East, brands covering each of the value, mainstream and premium segments of the market, and a mixture of drink-led and food-led pubs.

The biggest unknown at this point remains consumer confidence together with a new inflationary environment and supply chains which are still recovering from the impact of COVID-19 and have also been directly or indirectly impacted by supply issues as a result of the Russian invasion of Ukraine.

Whilst consumer confidence grew initially post COVID-19 restrictions, the cost-of-living crisis has continued to impact consumer confidence. Labour remains an area of focus with a labour market continuing to be disrupted post COVID/Brexit and increasing pressures on wage increases. Food inflation has required us to pass on increasing costs to the Customer, menu pricing remains under focus against competitors, increases are beginning to level out but pressures remain high.

Energy pricing has been managed through 2022 due to fixing contracts prior to the Russian invasion of Ukraine which has caused severe pricing volatility. There is risk that this will materialise this year, however we hedge and fix rates to guarantee prices where possible to reduce the risk.

It is unclear how this will manifest across our divisions in 2023 however careful monitoring is in place. Scenarios have been modelled and we remain confident we will continue to deliver on our strategic plans. Competitor prices are tracked monthly to measure price inflation versus the market and forecast cost price changes are notified to divisions each quarter. This data is reviewed with divisions each month to decide any changes to our pricing plans.

Operational and people risk

A wide range of policy, technical, procedural, and operational controls are in place across the business, covering all aspects of the requirements.

Compliance is overseen by the data governance committee, chaired by the chief financial officer. The committee is supported by the data protection officer.

Subject access requests and other data subject rights-related requests are handled centrally by a specialist team to ensure that legislative requirements are met.

Processes are in place to manage data breaches, which are followed up appropriately to ensure that lessons are learned and improvements to our controls are made, where appropriate. The great majority of our data breaches are small-scale incidents which do not require notification to the UK data protection regulator.

Changes to UK data protection law are under consideration and we are following developments closely to ensure we are able make any necessary adjustments to our control framework promptly, should new legislation be passed.

We work with specialist third party companies to continuously monitor and evaluate cyber threats to our business.

As a result of this evaluation our cyber security programme is constantly adapted to strengthen our technical controls, improve our recovery capability (through both disaster recovery plans and business continuity processes) threat surveillance, patching and user education and to ensure that we continue to retire legacy systems so that our defences remain robust and relevant in the ever-changing threat landscape.

We maintain back up plans in case of the failure by or loss of a key supplier, and we expect our key suppliers to maintain disaster recovery plans which we review on a regular basis.

Regular monitoring is undertaken of KPIs applicable to both third party suppliers and distributors, with issues flagged for resolution. In the event of a failure in our own production and distribution activities a range of alternative solutions exist to enable us to continue to brew, package and distribute our own beers.

Supply chain issues have been a particular feature of the year, particularly as the impact of the Ukraine/Russia conflict continues resulting in shortages of certain products and increasing costs both in transport, food pricing and staff. Inflationary pressures have been actively managed with the managed divisions to ensure the best approach to pricing and menus.

Strategic report (continued)

With all suppliers we are constantly working through contingency plans around increasing stock, bringing in new suppliers or ensuring our suppliers prioritise Greene King in their production planning.

The trend has continued of the labour force migrating away from hospitality this year, however, we have started to see some positive movement in relation to overall staff turnover. This is backed up by a positive uptick in our engagement survey results at the end of the year. Attraction remains a key focus and we are working to implement a new Talent Attraction system to support this as well as giving us more robust data and insight. This will be implemented during Q2 of 2023.

Our apprenticeship offer remains strong and consistent and supports our ability to both attract and retain team members.

This year we rolled out both check-ins and our performance management process to our assistant and kitchen manager populations. This forms part of our commitment to ensuring we have development opportunities in place.

We have now taken over 2,000 of our leaders through our leadership development programme Elevate. This is setting up strong foundations to support our teams in having great conversations and driving better retention.

We have a comprehensive range of formally documented policies and procedures in place, including centrally managed systems of compliance KPI tracking and internal and independent audits to ensure compliance with current legislation and approved guidance.

During the year, an independent audit was undertaken around our food supply chain to test the efficacy of food safety assurance which is outsourced to a third party. In addition, legacy exceptional arrangements which permitted limited parts of the managed business to source their own food suppliers was also reviewed & brought under control of the centre, improving governance & supply resilience.

Director's statement of compliance with duty to promote the success of the company

Under section 172 of the Companies Act 2006 the directors of the company are required to act in a way which promotes the long-term success of the company and in doing so to consider the interests of the company's stakeholders. This section of the report is designed to set out how the directors have complied with their obligations in this regard.

The directors of the company have at all times during the period (and at all other times) acted in the way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to:
- the likely consequences of any decision in the long term,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly between members of the company.

Engaging with stakeholders

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us and working together towards shared goals assists us in delivering long-term sustainable success.

The company is a wholly owned subsidiary of the Greene King Limited group and therefore the company's key stakeholders are largely the same as those of Greene King Limited group and all decisions affecting the company are filtered down from group, based on the group-wide strategy. As the directors of the company are different from those of Greene King Limited group, they are kept informed of all decisions made at group-level, that will affect the company and its trading.

The Greene King Limited group's ("the group") key stakeholders are as follows:

Shareholders:

The group is a wholly owned subsidiary of CK Asset Holdings Limited ("CKA"), a limited liability company incorporated in the Cayman Islands, registered in Hong Kong, and listed on the Main Board of the Hong Kong Stock Exchange. The board has continued to ensure that there is appropriate engagement by the group with CKA. Certain members of the board of CKA receive copies of the group's board meeting packs and are invited to attend and ask questions at the group's board meetings to ensure that there is direct contact between the two boards and that the group's parent is fully informed of the group's activities. As well as an update from the CEO, the board receives and reviews reports on the group's financial performance, on matters relating to employees and on audit and risk related matters.

Team members:

Our people are our greatest asset, with an average of 38,600 team members employed across the group during the year. Attracting and retaining the best people and developing and investing in them is critical to our continued success.

Staff shortages have been an issue at times throughout the year. Recruitment issues were dealt with via pay rises, the reintroduction of bonus schemes, a focus on improving work-life balance for some team members and other measures to reward and recognise the commitment of our employees.

There are many ways we engage with and listen to our people including engagement surveys, forums, listening groups, face-to-face briefings, internal communications and Kingdom (our team member app). Key areas of focus include health and wellbeing, development opportunities, pay and benefits, and ensuring that our team members understand the group's values, strategy and financial performance. Regular reports about what is important to our team members are made to the board ensuring consideration is given to their needs, and our employee engagement score is a key performance indicator.

Strategic report (continued)

We also continued our drive to improve diversity and inclusion across the group, with specific training on the issue for 250 managers as part of our cultural change programme. We have four Employee Led Inclusion Groups (ELIGs) and each has an executive board sponsor:

- Village Greene – our LGBTQ+ focused community group
- Unity – our Black, Asian and minority ethnic focused community group
- Greene Sky – our female focused community group
- *Ability – our disability focused group*

The groups aim to raise awareness of issues facing the community they represent, and have also been involved in helping management shape policies in relevant areas, including for example the group's new maternity policy.

In October 2022 we held a 'Purpose in Your Hands' conference as part of the company's cultural change programme. 387 senior leaders from across the business attended the event, which received very positive feedback and included the launch of the new environment and social strategic driver.

Customers:
We place customers at the heart of what we do and regularly benchmark against the best in class in terms of brand positioning and customer service levels. The board is given details of relevant customer insights and also of any significant health and safety related issues relating to our customers. It has also been advised of customer attitudes towards the economic environment. These all link back to our balanced scorecard when it comes to assessing group performance.

The board was advised of and supported management's decision to cease trading with export customers based in Russia following the invasion of Ukraine.

Tenants:
The success of Greene King's Pub Partners division, which manages our tenanted and leased pubs, is dependent on the success of our licensees. We have several different agreement types in place designed to best align the interests of Greene King with those of its licensees and support long and successful tenures. A particular focus during the year, fully supported by the board, has been the roll out of the Hive pubs franchise, designed to give tenants a ready to trade pub within a proven branded concept for just £5,000 ingoing cost.

We engage with our tenants on a regular basis, including through meetings with our business development managers and through tenant surveys, to ensure that we are aware of the key issues affecting them and their business.

Debt holders:
The company has bonds listed on the Dublin stock exchange. During the year, we benefitted from a waiver of the breach of certain financial covenants from the bondholders in the Greene King securitisation, caused by the historical issues associated with the closure of pubs during the COVID pandemic. In December 2022 and with the approval of the board committee, the Greene King A5 bond was redeemed in full. Bondholders receive regular reports on the financial performance of the securitisation.

Government and regulatory authorities:
We engage with the government and regulators through a range of methods. We are in regular contact with local authorities in relation to property, licensing and health and safety matters, working proactively with them where appropriate. There is ongoing contact with HMRC in relation to tax matters, whilst we have also worked with the Department of Justice in relation to our support for programmes to encourage ex-offenders back into the workplace.

During the period our Pub Partners division participated in the second statutory review by the government of the Pubs Code legislation.

We are members of both the British Beer and Pub Association and UK Hospitality, both of which lobby and liaise with government and regulatory bodies on matters affecting the industry. This has contributed to the decision last year for the government to freeze alcohol duty to the 1st of August this year as well as the energy support provided to small business given the significant levels of inflation.

The Greene King Limited group's chief executive, Nick Mackenzie, sits on the Hospitality Sector Council which is a group of experts representing a cross-sector of the sector. Its aim is to support the delivery of the government's Hospitality Strategy which links back to our social strategy in supporting local communities.

Community:
Our pubs act as hubs for their local communities, offering a place to sit, socialise and make a difference to local services and good causes. Since it was established ten years ago, we have raised over £14m for our national charity partner, Macmillan Cancer Support.

The board has also been made aware of significant matters affecting the company's reputation, where relevant.

Further details of how we engage with our local communities and our work on diversity is set out in the environmental, social and governance section of Greene King Limited's strategic report.

Landlords of leasehold properties:
Whilst the majority of our pubs and restaurants are freehold properties, we do operate a number of leasehold sites owned by a range of landlords. Engagement with such landlords primarily concerns rent and repairs.

Strategic report (continued)

Case studies

Strategy and budget:

The Greene King Limited group's strategic goal, set in 2020, is to be the pride of British hospitality, famous for outstanding customer experiences. Work began in earnest in 2021 to prepare a longer-term strategic plan. During 2022, following approval of the budget by the board committee in December 2021, the focus was on putting the plan into action. The foundational projects commenced in 2021 continued during the year to underpin the group's brand development strategy, including work on customer segmentation, the Greene King brand and a customer engagement programme. At the same time work on culture and values continued (see case study below). Other priorities for 2022 included:

- Rolling out proven brands and also trialling new formats to rebalance our portfolio – Crafted Pubs, the Hive pub franchise and modern beer portfolio all proved successful during the year.
- Investing in a step change in our digital capabilities – as well as commencing work on a range of digital initiatives including agreeing a programme to update the group's websites, we invested £11.2m on the pub network of the future – high quality Wi-Fi for all our pubs.
- Strengthening our IT security and core systems infrastructure
- Investing to deliver operational efficiency and cost mitigation in future years.

We also introduced a new strategic driver, environment and social to provide further support to our communities, help our customers make more sustainable choices and to reduce greenhouse gas emissions within our own operations. Since the year end the Science Based Targets initiative (SBTi) has approved our near-term science-based emissions reduction target and we are working on our plans to deliver on those targets.

For 2023, the strategic plan was updated and refreshed and the budget was set with a view to:

- ensuring that the group delivers positive cashflow;
- demonstrating EBIT progression, excluding the effect of utilities;
- ensuring investments generate returns and deliver long term foundational platforms to support future growth: and
- being focussed on delivering fewer projects but landing them consistently and sustainably.

There will be a greater focus on operational excellence and leveraging digital during the course of 2023.

The 2023 budget was approved by the board committee in November 2022.

Culture and values:

Significant progress continued during the year with regard to 'Greene King Unleashed', the Greene King Limited group's programme of cultural and strategic transformation. Supported by both the board and the board committee, the following elements of the programme were delivered during the year:

- More than 2,000 managers took part in an intensive leadership development programme, to build the skills and capabilities to embed the cultural change programme.
- We ran a high performing teams programme for our leadership team to equip them with additional skills to ensure they get the best out of their teams.
- Continuing the drive to improve diversity and inclusion across the business.
- The consistent use of the "Dartboard" balanced scorecard to measure and assess performance against strategy in a more rounded way.
- The implementation of a new performance management and talent process which started at the beginning of 2022.

R Smothers
Director
Date 24 April 2023

Directors' report

The directors present their report and financial statements for the 52 week period ended 1 January 2023.

Results and dividends

The loss after taxation for the 52 weeks ended 1 January 2023 amounted to £76.1m (prior period: £69.8m loss).

No dividends were paid or proposed during the period (prior period: £nil).

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

The directors of Greene King Limited have performed a going concern assessment of the Greene King Limited group. In doing so, they have modelled a remote scenario whereby the group generates just over half of its budgeted EBITDA but continues with budgeted capex for a 12 month period. Under this scenario the group has access to adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements. However, in the absence of any support this reduction in trade would likely result in breaches of both the two-quarter and four-quarter lookback FCF DSCR covenants within its securitised borrowings without mitigation actions. In this scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies. The directors of Greene King Limited have a reasonable expectation that the group has sufficient resources to continue in operational existence for the period of at least 12 months from the date of approval of these financial statements.

The directors of the company have made enquiries of the directors of Greene King Limited to confirm that they are satisfied the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

Directors

The directors during the period and to the date of this report were as follows:

R Smothers
M Starbuck
W Shurvinton
N Elliot
A Bush
N Mackenzie
P Kerrigan (resigned 31 March 2022)
K Bosher (resigned 23 December 2022)
A Wilson
M Sebastian
C Preston
A Malic (appointed: 3 May 2022)

The directors did not hold any interest in the share capital of the company during the period.

Future developments

The company intends to continue operate in the areas of management of public houses and the retailing of beers, wines, spirits and soft drinks for the foreseeable future.

Details of any other events occurring after the year end are set out in note 26 in the financial statements.

Directors' and officers' indemnity insurance

Greene King Limited group ("the group") has taken out insurance to indemnify the directors of the company against third party proceedings whilst serving on the board of the company and of any subsidiary. This cover indemnifies all employees of the group who serve on the boards of all subsidiaries. These indemnity policies subsisted throughout the year and remain in place at the date of this report.

Directors' report (continued)

Financial instruments

The primary treasury objectives of the company are to identify and manage the financial risks that arise in relation to underlying business needs, and provide secure and competitively priced funding for the activities of the company. If appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising funds for operations are bank loans and overdraft, securitised bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the company, such as trade receivables and payables.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

Further details on risks and uncertainties on the use of financial instruments are set out in the Strategic report and note 21 to the financial statements.

Greenhouse gas emissions, energy consumption and energy efficiency action

As a subsidiary company within the Greene King Limited Group, the company has taken the disclosure exemption in relation to Streamlined Energy and Carbon Reporting ("SECR") where disclosure is made within a parent company's group accounts. These SECR disclosures can be seen in the consolidated financial statements of Greene King Limited.

Matters covered in the Strategic Report

The company has chosen in accordance with section 414C(11) of the Companies Act 2006 to include matters of strategic importance in the strategic report which otherwise would be required to be disclosed in the directors' report: Section 172 statement, principal risks and financial risk management.

Statement of corporate governance arrangements

The company has not applied a corporate governance code during the period. The company is a wholly owned subsidiary of Greene King Limited group and as such the board of Greene King Limited applies an appropriate corporate governance code which is used to govern the entire Greene King Limited group. Further details on this can be found in the Greene King Limited annual report and financial statements which are publicly available.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:
- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Post balance sheet events

There are no post balance sheet events requiring disclosure in the financial statements.

Auditor

The auditors, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

R Smothers
Director
Date 24 April 2023

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting standards ('IFRS') in conformity with the requirements of the Companies Act 2006, and the parent company 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 company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and performance;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and with, respect to the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Greene King Retailing Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Greene King Retailing Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 1 January 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of the ability of the parent, Greene King Limited, to provide the financial support that it has committed to. This includes an assessment of management's base case cash flow forecasts for the Greene King Limited group to evaluate whether there is sufficient liquidity and compliance with debt covenants throughout the assessment period;
- Evaluation of the ongoing availability of relevant facilities to the Greene King Limited group, including a £1.5bn facility from an intermediate parent company; and
- An assessment of managements modelling of downside scenarios.

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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included data protection regulations, licensing regulations, the pub code, occupational health and safety regulations, employment regulation, responsible drinking regulations and planning and building legislation.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT and financial instruments regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our procedures performed to address it are described below:

- In regard to revenue recognition and the accuracy of managed pub revenue, we used data analytics to test the reconciliation of revenue in the pubs' till systems to cash receipts and to identify where adjustments have arisen between the pubs' till systems and the accounting system; these adjustments were then tested for accuracy by tracing to relevant supporting documentation. We also assessed the design and and implementation of relevant controls around the recognition of revenue.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports, and reviewing correspondence with HMRC.

Independent auditor's report (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

• the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

• the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

• the financial statements are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

Tim Steel

Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London, United Kingdom
Date: 24 April 2023

Income statement

For the 52 weeks ended 1 January 2023

	Note	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Turnover	4	**953.8**	591.2
Operating costs, before adjusting items	5	**(808.1)**	(529.9)
Adjusting items	5	**17.9**	9.7
Operating profit		**163.6**	71.0
Interest receivable and similar income	8	**0.4**	-
Interest receivable and similar income – adjusting items	8	**-**	1.1
Interest payable and similar expenses	9	**(203.3)**	(189.9)
Interest payable and similar expenses – adjusting items	9	**(18.0)**	(7.3)
Loss before tax		**(57.3)**	(125.1)
Taxation	10	**(18.8)**	55.3
Loss for the period		**(76.1)**	(69.8)

The notes on pages 17 to 43 form part of these financial statements.

All activities derive from continuing operations.

Statement of other comprehensive income

For the 52 weeks ended 1 January 2023

	Note	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Expense for the period		**(76.1)**	(69.8)
Other comprehensive income that can be reclassified to income statement:			
Gains on cash flow hedges taken to equity		**93.6**	33.6
Transfers to income statement on cash flow hedges		**25.5**	20.8
Tax on items relating to components of other comprehensive income	22	**(29.8)**	(1.7)
Other comprehensive income for the period net of tax		**89.3**	52.7
Total comprehensive income/(expense) for the period net of tax		**13.2**	(17.1)

The notes on pages 17 to 43 form part of these financial statements.

Balance sheet

As at 1 January 2023

	Note	1 January 2023 £m	2 January 2022 £m
Fixed assets			
Intangible assets	11	**316.8**	317.3
Tangible assets	12	**2,133.1**	2,091.1
Right-of-use assets	19	**9.4**	8.9
Investments	14	**-**	-
Deferred tax assets	22	**1.4**	53.9
		2,460.7	2,471.2
Current assets			
Stocks	15	**12.9**	12.5
Fixed assets held for sale	13	**1.8**	-
Debtors: amounts falling due within one year	16	**29.8**	39.5
Cash at bank and in hand		**47.3**	57.3
		91.8	109.3
Current liabilities			
Creditors: amounts falling due within one year	17	**(533.8)**	(364.7)
Borrowings	20	**(54.2)**	(60.9)
Lease liabilities	19	**(0.1)**	(0.1)
Financial instruments	21	**(1.4)**	(10.7)
Net current liabilities		**(497.7)**	(327.1)
Total assets less current liabilities		**1,963.0**	2,144.1
Non-current liabilities			
Creditors: amounts falling due after one year	18	**(864.0)**	(752.4)
Borrowings	20	**(1,059.5)**	(1,293.7)
Lease liabilities	19	**(9.6)**	(9.3)
Provision for liabilities		**-**	(0.1)
Financial instruments	21	**(23.0)**	(94.9)
Total net assets/(liabilities)		**6.9**	(6.3)
Capital and reserves			
Called up share capital	23	**222.0**	222.0
Fair value reserves – hedging reserve	24	**(18.3)**	(107.6)
Profit and loss account		**(196.8)**	(120.7)
Total equity		**6.9**	(6.3)

The notes on pages 17 to 43 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf by:

R Smothers
Director
Date 24 April 2023

Statement of changes in equity

As at 1 January 2023

	Share capital £m	Hedging reserves £m	Retained earnings £m	Total equity £m
As at 3 January 2021	**222.0**	**(160.3)**	**(50.9)**	**10.8**
Comprehensive loss for the period				
Loss for the period	-	-	(69.8)	(69.8)
Other comprehensive income:				
Gains on cash flow hedges taken to equity	-	33.6	-	33.6
Transfers to the income statement on cash flow hedges	-	20.8	-	20.8
Tax on items relating to other comprehensive income	-	(1.7)	-	(1.7)
Total comprehensive expense for the period	-	52.7	(69.8)	(17.1)
At 2 January 2022	**222.0**	**(107.6)**	**(120.7)**	**(6.3)**
Comprehensive profit for the period				
Loss for the period	-	-	(76.1)	(76.1)
Other comprehensive income:				
Gains on cash flow hedges taken to equity	-	93.6	-	93.6
Transfers to the income statement on cash flow hedges	-	25.5	-	25.5
Tax on items relating to other comprehensive income	-	(29.8)	-	(29.8)
Total comprehensive income for the period	-	89.3	(76.1)	13.2
At 1 January 2023	**222.0**	**(18.3)**	**(196.8)**	**6.9**

The notes on pages 17 to 43 form part of these financial statements.

1 Basis of preparation

General information

Greene King Retailing Limited is a private company limited by shares incorporated and domiciled in England & Wales.

The company's financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) except where indicated.

Basis of preparation

The company's financial statements have been prepared under the historical cost convention unless specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework and the Companies Act 2006. The Companies Act 2006 requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

The company's financial statements are presented in millions of pounds sterling, with values rounded to the nearest hundred thousand pounds except where otherwise indicated.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group. The results of Greene King Retailing Limited are included in the consolidated financial statements of Greene King Retailing Parent Limited which are publicly available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

Financial Reporting Standard 101 – Reduced disclosure exemptions

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

· the requirements of IFRS 7 Financial Instruments: Disclosures
· the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
· the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
· the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16. Provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total.
· the requirements of paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
- paragraph 79(a)(iv) of IAS 1;
- paragraph 73(e) of IAS 16 Property, Plant and Equipment.
- paragraph 118(e) of IAS 38 Intangible Assets.
· the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
· the requirements of IAS 7 Statement of Cash Flows;
· the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
· the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
· the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of Greene King Limited, in which the company is consolidated, where this is required for a disclosure exemption to be taken.

1 Basis of preparation (continued)

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

The directors of Greene King Limited have performed a going concern assessment of the Greene King Limited group. In doing so, they have modelled a remote scenario whereby the group generates just over half of its budgeted EBITDA but continues with budgeted capex for a 12 month period. Under this scenario the group has access to adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements. However, in the absence of any support this reduction in trade would likely result in breaches of both the two-quarter and four-quarter lookback FCF DSCR covenants within its securitised borrowings without mitigation actions. In this scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies. The directors of Greene King Limited have a reasonable expectation that the group has sufficient resources to continue in operational existence for the period of at least 12 months from the date of approval of these financial statements.

The directors of the company have made enquiries of the directors of Greene King Limited to confirm that they are satisfied the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

New accounting standards, amendments and interpretations adopted by the company

The following new standards, interpretations and amendments to standards are mandatory for the company for the first time for their annual reporting period commencing 3 January 2022.

Those standards and interpretations include:

- Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before intended use
- Amendments to IFRS 3 – Reference to the conceptual framework
- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract
- Annual improvements to IFRS Standards 2018 -2020

The company has considered the above new standards and has concluded that they do not have an impact on the company's financial statements.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the company has not early adopted them in preparing these consolidated financial statements. It is the company's view that none of the new standards or amendments will have a significant impact on the company's financial statements.

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IFRS 10 and IAS 28 – Sales or contribution of assets between an investor and its associate or joint venture

2 Significant accounting judgments and estimates

Significant accounting judgments

In the course of preparing the financial statements,.the key judgments made in the process of applying the company's accounting policies are detailed below:

Adjusting items

Management uses a range of measures to monitor and assess the company's financial performance. These measures include a combination of statutory measures calculated in accordance with IFRS and alternative performance measures. The alternative performance measures represent the equivalent IFRS measures but are adjusted to exclude items that management considers would prevent comparison of the company's performance both from one reporting period to another and with other similar businesses. Management believes that these alternative performance measures provide useful additional information about the company's performance and are consistent with how the business performance is measured internally by the chief decision maker.

The classification of items excluded from profit before adjusting items requires judgment including consideration of the nature, circumstances, scale and impact of transaction. The company's definition of items excluded, together with further details of adjustments made, is provided within the accounting policy section, note 5.

2 Significant accounting judgments and estimates (continued)

Significant accounting estimates

The areas of estimation that have a significant risk of resulting in material adjustment to carrying amounts of assets and liabilities are detailed below:

Impairment of property, plant and equipment, intangible assets and right-of-use assets

IFRS requires management to perform impairment tests annually for indefinite lived assets (Goodwill), and for finite lived assets (property, plant and equipment, right-of-use and other intangible assets), if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires estimates to be made in respect of short-term and long-term growth rates, and the adoption of a suitable discount rate. Short-term growth rates are based on the board approved strategy plan. The long-term growth rate has been based on expected industry returns which is slightly below the forecast long-term UK inflation rate. The discount rate is based on the group's WACC and is applied across all reporting segments as risk factors are considered to be similar.

Changes to the long-term growth rate or discount rate used, could significantly affect the company's impairment charge (and reversal) recognised in the income statement and the overall value of assets held at the balance sheet date. Management has provided analysis of the sensitivity to these key assumptions in note 12 and 19.

The cashflows used in the impairment exercise have been aligned to the company's 5-year strategy plan. Further details are provided in notes 12 and 19.

Useful economic life of tangible fixed assets

The depreciation charge for an asset is derived using estimates of its expected residual value and useful economic life. Residual values of property are determined with reference to current market property trends. If residual values were lower than estimated, an impairment of asset value and reassessment of future depreciation charge may be required.

For deferred tax purposes, residual values of property, plant and equipment are used as estimated sales proceeds (and offset against tax base cost) when calculating the contingent gains or losses that would arise if the property were sold at a given date.

Taxation

The company's tax charge is the sum of the total current and deferred tax charges. The calculation of the company's tax charge involves estimation and judgement in respect of following items:

Recognition of deferred tax asset and liabilities

The company has exercised significant accounting estimation and judgment in the recognition of deferred tax liabilities in respect of property, plant and equipment. Significant accounting estimates and judgements include those used to determine the amount of net book value of property, plant and equipment to which the initial recognition exemption applies, the calculation of the tax base on sale (which is subject to certain restrictions under tax law) and the offsetting of inherent losses against inherent gains where tax losses are expected to be utilised against future profits and gains.

Corporate Interest Restriction

The following significant judgements and estimates have been used to calculate the current and deferred tax balances relating to Corporate Interest Restriction:

· As statutory accounts are not available, group accounts have been used to estimate Net Tax Interest Expense and Tax EBITDA on an entity basis.

· Following on from the CKA acquisition the group has relied on estimates provided by CKA, CKA's assertions that the group should adopt the Fixed Ratio methodology and that the group should not suffer restrictions unrelated to the group.

3 Accounting policies

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost on transition to IFRS, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years, and short leasehold improvements are depreciated to their estimated residual values over the shorter of the remaining term of the lease or useful life of the asset. There is no depreciable amount if residual value is the same as, or exceeds, book value. Plant and equipment assets are depreciated over their estimated lives which range from three to 20 years.

Where the carrying value of properties may not be recoverable, an impairment in the value of tangible fixed assets is charged to the income statement.

Residual values, useful lives and methods of depreciation are reviewed for all categories of property, plant and equipment and adjusted, if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Profit or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and is included in the income statement in the year of derecognition.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interests, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are taken to the income statement.

The company has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When the company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred to the vendor is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or a liability are recognised in the income statement.

If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, any goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3 Accounting policies (continued)

Impairment

Property, plant and equipment including right-of-use assets

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows independent of the cash inflows of other groups of assets.

An assessment is made at each reporting date as to whether there is an indication of impairment. If an indication exists, the company makes an estimate of the recoverable amount of each asset group. An asset's or cash generating unit's recoverable amount is the higher of its fair value less costs of disposal and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is recognised where the recoverable amount is lower than the carrying value of assets. If there is an indication that any previously recognised impairment losses may no longer exist or may have decreased, a reversal of the loss may be made only if there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount only up to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and any subsequent reversals are recognised in the income statement.

Details of the impairment losses recognised in respect of property, plant and equipment including right-of-use assets are provided in note 12 and right-of-use assets in note19.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the company's cash-generating units (or groups of cash-generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated represents the lowest level within the company at which goodwill is monitored for internal management purposes and cannot be larger than an operating segment before aggregation.

Impairment is determined by the recoverable amount of an operating segment. Where this is less than the carrying value of the operating segment an impairment loss is recognised immediately in the income statement. This loss cannot be reversed in future periods.

Financial instruments

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and are derecognised when the company no longer controls the contractual rights that comprise the financial instrument, normally through sale or when all cash flows attributable to the instrument are passed to an independent third party.

Classification, measurement and impairment

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component are measured at transaction price determined under IFRS 15.

Subsequently, the company classifies its financial assets as measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss

The classification depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them.

3 Accounting policies (continued)

Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

For trade and other receivables, the company adopts a simplified approach in calculating expected credit losses. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company utilises a provision matrix that has been designed based on historically observed default rates adjusted by a forward looking estimate that includes the probability of a worsening economic environment within the next year.

The company assesses a financial asset in default when contractual payments are 90 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Details about the company's calculation of the loss allowance are provided in note 21.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities

The company classifies all financial liabilities as subsequently measured at amortised cost, except for derivatives that are subsequently measured at fair value.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Amounts owed to group undertakings

Amounts owed to group undertakings are classified as current liabilities unless there is a formal loan arrangement in place that specifies repayment over a period longer than one year at the balance sheet date.

Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value.

Derivative financial instruments and hedge accounting

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate term loans and notes.

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value and the movement is recognised in the income statement unless hedge accounting is adopted. For interest rate swaps where hedge accounting is not applied the fair value movement is analysed between pre-adjusted finance costs and adjusting finance costs.

Pre-adjusted finance costs include cash payments or receipts on the interest rate swaps so as to show the underlying fixed rate on the debt with the remaining fair value movement (which is generally the movement in the carrying value of the swap in the period) reflected as an adjusting item. For derivatives acquired at a non-zero fair value (e.g. on acquisition) the amortisation of the initial fair value is recognised in pre-adjusted finance costs to offset the cash payments or receipts.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the company's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The company also documents how it will assess the effectiveness of the hedge and carries out assessments through periodic prospective effectiveness testing to ensure that:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ratio is the same as that resulting from actual quantities of hedged items and hedging instruments used for risk management.

Hedges can be classified as either fair value (hedging exposure to changes in fair value of an asset or liability) or cash flow (hedging the variability in cash flows attributable to an asset, liability, or forecast transaction). The company uses its interest rate swaps as cash flow hedges.

3 Accounting policies (continued)

Cash flow hedge accounting

The effective portion of the gain or loss on an interest rate swap is recognised directly in other comprehensive income, whilst any ineffective portion is recognised immediately in the income statement.

Amounts recognised in Other comprehensive income (OCI) are transferred to the income statement in the same period that the financial income or expense is recognised, unless the hedged transaction results in the recognition of a non-financial asset or liability whereby the amounts are transferred to the initial carrying amount of the asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, amounts previously recognised in other comprehensive income are held there until the previously hedged transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately transferred to the income statement.

Adjusting items

Adjusting items are classified as those which are separately identifiable by virtue of their size, nature or expected frequency and therefore warrant separate presentation or allow a better understanding of the underlying performance of the business.

In the prior period certain items were deemed to be exceptional items, in the current period management have reassessed the application of the definition in order for them to be shown as adjusting items.

Items that are considered to be adjusting and that are therefore separately identified in order to aid comparability may include the following:

- profit or loss on the disposal of property, plant and equipment, where the group disposes of properties that it no longer considers meet the ongoing needs of the business. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results
- Finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities and from cumulative gains or losses recycled in full to the income statement where the swaps have been terminated. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the company's ongoing capital structure;
- Fair value gains and losses on the ineffective element of cash flow hedges and fair value movements in respect of derivatives held at fair value through profit and loss. Such items are separately presented as movements may be both significant and volatile;
- Finance costs or income for the recycling to the income statement of cumulative gains or losses relating to settled swaps previously taken to the hedging reserve where the recycling occurs over the same period during which the hedged forecast cash flows affect profit or loss.

Amounts owed to other group undertakings

Amounts owed by or to other Greene King group undertakings, are classified as current receivables or payables unless there is a formal loan arrangement in place that specifies repayment over a period longer than one year from the balance sheet date.

Finance costs and income

Finance costs are expensed to the income statement using the effective interest method. Finance income is recognised in the income statement using the effective interest method.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials and those overheads that have been incurred in bringing the inventories to the present location and condition. Cost is calculated using the weighted average method.

At the reporting date, inventories are assessed for impairment. If inventories are impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

Property, plant and equipment held for sale

Property, plant and equipment is classified as held for sale only if it is available for sale in its current condition, management is committed to the sale and a sale is highly probable and expected to be completed within one year from the date of classification. Property, plant and equipment classified as held for sale is measured at the lower of carrying amount and fair value less costs of disposal and is no longer depreciated or amortised.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to present value, where the effect of the time value of money is material, using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

3 Accounting policies (continued)

Revenue

Generally, revenue represents external sales (excluding taxes) of goods and services, net of discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes.

The company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the company does not adjust any of the transaction prices for the time value of money.

Premium, Urban & Venture, Locals and Destination Food Brands

Food and drink

Revenue is recognised at the point at which food and drinks are provided based on till receipts taken in our licenced estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

The performance obligation is satisfied upon the delivery of the food and drink and payment of the transaction price is due immediately when the customer purchases the food and/or drink.

Other services

Accommodation revenue is recognised on a daily basis based on occupancy at the agreed price (net of discount and VAT). Machine income is recognised where net takings are recognised as earned on the company's proportion of machine proceeds in the period of sale. The performance obligation is satisfied at the point the service is provided and payment is generally due at the end of the guest stay at the accommodation.

Pub Partners

Drink/product sales

The company supplies tenants with a variety of products recognising the sale upon delivery to the pub. At this point the tenant is solely responsible for stock management and no refunds are given for out of date products, passing all risks and rewards of ownership to the tenant.

The tenancy agreement may also include volume incentives in the form of retros, which are deemed to be related transactions and therefore the cost of retro is recognised simultaneously, provided that the cost can be measured reliably. The net of the proceeds from sale and the expected retro is disclosed as revenue. The accrued value for rebates payable is included within other payables.

Rental income

The company recognises rental income other than variable rent on a straight line basis over the term of the lease, as the performance obligation is satisfied over time, based on the contractual terms of the lease agreement.

Machine income

Machine income is recognised, in the company's capacity as agent, where net takings are recognised as earned on the company's proportion of machine proceeds in the period of sale.

Leases

Company as a lessee

For any new contracts entered into, the company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition, the company assesses whether the contract meets all of the following criteria:

· the contract contains an identified asset, which is either explicitly identified in the contract or inexplicitly specified by being identified at the time the asset is made available to the company;

· the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;

· the company has the right to direct the use of the identified asset throughout the period of use. The company assess whether it has the right to direct how and for what purpose' the asset is used throughout the period of use.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between repayment of the lease liability and finance cost.

The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the outstanding lease liability balance. The right-of-use asset is depreciated over the shorter of the asset's expected useful life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the company in which case the asset is depreciated to the end of the useful life of the asset.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the incremental borrowing rate is used, which is the interest rate the entity would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

3 Accounting policies (continued)

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

For changes to existing contracts such as fair market rent reviews or other modifications, a remeasurement is recorded in both right-of-use asset and lease liability based upon the net present value of the incremental change of cashflows discounted at the Incremental Borrowing Rate (IBR).

Right of use assets ("ROUA") are measured at either:

· their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the company's incremental borrowing rate as at 29 April 2019. The company has applied this methodology to the majority of its property leases where sufficient historical information has been available to facilitate this.

· an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to a small number of property leases where it was not possible to ascertain sufficient historical data to enable a retrospective calculation. This method has also been applied to the company's other assets.

Each right-of-use asset is depreciated over the shorter of its useful life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the company in which case the asset is depreciated to the end of the useful life of the asset.

Payments in respect of short-term leases and low-value leases continue to be charged to the income statement on a straight-line basis over the lease term.

COVID-19-related rent concessions
The company has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The company applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the company assesses whether there is a lease modification.

Company as a lessor

Leases in which the company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms other than variable/contingent rent and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Taxes

Income tax
The income tax charge comprises both the income tax payable based on profits for the year and the deferred income tax. It is calculated using taxation rates enacted or substantively enacted by the balance sheet date and is measured at the amount expected to be recovered from or paid to the taxation authorities.

Income tax relating to items recognised in OCI and equity are recognised in OCI and equity respectively.

3 Accounting policies (continued)

Deferred tax

Deferred tax is provided for using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax is recognised for all temporary differences except where the deferred tax arises from the initial recognition of goodwill (for taxable temporary differences) or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss or, in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured, on an undiscounted basis, at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset income tax assets and income tax liabilities and they relate to the same taxable entity and same tax authority and when it is the intention to settle the balances on a net basis.

Deferred tax relating to items recognised in OCI and equity are recognised in OCI and equity respectively.

Uncertain tax positions

A current tax provision is recognised when the company has a present obligation as a result of a past event and it is probable that the company will be required to settle that obligation. Tax benefits are not recognised unless it is probable that the benefit will be obtained, and tax provisions are made if it is probable that a liability will arise. The company reviews its uncertain tax positions each period in order to determine the appropriate accounting treatment.

4 Turnover

Turnover, which is stated net of value added tax, is derived from the provision of goods and services in the United Kingdom which fall within the company's continuing ordinary activity. The principal business activity is that of the management of pub retailing.

Turnover is analysed as follows:

For the 52 weeks ended 1 January 2023	**Premium, Urban & Venture, Local Pubs and Destination Food Brands Divisions**	**Pub Partners**	**Total**
	£m	**£m**	**£m**
Goods:			
Drink	**497.0**	**66.1**	**563.1**
Food	**307.8**	**1.0**	**308.8**
	804.8	**67.1**	**871.9**
Services:			
Other services[1]	**50.3**	**31.6**	**81.9**
	855.1	**98.7**	**953.8**

For the 52 weeks ended 2 January 2022	Premium, Urban & Venture, Local Pubs and Destination Food Brands Divisions	Pub Partners	Total
	£m	£m	£m
Goods:			
Drink	290.9	44.8	335.7
Food	208.9	-	208.9
	499.8	44.8	544.6
Services:			
Other services[1]	27.7	18.9	46.6
	527.5	63.7	591.2

[1] Other services include accommodation, rental and machine income.

Turnover from services includes rent receivable from licenced properties of £30.3m (prior period: £18.2m).

5 Operating profit

	Before Adjusting items	**Adjusting items**	**Total**
	52 weeks to 1 January 2023	**52 weeks to 1 January 2023**	**52 weeks to 1 January 2023**
	£m	**£m**	**£m**
Operating profit is stated after charging/(crediting):			
Cost of products sold recognised as an expense	**247.4**	**-**	**247.4**
Employment costs (note 7)	**272.2**	**-**	**272.2**
Depreciation of owned tangible fixed assets (note 12)	**37.6**	**-**	**37.6**
Depreciation of right-of-use assets (note 19)	**0.2**	**-**	**0.2**
Net profit on disposal	**-**	**(1.6)**	**(1.6)**
Net impairment reversal of tangible fixed assets (note 12) and right-of-use assets (note 19)	**-**	**(12.6)**	**(12.6)**
HMRC VAT Refund	**-**	**(0.6)**	**(0.6)**
COVID-19 related credit	**-**	**(0.5)**	**(0.5)**
Insurance proceeds	**-**	**(2.6)**	**(2.6)**
Other operating expenses	**250.7**	**-**	**250.7**
	808.1	**(17.9)**	**790.2**

5 Operating profit (continued)

	Before Adjusting items 52 weeks to 2 January 2022 £m	Adjusting items 52 weeks to 2 January 2022 £m	Total 52 weeks to 2 January 2022 £m
Operating profit is stated after charging/(crediting):			
Cost of products sold recognised as an expense	150.2	-	150.2
Employment costs (note 7)	184.9	-	184.9
Depreciation of owned tangible fixed assets (note 12)	40.1	-	40.1
Depreciation of right-of-use assets (note 19)	0.2	-	0.2
Net profit on disposal	-	(1.1)	(1.1)
Net impairment of tangible fixed assets (note 12)	-	0.8	0.8
HMRC VAT Refund	-	(7.8)	(7.8)
COVID-19 related credit	-	(1.6)	(1.6)
Other operating expenses	154.5	-	154.5
	529.9	(9.7)	520.2

The impairment reversal (prior period: charge) relating to properties (property, plant & equipment and right-of-use asset) comprises of a gross charge of £31.1m (prior period: £8.3m), offset by a reversal of previously recognised impairment losses of £43.7m (prior period: £7.5m). A £1.4m charge has been recognised due to flood damage and is included in the gross impairment charge.

The adjusting item in operating expenses relates to the net profit on disposal of property, plant and equipment and goodwill of £1.6m (prior period: profit on disposal of £1.1m). This comprises of a total profit on disposal of £3.1m (prior period: £0.4m) and a total loss on disposal of £1.5m (prior period: £1.4m).

The company has recognised income of £0.6m (prior period: £7.8m income) in respect of VAT claims. This comprises of a credit of £1.2m of VAT refunds on Tesco Clubcard vouchers and a £0.6m charge to reflect the updated position on amounts expected to be received from HMRC in respect of VAT due on gaming machine post 2005 claims.

A credit of £0.5m (prior period: credit £1.6m) has been incurred as a result of the COVID-19 outbreak. This includes a decrease in provisioning required for trade debtors of £0.5m (prior period: decrease £2.0m). In the previous period, £0.3m of stock was also written-off.

During the period the group recognised gain of £2.6m in respect of insurance compensation to meet the costs of restoring sites damaged by flood (see above).

6 Auditor's remuneration

The auditor's remuneration for the period for the audit of the financial statements of the company of £92,000 (prior period: £32,000) has been borne by another group undertaking. There were no non-audit services provided by the auditors (prior period: none).

7 Employment costs

The company has no employees as all staff that are utilised in the operation of the company are employed by Greene King Retail Services Limited and Greene King Services Limited. Staff costs are included in the total overhead recharge paid by the group. In the prior period, the Greene King group agreed to limit the recharges to the company which related to, among other things, employee costs.

The directors who held office during the period were also directors of other group undertakings. Total emoluments including any company pension contributions of £0.9m (prior period: £0.6m), received by these directors totalled £9.8m (prior period: £5.2m) paid by other companies in the Greene King Limited group. The directors do not believe that it is practicable to apportion this amount between qualifying services as directors to the company and of other group undertakings. There were no directors who received or exercised share options in a fellow group company during the period (prior period: none).

8 Interest receivable and similar income

	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Bank interest	**0.4**	-
Interest receivable and similar income – adjusting items	-	1.1
	0.4	1.1

In the prior period, the company recognised income of £1.1m in relation to interest on VAT on gaming machine income described in note 5.

9 Interest payable and similar expenses

	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Subordinated loans from group undertakings	135.8	119.5
Interest payable on term advances	58.7	56.3
Amounts payable on interest rate swap agreements related to term advances	8.2	13.5
Interest and finance costs on lease liabilities	0.6	0.6
Interest payable and similar charges	203.3	189.9
Interest payable and similar charges – adjusting items	18.0	7.3
	221.3	197.2

Adjusting finance costs

In conjunction with the repayment of the Greene King A5 bond, the company terminated the interest rate swap contract which had been a designated cash flow hedge of the bond. The company recognised a loss of £0.6m in respect of a credit valuation adjustment upon the settlement of the swap. The transaction also resulted in the crystallisation of mark-to-market losses taken to the hedging reserve over the life of the swap. These amounts were recycled from the hedging reserve to the income statement in full and an additional loss of £17.3m was recognised.

10 Taxation

	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Current income tax		
UK Corporation tax	(8.5)	(4.9)
Adjustment in respect of prior periods	4.7	(2.1)
	(3.8)	(7.0)
Deferred taxation		
Origination/reversal of temporary differences in the period	1.2	(70.9)
Effect of changes in tax rates and laws	0.4	7.6
Deferred tax adjustments arising in previous periods	21.0	15.0
	22.6	(48.3)
Tax charge in the income statement	18.8	(55.3)

Reconciliation of tax charge for period

The tax charge in the income statement is higher (prior period: lower) than the standard rate of corporation tax of 19.0% (prior period: 19.0%). The differences are explained below:

	52 weeks to 1 January 2023 £m	52 weeks to 2 January 2022 £m
Loss before tax	(57.3)	(125.1)
Loss multiplied by standard rate corporation tax in the UK of 19.0% (prior period: 19.0%)	(10.9)	(23.8)
Effects of:		
Income not taxable for tax purposes	(0.5)	(0.5)
Adjustment in respect of prior periods - current tax	4.7	(2.1)
Adjustment in respect of prior periods - deferred tax	21.0	15.0
Impact of deferred tax in respect of licenced estate	(2.0)	(0.7)
Capital allowance super deduction	(1.1)	-
Change in deferred tax asset recoverability (CIR)[1]	-	(49.8)
Deferred tax debit in respect of rate changes	0.4	7.6
Group relief surrendered for nil payment	9.8	-
Transfer pricing	(2.6)	(1.0)
	18.8	(55.3)

During the period a deferred tax charge of £29.8m (prior period: charge of £1.7m) has been recognised in the Statement of Other Comprehensive Income relating to the net losses on cash flow hedges taken to equity.

[1]The adjustment in respect of prior periods arises from the group relief surrender for nil consideration of losses previously recognised.

10 Taxation (continued)

Factors that may affect future tax charges

Under Finance Act 2021 enacted on 10 June 2021, the Corporation Tax rate for the 12 months from 3 January 2021 remains at 19%, but will increase to 25% as the main rate of corporation tax from 1 April 2023. The net deferred tax liability has been calculated using the rates at which each temporary difference is expected to reverse.

Of the total deferred tax asset on other temporary differences, £51.7m (prior period: £49.9m) has been recognised on the basis it is supported by future expected performance under IAS 12.29. Forecasts have been prepared showing that these disallowances are expected to be fully utilised in accordance with the Corporate Loss Restriction and Corporate Interest Restriction rules within the forecast period.

11 Goodwill

	£m
Cost and Net Book Value	
At 3 January 2021	317.5
Acquisitions	-
Disposals	(0.2)
At 2 January 2022	317.3
Acquisitions	-
Disposals	(0.5)
At 1 January 2023	316.8

The company's goodwill is allocated to the group of cash generating units representing the managed pub estate which is the level at which it is monitored by management. Goodwill disposed of in the period is measured based on relative values of the operation disposed of and the estate retained.

The recoverable amount of each segment was determined on a value-in-use basis, using cash flow projections based on the latest strategy plan approved by the board, and in all cases exceeded the carrying amount.

The key assumptions used in the value-in-use calculations are forecasted cash flows, the pre-tax discount rate and a long-term growth rate used to extrapolate cash flows beyond the forecasted period:

- Forecasted cash flows have been based on the group's latest board approved five-year strategic plan;
- The discount rate has been based on the Greene King Limited group's WACC of 7.6% (prior period: 6.8%). As the risk factors are considered to be similar in each of the group's operating segments the same discount rate is applied to all three divisions; and
- A long-term growth rate of 1.5% (prior period: 1.5%) in Premium, Urban & Venture, Local Pubs and Destination Food Brands divisions and 1.8% (prior period: 1.8%) in Pub Partners. These rates are below the long-term UK inflation of 2.3% to 4.0% and reflect the anticipated trends in future trading performance.

Pub Partners and Premium, Urban & Venture, Local Pubs and Destination Food Brands divisions sensitivity to changes in assumptions

The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in pre-tax discount rate of 0.5% point, a reduction in growth rate by 25% point or a reduction in budgeted cash flow by 5%. When applied to the value-in-use calculation none of these changes would have resulted in an impairment of goodwill in the period.

12 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 3 January 2021	2,065.8	591.4	2,657.2
Additions	8.4	24.1	32.5
Disposals	(0.7)	(0.5)	(1.2)
Reclassification[1]	-	0.7	0.7
At 2 January 2022	**2,073.5**	**615.7**	**2,689.2**
Additions	20.7	52.5	73.2
Disposals	(4.9)	(2.0)	(6.9)
Transfer to assets held for sale	(2.7)	(1.0)	(3.7)
At 1 January 2023	**2,086.6**	**665.2**	**2,751.8**
Depreciation			
At 3 January 2021	145.9	411.3	557.2
Charge for the period	5.8	34.3	40.1
Impairment charge	7.4	0.8	8.2
Impairment reversal	(6.7)	(0.8)	(7.5)
Disposals	(0.2)	(0.4)	(0.6)
Reclassification[1]	-	0.7	0.7
At 2 January 2022	**152.2**	**445.9**	**598.1**
Charge for the period	6.1	31.5	37.6
Transfer to assets held for sale	(1.0)	(0.9)	(1.9)
Impairment charge	28.1	3.1	31.2
Impairment reversal	(39.6)	(4.1)	(43.7)
Disposals	(0.9)	(1.7)	(2.6)
At 1 January 2023	**144.9**	**473.8**	**618.7**
Net book value			
At 1 January 2023	**1,941.7**	**191.4**	**2,133.1**
At 2 January 2022	1,921.3	169.8	2,091.1
At 3 January 2021	1,919.9	180.1	2,100.0

[1]In the previous period, a reclassification of assets with an aggregate cost (and accumulated depreciation) of £0.7m was identified, and is reflected in the above reconciliation of movements in plant and equipment.

The net book value of land and buildings may be further analysed as follows:

	1 January 2023 £m	2 January 2022 £m
Freehold properties	**1,899.1**	1,876.8
Leasehold properties >50 years unexpired term	**11.1**	13.0
Leasehold properties <50 years unexpired term	**31.5**	31.5
	1,941.7	1,921.3

The disaggregation of land and buildings into assets leased to tenants under operating leases and those held by the group is as follows:

	1 January 2023 Leased to tenants £m	1 January 2023 Used by group £m	1 January 2023 Total £m	2 January 2022 Leased to tenants £m	2 January 2022 Used by group £m	2 January 2022 Total £m
Net book value	**371.7**	**1,570.0**	**1,941.7**	368.1	1,553.2	1,921.3

Charges over assets

There is a first charge over the assets included in land and buildings in favour of the securitised debt holders of Greene King Finance plc.

12 Tangible fixed assets (continued)

Impairment of property, plant and equipment

During the period £12.5m of net impairment charge was recognised (prior period: £0.7m net charge) in the income statement as adjusting operating costs. This is comprised of an impairment charge of £31.2m (prior period: £8.2m) and reversal of previously recognised impairment charges of £43.7m (prior period: £7.5m). The recoverable amounts were based on the higher of value in use or fair value less cost of disposal.

The company considers that each of its individual pubs is a cash generating unit (CGU). Each CGU is reviewed annually for indicators of impairment. When indicators of impairment are identified the carrying value of the CGU is compared to its recoverable amount. The recoverable amount for assets impaired were based on the higher of value in use or fair value less cost of disposal.

The company estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projection, the discount rate applied to those cash flow projections of 7.6% (prior period: 6.8%) and the long-term growth rate of 1.5% (prior period: 1.5%) in Premium, Urban and Venture, Local Pubs and Destination Food Brands and 1.8% (prior period: 1.8%) in Pub Partners which are below the long-term UK inflation rate and reflects anticipated trends in future trading performance.

As risk factors are considered to be similar in each of the company's reporting segments the same level of discount rate is applied to all.

The cashflows relating to individual CGUs used in the impairment exercise have been aligned to the Greene King Limited group's 5-year strategic plan.

Estimates of fair value less costs of disposal are based on both internal and external valuations, with the latest external valuation being performed in December 2022. The valuation considers assumptions such as current and future projected income levels, which take account of the location and quality of the pub. In addition, recent market transactions in the sector and potential alternative use values have been considered.

The valuation techniques applied are consistent with the principles in IFRS 13 Fair Value Measurement. As they use significant unobservable inputs they are classified within Level 3 of the fair value hierarchy.

Sensitivities to change in assumptions - property, plant and equipment

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

	1 January 2023	2 January 2022
	£m	£m
Increased net impairment resulting from a 10% reduction in fair value less cost of disposal	**9.5**	7.2
Increased net impairment resulting from a 0.5% increase in discount rate	**10.1**	6.0
Increased net impairment resulting from a 25% reduction in growth rate	**6.3**	4.7
Increased net impairment resulting from a 5% reduction in cash flows[1]	**10.3**	-

[1]Management have introduced a new sensitivity in the current year of a 5% reduction in net cash flows. The prior year impact has not been assessed.

13 Fixed assets held for sale

	1 January 2023	2 January 2022
	£m	£m
Fixed assets held for sale	**1.8**	-

Fixed assets held for sale represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of property, plant and equipment held for sale represents the expected net disposal proceeds; further details on the valuation of fair value less costs of disposal are held in note 12. The impairment charge on assets held for sale was £1.0m (prior period: £nil).

14 Fixed asset investments

	Investments in subsidiary companies
	£m
Cost or valuation	
At 2 January 2022	22.0
Disposals	18.4
At 1 January 2023	3.6
Impairment	
At 2 January 2022	(22.0)
Disposals	(18.4)
At 1 January 2023	(3.6)
Net book value	
At 2 January 2022	-
At 1 January 2023	-

The following is a subsidiary undertaking of the company:

Name of company	Principal activity	Holding	Shares held
Sapphire Food South West No. 2 Limited	Dormant	Ordinary shares	100%

Sapphire Food South West No. 2 Limited is incorporated in England and Wales. Registered office at Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

Investments in subsidiaries are recorded at cost less impairment and held as fixed assets on the balance sheet. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. On transition to FRS 101, the previous GAAP carrying amount at the date of transition was regarded as deemed cost.

15 Stocks

	1 January 2023	2 January 2022
	£m	£m
Finished goods for resale	12.9	12.5

During the period, the group recognised £247.4m (prior period: £150.2m) cost of stocks as an expense within operating expenses. The difference between the purchase price or production cost of finished goods and their replacement cost is not considered to be material.

Stock provisions increased by £0.2m in the period (prior period: increased £0.1m) to reflect the trading position of the group in 2022.

In the previous period, management wrote-off £0.3m of inventory as a result of the government's decision for a third national lockdown on 6 January 2021 and the closure of UK pubs until reopening on 12 April 2021 for outdoor service, and 17 May 2021 for indoor service (see note 5).

16 Debtors: Amounts falling due within one year

	1 January 2023	2 January 2022
	£m	£m
Trade debtors	4.6	9.9
Amounts owed by group undertakings	10.6	13.5
Other debtors	10.0	11.0
Prepayments and accrued income	4.6	3.8
Corporation tax	-	1.3
	29.8	39.5

Expected credit losses of £0.5m (prior period: £1.2m) have been recognised against the carrying value of trade debtors. Information about the company's exposure to credit and market risks, and impairment losses for trade debtors is included in note 21.

Amounts due from group undertakings are unsecured, non-interest bearing and have no fixed date of repayment.

17 Creditors: amounts falling due within one year

		1 January 2023	2 January 2022
		£m	£m
Accruals and deferred income		**68.6**	64.8
Taxation and social securities		**7.3**	-
Amounts owed to group undertakings:			
Accrued interest on term loan	21	**3.3**	3.8
Trade creditors		**38.0**	15.3
Accrued interest on subordinated loan (note 21)		**416.6**	280.8
		533.8	364.7

Group undertakings are other companies within the Greene King Limited group. Interest payable is mainly settled quarterly throughout the year, in accordance with the terms of the related financial instrument.

Amounts owed to group undertakings are unsecured, non-interest bearing and have no fixed date of repayment.

18 Creditors: amounts falling due after one year

	1 January 2023	2 January 2022
	£m	£m
Subordinated loan	**864.0**	752.4

The subordinated loan is not repayable until all other borrowings have been repaid. This is currently scheduled to be December 2036. Interest accrues at 12.5% per annum and can only be paid if the Greene King Retailing Parent Limited group, which incorporates this entity, meets its financial covenants. Unpaid interest on the subordinated loan accrues interest at 12.5% per annum. The loan is secured over the properties and their future income streams.

19 Leases

As a lessee

The company has lease contracts for property and various items of plant, machinery, vehicles and other equipment used in its operations. Rental contracts are on average for a lease term of 61 years; the company's obligations under its leases are secured by the lessor's title to the lease assets. Generally, the company is restricted from assigning and subleasing the leased assets and some contracts require the company maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

19 Leases (continued)

Information about leases for which the company is a lessee is presented below:

	Right-of-use assets £m
Cost	
At 3 January 2021	9.5
Additions	0.2
Remeasurement	0.1
At 2 January 2022	9.8
Remeasurement	0.6
At 1 January 2023	**10.4**
Depreciation	
At 3 January 2021	0.6
Charge for the period	0.2
Impairment	0.1
At 2 January 2022	0.9
Charge for the period	0.2
Impairment reversal	(0.1)
At 1 January 2023	**1.0**
Net book value	
At 1 January 2023	9.4
At 2 January 2022	8.9
At 3 January 2021	8.9

Impairment of right-of-use assets

During the period the company has recognised a net impairment charge of £0.1m (prior period: £0.1m) in respect of the company's Premium, Urban & Venture, Local Pubs and Destination Food Brands divisions.

The company considers that each of its individual pubs is a cash-generating unit (CGU). ROUA has been considered within the wider impairment process of property, plant and equipment. For details on the impairment process see note 12.

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. There is no material impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and the pre-tax discount rates.

19 Leases (continued)

Lease liabilities

Lease liabilities included in the statement of financial postion.

	£m
At 3 January 2021	9.5
Additions	0.2
Interest expense relating to lease liabilities	0.6
Remeasurements	0.1
Repayment of lease liabilities (including interest)	(1.0)
At 2 January 2022	**9.4**
Interest expense relating to lease liabilities	0.6
Remeasurements	0.5
Repayment of lease liabilities (including interest)	(0.8)
At 1 January 2023	**9.7**

Maturity of lease liabilities	**1 January 2023**	2 January 2022
	£m	£m
Current	**0.1**	0.1
Non-current	**9.6**	9.3
	9.7	9.4

Maturity analysis - contractual undiscounted cashflows	**1 January 2023**	2 January 2022
	£m	£m
Less than one year	**0.9**	0.8
One to five years	**2.7**	2.7
More than five years	**33.7**	33.2
	37.3	36.7

Amounts recognised in the statement of profit and loss

	1 January 2023	2 January 2022
	£m	£m
Depreciation on right-of-use assets	**0.2**	0.2
Other lease expenses and sublease income	**0.7**	0.7
Charged to operating profit	**0.9**	0.9
Interest expense related to lease liabilities	**0.6**	0.6
	1.5	1.5

The total cash outflow for leases in the current period was £0.8m (prior period: £1.1m).

As a lessor

The group leases out part of its licensed estate and other non-licensed properties to tenants and lessees of the Greene King Limited group's Pub Partners division. All leases are classified as operating leases from a lessor perspective because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets. The majority of lease agreements have terms of between six months and 25 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include provision for rent reviews on either a three-year or five-year basis. The leases are individually immaterial and were entered into on various dates.

In the current period, rental income recognised by the group was £30.3m (prior period: £18.2m).

In the prior period, the group provided rent concessions as a result of the COVID-19 outbreak for their tenants totalling £10.8m.

19 Leases (continued)

The following table sets out the maturity analysis of the lease payments, showing the undiscounted lease payments to be received after the reporting date:

	1 January 2023	2 January 2022
	£m	£m
Within one year	22.9	23.0
Between one and five years	56.3	57.4
After five years	54.5	59.8
	133.7	140.2

Future minimum rentals include £0.2m (prior period: £0.2m) receivable in respect of non-cancellable subleases.

20 Borrowings

	Current 2023 £m	Non-current 2023 £m	Total 2023 £m	Current 2022 £m	Non-current 2022 £m	Total 2022 £m
Secured debt with Greene King Finance plc	55.4	1,067.6	1,123.0	62.1	1,302.9	1,365.0
Deferred issue costs	(1.2)	(8.1)	(9.3)	(1.2)	(9.2)	(10.4)
	54.2	1,059.5	1,113.7	60.9	1,293.7	1,354.6

Securitised debt

Greene King Finance plc has issued various tranches of bonds in connection with the securitisation of 1,473 (prior period: 1,481) of Greene King Limited group's pubs which are all held by Greene King Retailing Limited. Greene King Retailing Limited has issued Term advances to Greene King Finance plc with similar terms to the bonds issued by Greene King Finance plc. The bonds are secured over the properties and their future income streams.

The securitised debt consists of the following tranches:

	Nominal value 2023 £m	Carrying value[1] 2023 £m	Carrying value 2022 £m	Interest	Interest rate[2] %	Last repayment period	Weighted average life[3]
Term Advances A2	183.0	181.5	192.8	Fixed	5.32	2031	5.1 years
Term Advances A4	238.2	237.2	252.8	Fixed	5.11	2034	6.2 years
Term Advances A5	-	-	190.9	Floating	3.93	2033	-
Term Advances A6	210.6	208.0	222.5	Fixed	4.06	2035	6.9 years
Term Advances A7	230.4	227.2	236.0	Fixed	3.59	2035	6.5 years
Term Advances AB2	40.0	40.0	40.0	Fixed	6.06	2036	12.2 years
Term Advances B1	120.9	120.3	120.1	Floating	6.96	2034	10.4 years
Term Advances B2	99.9	99.5	99.5	Floating	6.92	2036	12.5 years
	1,123.0	1,113.7	1,354.6				

[1]Carrying value is net of related deferred finance fees.

[2]Includes the effect of interest rate swap rates on the floating rate notes.

[3]This assumes notes are held until final maturity.

The interest payable on each of the floating tranches is as follows:

	Interest rate payable[1]	Interest rate swap	Total interest rate
Term Advances B1	S+1.80%	5.16%-S	6.96%
Term Advances B2	S+2.08%	4.84%-S	6.92%

[1]For the floating rate bonds the interest rate payable is the compounded SONIA plus 0.1193% (this sum being denoted by "S" above) plus the margin as shown.

Repayment of the nominal is made by quarterly instalments, in accordance with the repayment schedule, over the period shown above.

The Class A2, A4, A6 and A7 term advances rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class AB2 and Class B term advances. The Class B1 and B2 term advances rank pari passu in point of security, principal repayment and interest payment.

20 Borrowings (continued)

The Class AB2 term advances rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B term advances.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to the company. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash outside of Greene King Retailing Limited.

The company has available various liquidity facilities which can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under these facilities during the year and the drawn down amount at the year end was £nil (prior period: £nil).

In December 2022 the company fully repaid the £179.9m Class A5 secured bonds issued by Greene King Finance plc at par and terminated the corresponding interest rate swap contract. See notes 9 and 21 for further details.

21 Financial instruments

The company holds the following financial instruments:

At 1 January 2023

	Note	Current £m	Non-current £m	Total £m
Financial assets				
Assets at amortised cost:				
Trade debtors	16	4.6	-	4.6
Other debtors	16	10.0	-	10.0
Cash and cash equivalents		47.3	-	47.3
		61.9	-	61.9
Financial liabilities				
Liabilities at amortised cost:				
Trade creditors and accruals	17	109.9	-	109.9
Borrowings	20	54.2	1,059.5	1,113.7
Leases liabilities	19	0.1	9.6	9.7
Subordinated loan	18	-	864.0	864.0
Accrued interest on subordinated loan	17	416.6	-	416.6
Liabilities at fair value:				
Derivative financial instruments	21	1.4	23.0	24.4
		582.2	1,956.1	2,538.3

At 2 January 2022

	Note	Current £m	Non-current £m	Total £m
Financial assets				
Assets at amortised cost:				
Trade debtors	16	9.9	-	9.9
Other debtors	16	11.0	-	11.0
Cash and cash equivalents		57.3	-	57.3
		78.2	-	78.2
Financial liabilities				
Liabilities at amortised cost:				
Trade creditors and accruals	17	83.9	-	83.9
Borrowings	20	60.9	1,293.7	1,354.6
Leases liabilities	19	0.1	9.3	9.4
Subordinated loan	18	-	752.4	752.4
Accrued interest on subordinated loan	17	280.8	-	280.8
Liabilities at fair value:				
Derivative financial instruments		10.7	94.9	105.6
		436.4	2,150.3	2,586.7

21 Financial instruments (continued)

Financial risk management

The primary treasury objectives of the company are to identify and manage the financial risks that arise in relation to underlying business needs and provide secure and competitively priced funding for the activities of the company. If appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised loans with Greene King Finance plc and a subordinated loan with Greene King Limited. Other financial instruments arise directly from the operations of the company, such as trade and other debtors, trade creditors and lease liabilities.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

The main risks from the company's financial instruments are interest rate risk, liquidity risk and credit risk. The policy for managing each of these risks is set out below.

Hedging

The company's policy is to hedge exposure to interest rate risk. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is recognised.

At 1 January 2023 the group held two (prior period: three) interest rate swap contracts for a nominal value of £220.8m (prior period: £411.7m), which are designated cash flow hedges against £220.8m (prior period: £411.7m) of variable rate bonds issued by Greene King Finance plc. These swaps are hedges of the B1 and B2 tranches, receiving a variable rate of interest based on SONIA and paying a fixed rate of 5.155% on the B1 tranche and 4.837% on the B2 tranche. The weighted average fixed rate of the swaps was 5.0% (prior period: 3.3%).

The interest rate swaps hedging the B1 and B2 tranches are held on the balance sheet at a fair value liability of £24.4m (prior period: £105.6m). The contract maturity dates range from December 2034 to March 2036. Prospective hedge effectiveness testing is performed, and the bonds and related interest rate swaps have the same critical terms excluding credit risk.

During the year the group terminated the interest rate swap contract in connection with the repayment of the A5 Greene King secured loan notes, resulting in a cash receipt of £19.9m. A loss of £0.6m was recognised n respect of a credit valuation adjustment upon the settlement of the swap (see note 9).

A loss of £17.3m was recycled from the hedging reserve to the income statement and recognised in adjusting finance costs (see note 9).

Scheduled cash payments of £9.2m (prior period: £13.6m) made in respect of the swaps have been initially recognised on an accrual basis in the hedging reserve and then transferred to the income statement during the year as the hedged cash flows have affected profit or loss. Amounts transferred to the income statement in respect of these payments have been recognised in underlying finance costs.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective. The interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives. The ineffectiveness during the period, which is recognized within finance costs, amounted to £nil (prior period: £nil).

Interest rate risk

Exposure to changes in interest rates on the group's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The group uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The group enters into interest rate swaps to manage the exposure. Swaps are designated as cash flow hedges at the date of contract included within the accounts, and tested for effectiveness at each reporting date.

In accordance with IFRS 7, the company has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 1 January 2023 and 2 January 2022. The analysis relates only to balances at these dates and is not representative of the year as a whole. The following assumptions were made:

- Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move.
- Gains and losses are recognised within other comprehensive income or the income statement in line with the accounting policies of the company.
- Cash flow hedges were assumed to be effective or ineffective on the same basis as those as at the year end.

Based on the company's net position at the year end, a 1% increase or decrease in interest rates would change the company's profit before tax by approximately £0.5m (prior period: £0.4m) and the company's OCI by £20.9m (prior period: £44.9m). An increase in interest rates would decrease (prior period: decrease) the company's profit and increase (prior period: increase) OCI.

Whilst a substantial proportion of the company's cash flow interest rate risk is eliminated, the use of fixed rate borrowings and derivative financial instruments exposes the company to fair value interest rate risk such that the company would not significantly benefit from falls in interest rates and would be exposed to unplanned costs, such as break costs, should debt or derivative financial instruments be restructured or repaid early.

21 Financial instruments (continued)

Interbank offered rate (IBOR) reform

In accordance with the UK Financial Conduct Authority's announcement on 5 March 2021, Sterling LIBOR benchmark rates were discontinued after 31 December 2021. At 1 January 2023 the group held no contracts which referenced GBP LIBOR which had not been yet transitioned to SONIA or an alternative interest rate benchmark.

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings, loans from related parties and long-term debt. The group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. The group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

The standard payment terms that the group has with its suppliers is 60 days following month end (prior period: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit using instant-access money market deposit accounts. Short-term flexibility is achieved through the use of short-term borrowing under the group's revolving credit facilities.

The table below summarises the maturity profile of the company's financial instruments at 1 January 2023 and 2 January 2022 based on contractual undiscounted payments including interest.

At 1 January 2023	Within one year	One to two years	Two to five years	More than five years	Total
	£m	£m	£m	£m	£m
Subordinated loan					
Capital	-	-	-	864.0	864.0
Interest	524.6	108.0	324.0	972.0	1,928.6
	524.6	108.0	324.0	1,836.0	2,792.6
Term loans					
Capital	55.4	62.8	217.6	747.2	1,083.0
Interest	51.8	49.7	125.3	155.3	382.1
	107.2	112.5	342.9	902.5	1,465.1
Interest rate swaps settled net	1.4	1.1	7.4	21.6	31.5
	633.2	221.6	674.3	2,760.1	4,289.2
Trade creditors and accruals	109.9	-	-	-	109.9
Lease liabilities	0.9	0.7	2.0	33.7	37.3
	744.0	222.3	676.3	2,793.8	4,436.4

At 2 January 2022	Within one year	One to two years	Two to five years	More than five years	Total
	£m	£m	£m	£m	£m
Subordinated loan					
Capital	-	-	-	752.4	752.4
Interest	374.8	94.1	282.2	936.4	1,687.5
	374.8	94.1	282.2	1,688.8	2,439.9
Term loans					
Capital	62.1	67.1	244.5	991.2	1,364.9
Interest	54.6	53.9	141.9	189.6	440.0
	116.7	121.0	386.4	1,180.8	1,804.9
Interest rate swaps settled net	10.7	8.5	25.6	67.6	112.4
	502.2	223.6	694.2	2,937.2	4,357.2
Trade payables and accruals	83.9	-	-	-	83.9
Lease liabilities	0.8	0.7	2.0	33.2	36.7
	586.9	224.3	696.2	2,970.4	4,477.8

21 Financial instruments (continued)

Credit risk

Financial assets include cash and cash equivalents and trade receivables. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the company is the carrying amount on these instruments. The credit risk on cash and cash equivalents is limited by investment of surplus funds with banks and financial institutions with high credit ratings assigned by international credit agencies.

The policy for third party trading is that all customers who wish to trade on credit terms are subject to regular credit verification procedures. Receivable balances are also monitored on an ongoing basis and provided against where deemed necessary to limit the exposure to bad debts to a non-significant level.

There is no significant collateral held and there are no significant concentrations of credit risk within the company.

Impairment of financial assets
The company has trade and other debtors that are subject to the expected credit loss model.

Impairment losses on trade and other debtors recognised in the income statement were as follows:

	1 January 2023	2 January 2022
	£m	£m
Non-adjusting:		
Impairment charge/(reversal) on trade and other debtors	**0.1**	(0.2)
	0.1	(0.2)
Adjusting:		
Impairment reversal on trade and other debtors	**(0.5)**	(1.9)
	(0.4)	(2.1)

For more details on adjusting items refer to note 5.

Hierarchical classification of financial assets and liabilities measured at fair value.

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value. The classification uses the following three-level hierarchy:

Level 1 – unadjusted quoted prices in active markets for identical assets of liabilities.

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the periods ending 1 January 2023 and 2 January 2022 there were no transfers between levels 1, 2 or 3 fair value measurements.

Capital risk management

The company aims to maintain strong credit ratings and a core level of debt which optimises the weighted average cost of capital (WACC).

A number of mechanisms are used to manage net debt and equity levels (together referred to as capital) as disclosed on the balance sheet of Greene King Limited, as appropriate in light of economic and trading conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the period.

The company monitors capital using several measures including the ratio of net debt to EBITDA and free cash flow debt service coverage. All covenants in relation to the securitisation have been fully complied with.

22 Deferred taxation

	£m
At 3 January 2021	7.3
Charged to income statement	48.3
Charged to other comprehensive income	(1.7)
At 2 January 2022	53.9
Charged to income statement	(22.7)
Charged to other comprehensive income	(29.8)
At 1 January 2023	1.4

	2023 £m	2022 £m
Deferred tax liability		
Fixed assets	**(78.1)**	**(71.0)**
Deferred tax asset		
Other temporary differences	**73.2**	**65.2**
Derivatives	**6.1**	**35.9**
Tax losses	**0.2**	**23.8**
Net deferred tax asset	**1.4**	**53.9**

Deferred tax assets and liabilities have been offset as follows:

	2023 £m	2022 £m
Deferred tax liability	**(78.1)**	(71.0)
Offset against deferred tax assets	**78.1**	71.0
Deferred tax liability	**-**	-
Deferred tax asset	**79.5**	124.9
Offset against deferred tax liabilities	**(78.1)**	(71.0)
Deferred tax asset	**1.4**	53.9

At the balance sheet date, the company has unused capital losses of £nil (prior period: £nil) available for offset against future chargeable gains.

23 Share capital

	1 January 2023 £	2 January 2022 £
Allotted, called up and fully paid		
222,000,001 (prior period: 222,000,001) Ordinary shares of £1 each	**222,000,001**	222,000,001

The directors of the company have no rights to subscribe for additional shares in the company.

24 Reserves

Profit and loss account

Profit and loss account reserve represents accumulated retained earnings.

Fair value reserves – hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the company's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 3. Amounts recycled to income are included within finance costs in the income statement.

25 Related party transactions

During the period the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with related parties that are wholly owned subsidiaries of the Greene King Limited group or with Greene King Limited. There were no transactions entered into during the financial year or trading balances outstanding at the balance sheet date with other related parties.

26 Post balance sheet events

There are no post balance sheet events requiring disclosure in the financial statements.

27 Ultimate parent undertaking and controlling party

At the balance sheet date, the directors consider the immediate parent undertaking and immediate controlling party of Greene King Retailing Parent Limited to be Greene King Limited, a company incorporated in England and Wales whose registered address is Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

The ultimate parent undertaking and ultimate controlling party is CK Asset Holdings Limited, a company registered in the Cayman Islands and registered in Hong Kong with its shares listed on the Main Board of the Hong Kong Stock Exchange.

Greene King Retailing Parent Limited is the smallest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

CK Asset Holdings Limited is the largest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.