Greene King Retailing Limited

Annual Report and Financial Statements

2 January 2022

Registered number: 05265451

Company information

Directors	R Smothers M Starbuck W Shurvinton N Elliot A Bush N Mackenzie P Kerrigan (resigned 31 March 2022) K Bosher A Wilson M Sebastian C Preston
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 2 January 2022.

Following the acquisition of the Greene King Limited group by CK Noble (UK) on 30 October 2019, the financial year end of the company was changed from 30 April to 31 December so as to be coterminous with the year end of its ultimate holding company, CK Asset Holdings Limited. Accordingly, the prior financial statements were prepared for 36 weeks from 27 April 2020 to 3 January 2021 and as a result, the comparative figures stated in the statement of comprehensive income, statement of changes in equity and the related notes are not comparable.

Business review and future outlook

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

COVID-19

The COVID-19 pandemic continued to restrict hospitality's trading in the UK during 2021. Throughout the year, governments across the devolved nations enforced different social restrictions. These ranged from closing pubs, limiting trading to outdoors or table service only, introducing a rule of six, curfews, vaccine passports and other restrictions to socialising and business, both nationally and regionally, to control the spread of the virus.

At the start of the pandemic, the Greene King Limited group had three objectives to ensure the financial stability of the business, to exit the crisis as the strongest in the sector and be ready to bounce-back, and as far as possible protect our employees and leased and tenanted partners from the worst impact of the crisis.

As we came out of the third lockdown in 2021, we moved to three new objectives:

- Bounce back into action - stronger for our customers, partners, people and our owners
- Finish the strong foundations we are building in Culture, Organisation and Strategy
- Maximise the performance of the business in a balanced way

We used these objectives as we navigated through the pandemic during the second half of 2021.

Throughout the period we conducted significant liaison with government departments, ministers, trade bodies and other key players in the sector, to ensure that our interests and those of our sector were well represented at government level and that key issues and concerns were heard.

A full account of the group's response to the crisis is documented in Greene King Limited's financial statements, with the key elements as follows:

- **Team members**

From January 2021, we entered our third national lockdown with all pubs being closed and the majority of our supporting teams along with our Tenanted and Leased partners participating within the extended Coronavirus Job Retention Scheme (CJRS), the flexible furlough scheme. The flexible furlough scheme enabled some key roles to continue working with the majority working less than their normal hours and receiving a furlough top up for the hours they were unable to work. From April 2021, there was a phased reopening for our pubs with outdoor only service until May when indoor hospitality re-opened. We exited the furlough scheme for salaried team members in June 2021 and hourly paid staff from July 2021.

Following the launch of our Team Member Support Fund in lockdown one in 2020, we set up a second fund in January 2021 and provided £500,000 for our team members in most financial need. This takes the total amount provided to £1,160,000 since the start of the pandemic. We partnered with the Licensed Trade Charity to administer this on our behalf. The fund was partly paid for by salary sacrifices from our executive board and senior leaders in the business.

Throughout the year, it was vital our teams were well informed about on-going changes to restrictions and how that would impact Greene King and the hospitality industry. Our CEO Nick Mackenzie recorded weekly video updates for teams and there were frequent live video conferences and updates on our social media tool, Kingdom, to share information.

We put a programme in place to keep our team members engaged, especially during times of furlough when pubs were closed. We held our first virtual Pride of Greene King Awards, recognising those who had gone above and beyond over the year. Thousands of our team members joined the online awards celebrating individuals and teams who had shone during the most difficult of years.

In May 2021 we held our first virtual talent show for Greene King employees as we celebrated the hidden talents of our pub and brewery teams. The awards were the result of a three-month-long project to keep people who were furloughed engaged and ready when pubs could reopen across the UK.

Following the success of working from home during lockdowns, we introduced an agile working policy demonstrating the company's flexibility to changing employment needs.

To thank our pub, brewery and support teams for their hard work during such a challenging period, we rewarded them with a c.£6m Christmas bonus scheme which included a variety of rewards for different roles such as a £300 cash bonus, extra holiday allowances, an uplift in hourly rates, increased team member discount and a meal per shift.

Following our wellbeing support for our teams during 2020, our Employee Assistance Programme continued to enable team members to have online in-the-moment support, and our mental health first aiders to assist both line managers and team members.

Strategic report (continued)

- **Partners**

Greene King continued to discount tenants' rent by 90% even when pubs were able to open outdoors in the spring of 2021, reducing to 40% concession for the period April to July whilst restricted trading was permitted. The 40% concession was re-introduced in December 2021 for sites in Scotland and Wales that were forced to again trade under restriction in response to the Omicron variant.

Greene King's Pub Partners division won the Best Leased & Tenanted pub company award at the Publican Awards. Judges praised Pub Partners for looking after tied pub tenants during the COVID-19 pandemic, which judges said was especially impressive 'given the size and scale of the task'. Through 2021, we provided financial support to our tenants' worth £11m, mainly through rent concessions.

- **Communities**

Our communities and charity are at the heart of Greene King. At the start of the January 2021 lockdown, we signed up to The Sun newspaper's Jabs Army campaign where our team members, many of whom were furloughed, volunteered as stewards at vaccination centres.

Despite 2021 being a year when pubs were closed or had trade limited for so long, we broke our annual fundraising record and raised £2m for our national charity partner, Macmillan Cancer Support. This took our charity partnership fundraising total to over £10m.

When schools had to close this year, we worked with the Unity Schools Partnership and donated 110 laptops to help support families in Suffolk with home schooling.

- **Customers**

As restrictions eased, it was important to ensure teams and customers were confident they could safely socialise and work in our pubs. We continued our Pub Safe promises in our pubs, which included protective measures for teams and customers even when we could reopen without restrictions in July 2021.

In April 2021, pub gardens could reopen for outdoor hospitality and indoors in May with restrictions. Finally, in July, pubs could reopen without restrictions (Scotland and Wales in August). We welcomed the return of the Great British pub atmosphere, with customers able to order at the bar and stand up in the pub once more. Face coverings remained mandatory in Scotland. Vaccine passports were implemented in October in Scotland and Wales for nightclubs and large indoor gatherings (most pubs were exempt).

After some positive trading through the summer and autumn, the Omicron variant arrived. Governments introduced Plan B with advice to limit socialising and work from home, severely impacting vital Christmas and New Year trade. Business was tougher for Scotland and Wales with further restrictions in place.

Despite all the year's challenges, we proved we have a winning formula by picking up a hat-trick of titles at the prestigious 2021 Publican Awards: We won Best Community Pub Operator for our Local Pubs division, Best Leased & Tenanted Pub Company for the Pub Partners division, and CEO Nick Mackenzie was named Business Leader of the Year.

Impact on the financial statements

The lockdown at the start of the year which required the closure of pubs had a material impact on revenue, profit and free cash flow for the period to 2 January 2022. The KPIs have been selected to understand the performance of the pubs owned and operated by the company. The KPIs are a mixture of statutory and underlying measures.

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m	Change %
Turnover[1]	**591.2**	248.3	+ 138.1%
Adjusted operating profit[1,2]	**61.3**	90.3	- 32.1%
Adjusted operating margin[1,3]	**10.4%**	36.4%	- 71.4%
Operating profit[1]	**71.0**	97.4	- 27.1%
EBITDA[1,4]	**101.6**	120.3	- 15.5%
Outstanding bond at nominal value	**1,365.0**	1,412.1	- 3.3%
Number of pubs at period end			
- Pub Partners	**647**	642	+ 0.8%
- Premium, Urban & Ventures, Local Pubs and Destination Food Brands [5]	**834**	843	- 1.1%

[1] These KPIs have been materially impacted by COVID-19.
[2] Adjusted operating profit represents operating profit before adjusting items. Adjusting items breakdown see note 4
[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 statement of comprehensive income
[4] EBITDA represents earnings before interest, tax, depreciation, amortisation and adjusting items.
[5] The reduction in pub numbers relates to disposals during the period.

Due to the change in financial year end during the prior period the comparative figures quoted are not comparable. The COVID-19 pandemic has continued to have a significant impact on the company. In the prior period the Greene King group agreed to limit the recharges to the company which related to, among other things, employee and supply costs. In the current period the recharges have been resumed which impact the operating profit and operating margin.

During the year the company benefitted from government support received by the Greene King Limited group in the form of furlough grants for job retention, and State Aid grants which were materially constrained due to state aid caps. The company also benefitted from the temporary reduction in the VAT rate to 5% and subsequently 12.5% from 30 September 2021 for certain supplies in the hospitality sector. The company has also repaid all the deferred January to March 2020 quarterly VAT liability in the year.

Strategic report (continued)

Although it is certain that the Greene King Limited group's, and therefore the company's, credit metrics have deteriorated as a result of the reduced trade arising from the COVID-19 pandemic, its liquidity position remains strong reflecting the resilience of the Greene King Limited group's capital structure. The Greene King Limited group's average cash cost of debt reduced to 3.5% from 4.1% last year, and at the year end 93.2% of the Greene King Limited group's net debt was at a fixed rate. The Greene King secured vehicle had a two-quarter lookback FCF DSCR of 1.3x at the year end, giving 17% headroom to the covenant limit of 1.1x.

COVID-19 has continued to have an impact on the accounting estimates and judgements taken in the financial statements. During the period a charge of £0.3m was recognised in respect of stock-write offs or provisions as a result of the government's decisions for a third national lockdown in January 2021. A net credit of £1.9m was recognised on bad debt provision reversals on trade debt reflecting the additional information available on debt collection.

Directors' 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 year under review (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 company is a wholly owned subsidiary of the CK Asset Holdings Limited ("CKA") group, 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 Greene King Limited board ("the board") has continued to ensure that there is appropriate engagement by the company with CKA. Certain members of the board of CKA receive copies of the company's board meeting packs and are invited to attend and ask questions at the company's board meetings to ensure that there is direct contact between the two boards and that the company's parent is fully informed of the company's activities.

Customers: We place customers at the heart of what we do, aiming for industry-leading value, service and quality and regularly benchmarking against the best in class. The Greene King Limited board is given details of relevant customer insights as to the offers of the company's pubs, and also of any significant health and safety related issues relating to our customers. It has also been advised of customer attitudes towards the pandemic and the various safety measures operated by our pubs to reduce the risk of infections spreading. Given the ongoing COVID-19 pandemic it was not possible to arrange pub visits for board members. There are however plans to reintroduce these in due course once conditions permit.

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. The board has been supportive of the actions taken by management during the COVID-19 pandemic to support our tenants and lessees, details of which are set out in the COVID-19 section of the strategic report.

Government and regulatory authorities: We engage with the government and regulators through a range of different 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 COVID-19 pandemic contact with government and parliament has been significant, to ensure that those stakeholders fully understand the impact of the pandemic on the hospitality sector.

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 nine years ago, we have raised £10m for our national charity partner, Macmillan Cancer Support. The board has also been made aware of significant matters affecting the company's reputation. In the light of significant publicity regarding the links between the company's founder, Benjamin Greene, and slavery, the company took the decision to change the names of a number of pubs where there were potential racist connotations in those names. Further details of how we engage with our local communities and our work on diversity is set out in the Corporate Social Responsibility 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. Discussions with landlords stepped up during the COVID-19 crisis to assist the company's cash conservation efforts, with many landlords agreeing to defer rental payments whilst our pubs and restaurants are closed.

Strategic report (continued)

Debt holders: The company is a borrower in a whole business securitisation financing arrangement whereby the proceeds of bond issuances by Greene King Finance plc have been on-lent to the company by way of various term advances. The bonds issued by Greene King Finance plc are listed on the Irish Stock Exchange. During the period, as a direct consequence of the pub closures due to the COVID-19 pandemic, the company was unable to meet certain of its financial covenants. With the support of the board, the company sought and obtained a waiver in respect of those covenant breaches following the passing of an extraordinary resolution by the bondholders in favour of the proposed waiver.

Case studies

The COVID-19 pandemic: As explained elsewhere in the strategic report, the COVID-19 pandemic has been the defining issue for the majority of the year. Management of the crisis was a matter for the executive board, which set up a crisis group, led by the chief financial officer, to oversee the company's response to the crisis. Both the board and the board committee were kept fully informed of the management team's handling of the crisis and were given opportunities to provide their feedback. Reporting to the board and committee set out in detail the various actions taken vis a vis all of the company's key stakeholders, with particular focus on the impact of the crisis on the company's financial position and its prospects.

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 and a balanced portfolio of high growth, consistently profitable brands. Much of the last two years have been focused on dealing with the COVID-19 pandemic but during 2021 work began in earnest to prepare a longer term strategic plan. A number of foundational projects commenced 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). With the support of the board, all divisions and functions undertook a bottom-up five-year strategic planning exercise. These were then reviewed by the executive board which undertook a prioritisation exercise based on a number of key principles for 2022, and recognising the capital constraints facing the business as it recovers from the pandemic. As a result, the priorities for 2022 will include:

- Finalising and implementing the cultural change programme
- Rolling out proven brands and also trialling new formats to rebalance our portfolio
- Investing in a step change in our digital capabilities
- Building the capabilities of our people and an improved people management infrastructure
- Strengthen our IT security and core systems infrastructure
- Investing to deliver operational efficiency and cost mitigation in future years.

Each of these is reflected in the 2022 budget which was approved by the board committee in 2021.

Culture and values: Significant progress has been made 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:

- Engagement programmes with all teams on the company's purpose, goal and values, which culminated in a conference attended by more than 2,000 managers in October.
- The roll out of an intensive leadership development programme for all of the company's leaders, to build the skills and capabilities to embed the cultural change programme.
- The launch 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.

Inclusion and diversity: During the year management created a new strategy, supported by the board, that clearly sets out our plans and commitments to achieve our diversity and inclusion aspirations based on education, awareness and activity.

A particular focus was on the publication of the company's race manifesto, Calling Time on Racism, which set out our ambition to embrace and value our Black, Asian and Minority ethnic team members and the wider community and to increase their representation within the hospitality sector as a leading and truly anti-racist organisation. Further details are set out in the corporate social responsibility section of the Greene King Limited group's financial statements.

Principal risks and uncertainties

During the year the COVID-19 pandemic was constant in disrupting trade and the normal operation of the business. Throughout the year, trade was either prohibited by law with the forced closure of hospitality nationally or regionally, or trade was severely restricted by social distancing or self-isolation requirements brought about by high levels of COVID-19 infection circulating in the general population.

The COVID-19 pandemic has impacted many of the other risks already facing the business, and accordingly existing mitigation plans designed to deal with those risks have been adapted, amended and upweighted as necessary. For further details of the impact on the company of the COVID-19 pandemic, and how the Greene King Limited group has responded to the threats thereof, please see the separate COVID-19 section of the strategic report.

The principal risks and uncertainties facing the business were largely similar in nature to those reported last year, with the evolution of one key risk from adopting the right strategy to executing it.

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, operational and people risks and financial 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 risks

The strategic risks to the company are failure to adopt the right strategy and customer offers. 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 of FY21, good progress has been made to further progress our group strategy to be the pride of British hospitality, famous for outstanding customer experiences and a balanced portfolio of high growth, consistently profitable brands.

The business re-opened strongly from May onwards with a key focus on being COVID-19 safe, branded Pub Safe which created a strong platform for delivery of strategic goals & trading targets throughout the rest of FY21. Both customer reputation & employee engagement scores increased during the year.

In Pub Partners, business failure rates remained low, with ongoing rental support from Greene King.

Transition to a new operational structure was completed & our people plan, "'Greene King Unleashed'" was launched. The bottom up 5-year strategic plan was also completed.

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

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.

Regular pulse of customer insight will provide a measure of customer sentiment and expectation so we can respond tactically to any shift as we emerge from the COVID-19 pandemic.

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 development of our brands will continue to take increasing importance as we come out of the pandemic, ensuring we leverage customer insight and brand development to evolve based on customer expectations.

Economic and market risks

We have a relentless focus on value, service and quality and are continuing to invest in our pubs.

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.

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.

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 as the country emerges from the COVID-19 pandemic together with a new inflationary environment and supply chains which are still recovering from the impact of COVID-19 and are now also directly or indirectly being impacted by supply issues as a result of the Russian invasion of Ukraine.

It is unclear how consumer behaviour will change following the COVID-19 pandemic and the easing of the restrictions.

Operational and people risks

A wide range of policy, technical, procedural, and operational compliance control improvements have been implemented across the business, covering all aspects of the requirements. We have a data governance committee, data protection officer and data protection champions across the business.

Processes are in place to manage data breaches, which are followed up appropriately to ensure that lessons are learnt, and subject access requests are now handled centrally to ensure legislative requirements are met.

Through our governance framework, compliance is monitored and reported on a regular basis with a set of KPIs for each key risk.

Working with specialist third party companies we 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 IT security controls, improve our recovery capability (through both disaster recovery and business continuity processes and tests) and processes, threat surveillance, patching and user education and to ensure that we continue to retire legacy systems so that our defenses 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.

Strategic report (continued)

Supply chain issues have been a particular feature of the year, particularly as the country came out of lockdown in the summer – staff shortages at suppliers were often caused by COVID-19 infections or government-imposed self-isolation rules (the "pingdemic") and the haulage industry in particular suffered recruitment issues, leading to a shortage of drivers. CO2 shortages were also a problem in the autumn.

Whilst many of our suppliers are large multi-national companies who have, where necessary, utilised the government's various support schemes to provide some stability during the pandemic, some of our smaller suppliers have found the past year harder, Greene King has supported these suppliers by continuing to make payments in line with the suppliers payment terms.

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.

Since March 2020 a comprehensive and open communication plan has kept all our employees fully informed on the crisis, its impact on the business and the actions we are taking. This is ongoing and has included regular email updates, video messages, messaging via our bespoke Kingdom employee app, and online live briefings. Feedback from employees on this process has been strong as demonstrated through our engagement survey results

We have both a branded recruitment plan to ensure that we attract suitable candidates and operate a range of apprenticeship programmes and other initiatives designed to attract people into the business. More effective recruitment processes have been put in place for key roles in our pubs and we have improved induction training to improve retention in the early few months.

The double hit of Brexit and COVID-19 lockdowns has resulted in labour force migrating away from hospitality whilst wage inflation makes cost of hiring and retention more costly. This is most apparent in London where we have a sizable presence. To address these challenges, we have reviewed pay and conditions including work-life balance and a new bonus scheme.

In October 2021 we held our first ever 'Greene King Unleashed' launch festival to launch the company's cultural change programme. Over 2,000 managers from across the business attended the event at the long-term strategy for the business was explained. The event received very positive feedback and is being followed up with a range of actions to reinforce the company's values and expected behaviours.

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.

Additional risk assessments were put in place and audited to ensure compliance with the government's rules around safe distancing and hygiene. We continue to revise these as government guidelines and customer expectations change.

Financial risks

The Greene King Limited group is well funded with the principal elements of the group's capital structure being its £600m bank facilities, which were £300m drawn at the year end, a £1,500m revolving loan facility with CKA Holdings UK Limited, which was £1,376m drawn at the year end, and two long-term asset-backed financing vehicles. The group's £600m bank facilities includes a new £200m external revolving loan facility which was agreed with the Bank of Nova Scotia in December 2021. 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 £1,314.6m (2021: £1,360.5m) and an average life of eight years (2021: eight years), secured against 1,481 pubs (2021: 1,485 pubs) with a group carrying value of £1,945.7m (2021: £1,953.1m).

Long term strategy and business plans are formulated to ensure that headroom against financial covenants is maintained at a prudent level.

Forward looking covenant headroom is reviewed by the CFO on an ongoing basis. Working capital performance is regularly reviewed and closely managed by the CFO. The impact on covenant headroom across all debt platforms is considered by management when assessing potential future transactions.

In May 2021 the company obtained a bondholder waiver in relation to breaches of the four-quarter lookback FCF DSCR covenant for the five quarters ending April 2021 through April 2022 and the two-quarter lookback FCF DSCR covenant for the three quarters ending April 2021 through to October 2021. All other covenants remained in compliance.

This report was approved by the board on 26 April 2022 and signed on its behalf by:

R Smothers
Director

Directors report

The directors present their annual report and financial statements for the 52 week period ended 2 January 2022.

Results and dividends

The loss for the 52 weeks, after taxation and interest, was £69.8m (2021: 36 weeks loss £2.7m).

No dividends were paid or proposed during the period (2021: £nil).

Directors and their interests

The directors during the period and to the date of this report, except stated otherwise, were as follows:

R Smothers
M Starbuck
W Shurvinton
N Elliot
A Bush
N Mackenzie
P Kerrigan (resigned 31 March 2022)
K Bosher
A Wilson
M Sebastian
C Preston

None of the directors held any interest in the share capital of the company during either the current or prior periods.

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 23 in the financial statements.

Indemnity provision / directors' liabilities

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 remained in place at the date of this report.

Director's duties under Section 172 Companies Act 2006

A statement on the director's duties under Section 172 Companies Act 2006 can be found in the strategic report.

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 finance 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 18 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.

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.

Directors report (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 the approval of the financial statements.

The directors of Greene King Limited have assessed the continued impact of the COVID-19 pandemic as part of their going concern assessment of the Greene King Limited group. In doing so, the Greene King Limited directors have modelled a reasonable worst-case scenario of a further sustained Omicron-style COVID-19 variant impacting the UK through the winter of 2022. The directors have also modelled what they believe to be a remote scenario, a two-month lockdown without government support during the peak months. Under both scenarios the group continues to have access to the adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements, including the repayment of the Spirit debenture debt of c.£100m should this debt be accelerated while the platform remains in technical default. However, in the absence of any government support this reduction in trade would likely result in further breaches of both the two-quarter and four-quarter lookback FCF DSCR covenant in the Greene King securitisation without mitigating actions. In either 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, or alternatively seek a further waiver from bondholders. The directors of Greene King Limited have a reasonable expectation that the group has adequate resources to continue in operational existence for at least the next 12 months from the date of the approval of the financial statements.

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

Statement as to 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 the 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 auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the companies Act 2006.

This report was approved by the board on 26 April 2022 and signed on its behalf by

R Smothers
Director

Statement of director's responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of 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 2 January 2022 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 25.

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 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 renewal of the £1.5bn facility from an intermediate parent company on 4 April 2022; and
- An assessment of management's modelling of reasonably possible downside scenarios, including a future Covid-19 variant resulting in a lockdown of 2 months.

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.

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.

Independent auditor's report to the members of Greene King Retailing Limited (continued)

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 group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group 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 group's ability to operate or to avoid a material penalty. These included data protection regulations, licensing regulations, the pub code, occupational health and safety regulation, employment legislation, 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 & 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 areas, and our specific 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 correlation of revenue to cash receipts for managed pub revenue to identify where adjustments have arisen between the pub till system and the accounting system; these were then tested for accuracy by tracing to relevant support documentation. We also assessed the design 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 external 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 to the members of Greene King Retailing Limited (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, UK

Date: 26 April 2022

Income statement

for the 52 week period ended 2 January 2022

	Notes	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Turnover	3	**591.2**	248.3
Operating expenses, before adjusting items	4	**(529.9)**	(158.0)
Adjusting items	4	**9.7**	7.1
Operating profit		**71.0**	97.4
Interest receivable and similar income – adjusting items	6	**1.1**	-
Interest payable and similar charges	7	**(189.9)**	(123.3)
Interest payable and similar charges – adjusting items	7	**(7.3)**	(5.6)
Loss before taxation		**(125.1)**	(31.5)
Tax on loss	8	**55.3**	28.8
Loss after taxation and loss for the financial year		**(69.8)**	(2.7)

The notes on pages 19 to 42 form part of these financial statements.

All activities related to continuing operations.

Statement of other comprehensive income

for the 52 week period ended 2 January 2022

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Loss for the period	**(69.8)**	(2.7)
Other comprehensive income		
Items that can be reclassified to income statement		
Gains/(Losses) on cash flow hedges taken to equity	**33.6**	(7.7)
Transfers to income statement on cash flow hedges	**20.8**	14.7
Tax on items relating to components of other comprehensive income	**(1.7)**	(1.3)
Other comprehensive income for the period net of tax	**52.7**	5.7
Total comprehensive (loss)/income for the period net of tax	**(17.1)**	3.0

The notes on pages 19 to 42 form part of these financial statements.

Balance sheet

as at 2 January 2022

	Notes	2 January 2022 £m	3 January 2021 £m
Fixed assets			
Intangible assets	9	**317.3**	317.5
Tangible assets	10	**2,091.1**	2,100.0
Right-of-Use assets	16	**8.9**	8.9
Investments	11	**-**	-
Deferred tax asset	19	**53.9**	7.3
		2,471.2	2,433.7
Current assets			
Stocks	12	**12.5**	6.9
Debtors: amounts falling due within one year	13	**39.5**	17.9
Cash at bank and in hand		**57.3**	87.5
		109.3	112.3
Creditors: amounts falling due within one year	14	**(364.7)**	(219.7)
Borrowings	17	**(60.9)**	(45.8)
Lease liabilities	16	**(0.1)**	(0.2)
Financial instruments	18	**(10.7)**	(13.2)
Net current liabilities		**(327.1)**	(166.5)
Total assets less current liabilities		**2,144.1**	2,267.2
Creditors: amounts falling due after more than one year	15	**(752.4)**	(752.4)
Borrowings	17	**(1,293.7)**	(1,354.6)
Lease liabilities	16	**(9.3)**	(9.3)
Financial instruments	18	**(94.9)**	(139.6)
Provision for liabilities		**(0.1)**	(0.4)
Net (liabilities)/assets		**(6.3)**	10.8
Capital and reserves			
Called up share capital	20	**222.0**	222.0
Fair value reserves – hedging reserve	21	**(107.6)**	(160.3)
Profit and loss account	21	**(120.7)**	(50.9)
Total equity		**(6.3)**	10.8

The notes on pages 19 to 42 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors and signed on its behalf on 26 April 2022 by:

R Smothers
Director

Statement of changes in equity

as at 2 January 2022

	Share Capital £m	Hedging reserves £m	Retained earnings £m	Total equity £m
At 26 April 2020	222.0	(166.0)	(48.2)	7.8
Comprehensive income for the period				
Loss for the period	-	-	(2.7)	(2.7)
Losses on cash flow hedges taken to equity	-	(7.7)	-	(7.7)
Transfers to the income statement on cash flow hedges	-	14.7	-	14.7
Tax on items relating to other comprehensive income	-	(1.3)	-	(1.3)
Total comprehensive income for the period	-	5.7	(2.7)	3.0
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)
Gains/(Losses) 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 loss for the period	-	52.7	(69.8)	(17.1)
At 2 January 2022	**222.0**	**(107.6)**	**(120.7)**	**(6.3)**

The notes on pages 19 to 42 form part of these financial statements.

Notes to the financial statements

for the period ended 2 January 2022

1. Basis of preparation

Corporate information

The financial statements of Greene King Retailing Limited for the 52 weeks ended 2 January 2022 were authorised for issue by the board of directors on 26 April 2022. Greene King Retailing Limited is a private company limited by shares incorporated and domiciled in England and Wales.

Basis of accounting and preparation

The company's financial statements have been prepared under the historical cost convention unless otherwise 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 prior year financial statements were presented in millions of pounds sterling, with values rounded to the nearest million pounds. Therefore, the comparative figures have been restated.

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.

Following the acquisition of the Greene King Limited group by CK Noble (UK) Limited on 30 October 2019, the financial year end of the company was changed to 31 December so as to be conterminous with the year end of the ultimate parent undertaking, CK Asset Holdings Limited. Accordingly, the prior financial statements were prepared for 36 weeks from 27 April 2020 to 3 January 2021 and as a result, the comparative figure stated in the statement of comprehensive income, statement of changes in equity and the related notes are not comparable.

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.

Notes to the financial statements

for the period ended 2 January 2022

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 the approval of the financial statements.

The directors of Greene King Limited have assessed the continued impact of the COVID-19 pandemic as part of their going concern assessment of the Greene King Limited group. In doing so, the Greene King Limited directors have modelled a reasonable worst-case scenario of a further sustained Omicron-style COVID-19 variant impacting the UK through the winter of 2022. The directors have also modelled what they believe to be a remote scenario, a two-month lockdown without government support during the peak months. Under both scenarios the group continues to have access to the adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements, including the repayment of the Spirit debenture debt of c.£100m should this debt be accelerated while the platform remains in technical default. However, in the absence of any government support this reduction in trade would likely result in further breaches of both the two-quarter and four-quarter lookback FCF DSCR covenant in the Greene King securitisation without mitigating actions. In either 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, or alternatively seek a further waiver from bondholders. The directors of Greene King Limited have a reasonable expectation that the group has adequate resources to continue in operational existence for at least the next 12 months from the date of the approval of the financial statements.

The directors of the company have made appropriate enquiries of the directors of Greene King Limited to confirm that they are satisfied that 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 group

The following new standards, interpretations and amendments to standards are mandatory for the group for the first time for their annual reporting period commencing 4 January 2021.

Those standards and interpretations include:

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

The company has considered the above new standards and has concluded that both have an impact on the company's financial statements.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In the prior year the group early adopted the Interest Rate Benchmark Reform Phase 1 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. This allowed the company to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty from interest rate benchmark reforms.

In the current year, the company has adopted amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform Phase 2 as issued in August 2020. The company ceased to apply the respective Phase 1 amendments to contracts when the uncertainty arising from IBOR reform was no longer present.

The Phase 2 amendments provide practical relief from certain requirements in the standards. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The Phase 2 amendments also provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

The Group has early adopted COVID-19 Related Rent concessions beyond 30 June 2021 – Amendment to IFRS 16 issued on 31 March 2021. The amendment extends the optional practical expedient for lessees not to treat eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic as lease modifications. The impact of rent concessions has been shown in note 16.

Notes to the financial statements

for the period ended 2 January 2022

1. Basis of preparation (continued)

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the company has not early adopted them in preparing the 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.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)a
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

Significant accounting judgments and estimates

Significant accounting judgments

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

Adjusting items

Management uses a range of measures to monitor and assess the company's financial performance. These measures include statutory measures calculated in accordance with IFRS but adjusted to exclude items that management considers would prevent comparison of the company's performance from one reporting period to another.

The classification of items excluded from profit before adjusting items requires judgment including consideration of the nature, circumstances, scale and impact of transaction. See note 4 for breakdown of adjusting items.

Significant accounting estimates

The areas of estimation that have a significant risk of resulting in material adjustments 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 long-term growth rates, and the adoption of a suitable discount rate. 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 Greene King Limited Group's WACC and is applied across all operating 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 notes 10.

The cashflows used in the impairment exercise have been aligned to the group's 5-year strategy plan adopting a portfolio basis across our different customer propositions based on geography, location and trading profile, as the business returns to pre-COVID-19 trading levels sales in FY23 and pre-COVID-19 profitability over the medium to longer term. Further details are provided in notes 10 and 16.

Useful economic life of Property, plant and equipment

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 are 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.

Notes to the financial statements

for the period ended 2 January 2022

1. Basis of preparation (continued)

COVID-19

As explained on pages 3 to 5, COVID-19 has had a material impact to the financial statements. As well as impacting the impairment calculation on Property, Plant & Equipment above, management have applied estimates within the expected credit loss calculation on trade receivables, see notes 13 and 18 for further details.

Consideration has also been given to the appropriateness of continuing to apply hedge accounting given the unprecedented uncertainty caused by the pandemic. The group deemed that this was appropriate in light of the availability of adequate facilities to meet scheduled debt service payments and its assessment that there has been no significant increase in either counterparty or own credit risk.

Determination of the Incremental Borrowing Rate - Company as a Lessee

IFRS 16 requires lease liabilities to be discounted at the interest rate implicit in the lease, however if this cannot be readily determined, the lessee shall use the lessee's Incremental borrowing Rate (IBR). As management have elected for the modified retrospective approach, the IBR is required to be calculated at the date of initial application of IFRS 16 rather than at each lease commencement date. Management have also elected to view the assets within portfolios for the calculation of IBR rather than applying this to every lease.

Management have used the following methodology to calculate the applicable IBR:

- determined the risk-free interest rate taking into account relevant factors such as term of the lease and economic environment;
- adjusted the risk-free interest rate to reflect the level of indebtedness of the entity and, where available, reflected recent third-party financing used in the entity;
- finally, the length of the lease was factored into the correlation between the term of the risk-free rate and term of the lease.

Taxation

The company's tax charge is the sum of the total current and deferred tax charges. The company has exercised significant accounting estimation and judgment in the recognition of deferred tax assets in respect of property, plant and equipment. Significant accounting estimates and judgments include those used to determine the amount of net book value of property, plant and equipment which is exempt from deferred tax and the unrecognised deferred tax asset on the inherent loss where tax losses are expected to be utilised against future profits and gains.

2. Significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at cost 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 for its use. Profit or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amounts 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.

Notes to the financial statements
for the period ended 2 January 2022

2. Significant accounting policies (continued)

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 IFRS. Identifiable intangible assets, meeting either the contractual-legal or separability criteria, are recognised separately from goodwill. 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.

Impairment

Property, plant and equipment

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 cash-generating unit (CGU). 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 tangible fixed assets are provided in note 10.

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 group 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.

Notes to the financial statements

for the period ended 2 January 2022

2. Significant accounting policies (continued)

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

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 18.

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 of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Trade payables

Trade 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 adjusted 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.

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.

Notes to the financial statements

for the period ended 2 January 2022

2. Significant accounting policies (continued)

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:

- 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.

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.

Amounts owed to other group companies

Amounts owed by or to other Greene King group companies, 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.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their 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 unwinding of the discount is recognised as a finance cost.

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 & Ventures, Local Pubs 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 licensed estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

Notes to the financial statements

for the period ended 2 January 2022

2. Significant accounting policies (continued)

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). 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.

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

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 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 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 three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contact 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 assesses 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.

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 IBR.

Right of use assets 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.

Notes to the financial statements

for the period ended 2 January 2022

2. Significant accounting policies (continued)

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 group 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 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 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.

Under IFRS 16 lessor accounting is broadly unchanged and therefore the majority of leases under which the company is the lessor continue to be accounted for as operating leases.

Taxes

Income tax

The income tax charge comprises both the income tax payable based on profits for the period 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 directly in OCI and equity are recognised in OCI and equity respectively.

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 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.

Notes to the financial statements
for the period ended 2 January 2022

3. 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 the that of pub retailing. Turnover is analysed as follows:

52 weeks to 2 January 2022	Premium, Urban & Ventures, Local Pubs and Destination Food Brands	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
Total	527.5	63.7	591.2

36 weeks to 3 January 2021			
			£m
Goods			
- Drink	118.1	18.3	136.4
- Food	96.4	-	96.4
	214.5	18.3	232.8
Services			
- Other services[1]	9.5	6.0	15.5
Total	224.0	24.3	248.3

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

Turnover from services includes rent receivable from licensed properties of £18.2m (2021: £7.2m).

4. Operating profit

52 weeks to 2 January 2022	Before adjusting items 2022 £m	Adjusting items 2022 £m	Total 2022 £m
Operating profit is stated after charging / (crediting):			
Cost of products sold recognised as an expense	150.2	-	150.2
Employment costs (note 5)	184.9	-	184.9
Depreciation of owned tangible fixed assets (note 10)	40.1	-	40.1
Depreciation of right-of-use asset (note 16)	0.2	-	0.2
Net profit on disposal	-	(1.1)	(1.1)
Net impairment of tangible fixed assets (note 10)	-	0.8	0.8
HMRC VAT refund	-	(7.8)	(7.8)
COVID -19 related releases	-	(1.6)	(1.6)
All other operating expenses	154.5	-	154.5
	529.9	**(9.7)**	**520.2**

Notes to the financial statements

for the period ended 2 January 2022

4. Operating profit (continued)

36 weeks to 3 January 2021	*Before adjusting items* 2021 £m	*Adjusting items* 2021 £m	*Total* 2021 £m
Operating profit is stated after charging / (crediting):			
Cost of products sold recognised as an expense	68.2	-	68.2
Depreciation of owned tangible fixed assets	30.0	-	30.0
Depreciation of right-of-use asset	0.1	-	0.1
Employment costs	8.0	-	8.0
Net profit on disposal	-	1.0	1.0
Net impairment of tangible fixed assets	-	(7.3)	(7.3)
HRMC Rank refund	-	(0.8)	(0.8)
All other operating expenses	51.7	-	51.7
	158.0	(7.1)	150.9

The impairment charge (2021: reversal) relating to properties (property, plant & equipment and right-of-use asset) comprises of a gross charge of £8.3m (2021: £12.0m) offset by a reversal of previously recognised impairment losses of £7.5m (2021: £19.3m). The £7.5m impairment reversal was recognised to reflect updated trading assumptions, market valuation review conducted at year end and the continued uncertainty of COVID-19.

The adjusting item in operating expenses relates to the net profit on disposal of property, plant and equipment and goodwill of £1.1m (2021: loss £1.0m) land comprises a total profit on disposal of £1.2m (2021: £0.4m) and a total loss on disposal of £0.1m (2021: £1.4m).

In the current period, the company has recognised income of 7.8m (2021: £0.8m) in respect of VAT claims. This comprises of credits received from HMRC in relation to VAT on gaming machine income, following HMRC's decision not to further appeal the decision of the First Tier Tribunal in August 2021.

The company has recognised a credit of £1.6m (2021: £nil) as a result of the COVID-19 outbreak. This includes £0.3m (2021: £1.3m) write off or increase in provision for obsolete stock (note 12), and a decrease in provisioning required for trade debtors of £1.9m (2021: decrease £1.5m). In the prior period a further £0.2m was incurred associated with the closure of pubs which include the one-off cost of changing the look and feel of the pubs and the launch of our PUBSAFE initiative to meet Government guidance in order to reopen, the one-off costs of collecting kegs from pubs from UK lockdowns where pubs were ordered to shut by the UK Government and the initial order of PPE to allow the pubs to open safely following the initial lock-down.

The auditor's remuneration in respect of the audit of the financial statements for the period of £32,000 (2021: £27,000) has been borne by another group company. There were no non-audit services provided by the auditors (2021: none).

5. 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 employment costs within operating expenses. 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 £0.6m (2021: £0.3m), received by these directors totalled £5.2m (2021: £2.2m) paid by the 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 (2021: none).

6. Interest receivable and similar income

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Interest receivable and similar income – adjusting items	**1.1**	-
	1.1	-

In the current period the group recognised income of £1.1m (2021: £nil) in relation to interest on VAT on gaming machine income described in note 4.

Notes to the financial statements

for the period ended 2 January 2022

7. Interest payable and similar charges

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Subordinated loans from group undertakings	**119.5**	73.7
Interest payable on term advances	**56.3**	39.9
Amounts payable on interest rate swap agreements related to term advances	**13.5**	9.3
Interest and finance costs on lease liabilities	**0.6**	0.4
Interest payable and similar charges	**189.9**	123.3
Interest payable and similar charges – adjusting items	**7.3**	5.6
	197.2	128.9

Adjusting items

In a previous period, the company settled a swap liability that was hedging cash flows relating to the A5 term loan. These cash flows are still expected to occur and therefore in accordance with IFRS 9 the cumulative losses taken to the hedging reserve are recycled to the income statement over the same period during which the hedged forecast cash flows affect profit or loss. An adjusting charge of £7.3m (2021: £5.6m) has been recognised in respect of this during the period.

8. Taxation

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Current income tax		
UK Corporation tax	**(4.9)**	(1.9)
Adjustments in respect of prior periods	**(2.1)**	-
	(7.0)	(1.9)
Deferred taxation		
Origination and reversal of timing differences in the period	**(70.9)**	(26.1)
Tax charge in respect of rate change	**7.6**	-
Adjustment in respect of prior periods	**15.0**	(0.8)
	(48.3)	(26.9)
Tax (credit) / charge in the income statement	**(55.3)**	(28.8)

Reconciliation of tax charge / (credit) for period

The tax credit in the income statement is higher than (2021: higher than) than the standard rate of corporation tax of 19.0% (2021: 19.0%). The differences are explained below:

	52 weeks to 2 January 2022 £m	36 weeks to 3 January 2021 £m
Loss on ordinary activity before tax	**(125.1)**	(31.5)
Profit on ordinary activity multiplied by standard rate corporation tax in the UK of 19.0% (2021: 19.0%)	**(23.8)**	(6.0)
Effects of:		
(Income)/expenses not taxable/deductible for tax purposes	**(0.5)**	0.3
Adjustment in respect of prior years – current tax	**(2.1)**	-
Adjustment in respect of prior years – deferred tax	**15.0**	(0.8)
Impact of deferred tax in respect of licensed estate	**(0.7)**	(1.1)
Change in deferred tax asset recoverability	**(49.8)**	-
Deferred tax debit in respect of rate changes	**7.6**	-
Transfer pricing	**(1.0)**	(21.2)
Tax credit in the income statement	**(55.3)**	(28.8)

Notes to the financial statements
for the period ended 2 January 2022

8. Taxation (continued)

During the period a deferred tax charge of £1.7m (2021: £1.3m) has been recognised in the Statement of other comprehensive income relating to the net losses on cash flow hedges taken to equity.

The adjustment in respect of prior periods arises from truing up the deferred tax asset on trading losses based on submitted tax returns for earlier periods.

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 planned 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, £49.9m (2021: £7.8m) has been recognised on the basis it is supported by future expected taxable profits under IAS 12.29. Forecasts have been prepared showing that these tax losses are expected to be fully utilised in accordance with the Corporate Loss Restriction and Corporate Interest Restriction rules within the forecast period.

9. Goodwill

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

The company's goodwill is allocated 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.

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

The recoverable amount was determined on a value-in use basis, using cash flow projections based on one year budgets 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 6.8% (2021: 6.7%). 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 five divisions; and
- A long-term growth rate of 1.5% (2021: 1.5%) in Premium, Urban & Ventures, Local Pubs and Destination Food Brands and 1.8% (2021: 1.8%) in Pub Partners. These rates are below the long-term UK inflation of 2.3% to 4% and reflect the anticipated trends in future trading performance.

The key assumptions used in the value-in-use calculations, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

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 consider 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.

Notes to the financial statements

for the period ended 2 January 2022

10. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
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**
Depreciation			
At 3 January 2021	145.9	411.3	557.2
Charge for the period	5.8	34.3	40.1
Impairment	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**
Net Book Value			
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] Following a review of fixed asset ledgers, 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 fixtures, fitting and equipment.

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

	2022 £m	Restated[1] 2021 £m
Freehold	**1,876.8**	1,877.0
Short term leasehold properties	**13.0**	11.3
Long term leasehold properties	**31.5**	31.1
	1,921.3	1,919.9

[1] Restated – Short term and long term leasehold properties have been restated to correct numbers disclosed in the prior year financial statements.

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

Licensed Estate	2022 Leased to tenants £m	2022 Used by the group £m	2022 Total £m	2021 Leased to tenants £m	2021 Used by the group £m	2021 Total £m
Net Book Value	368.1	1,553.2	1,921.3	362.5	1,557.4	1,919.9

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.

Notes to the financial statements
for the period ended 2 January 2022

10. Tangible fixed assets (continued)

Impairment

During the period £0.7m of net impairment charge (2021: gain of £7.3m) was recognised in the income statement as exceptional operating expenses. This is comprised of an impairment charge of £8.2m (2021: £11.8m) and reversal of previously recognised impairment losses of £7.5m (2021: £19.1m). The recoverable amount for assets impaired were based on a combination 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 amounts 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 an expected cash flow projection, the discount rate applied to those cash flows of 6.80% (2021: 6.70%) and the long-term growth rate of 1.50% (2021: 1.50%) in Premium, Urban & Ventures, Local Pubs and Destination Food Brands and 1.80% (2021: 1.80%) 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 group's reporting segments the same level of discount rate is applied to all.

Cash flow projections relating to individual CGUs used in the impairment exercise have been aligned to the group's 5-year strategy plan adopting a portfolio basis across our different customer propositions based on geography, location and trading profile, as the business returns to pre-COVID-19 level sales in FY23 and pre-COVID-19 profitability over the medium to longer term. 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.

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 2021. 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, which is further explained in note 18.

Sensitivities to change 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. The 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:

	2022 **£m**	2021 £m
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	**7.2**	9.8
Increased impairment resulting from a 0.5% increase in weighted average cost of capital	**6.0**	7.9
Increased impairment resulting from a 25% reduction in growth rate	**4.7**	5.7

11. Investments

	Shares in subsidiaries £m
Cost	
At 3 January 2021 and at 2 January 2022	22.0
Impairment	
At 3 January 2021 and at 2 January 2022	(22.0)
Net Book Value	
At 3 January 2021 and at 2 January 2022	-

Notes to the financial statements
for the period ended 2 January 2022

11. Investments (continued)

The following are subsidiary undertakings of the company, all subsidiaries were incorporated in England and Wales and they all held property until January 2015. All subsidiaries are owned directly and all have their registered office at Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT:

Name of company	Principal activity	Holding	Shares held
Sapphire Food North East No. 1 Limited	MVL	Ordinary shares	100%
Sapphire Food South West No. 2 Limited	Dormant	Ordinary shares	100%
Sapphire Food North West No. 3 Limited	MVL	Ordinary shares	100%
Sapphire Food South East No. 4 Limited	MVL	Ordinary shares	100%
Sapphire Rural Destinations No. 5 Limited	MVL	Ordinary shares	100%

Member voluntary liquidation "MVL"

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.

12. Stocks

	2022 £m	2021 £m
Finished goods for resale	**12.5**	6.9

During the period the company recognised £150.2m (2021: £68.2m) 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.

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 for indoor, management have written off inventory of £0.3m (2021: £1.3m) (see note 4).

13. Debtors

	2022 £m	2021 £m
Due within one year		
Trade debtors	**9.9**	4.7
Amounts owed by group undertakings	**13.5**	-
Other debtors	**11.0**	2.7
Prepayments and accrued income	**3.8**	0.7
Corporation tax	**1.3**	7.8
Taxation and social securities	**-**	2.0
	39.5	17.9

Expected credit losses of £1.2m (2021: £3.3m) have been recognised against the carrying value of trade debtors. Information about the group's exposure to credit and market risks, and impairment losses for trade receivables is included in note 18.

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

14. Creditors: amounts falling due within one year

	2022 £m	2021 £m
Accruals and deferred income	**68.6**	47.9
Amounts owed to fellow group undertakings		
Trade creditors	**15.3**	10.5
Accrued interest on subordinated loan (note 15)	**280.8**	161.3
	364.7	219.7

Notes to the financial statements

for the period ended 2 January 2022

14. Creditors: amounts falling due within one year (continued)

Fellow group undertakings are other companies within the Greene King Limited group. Interest payable included within accruals and deferred income 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.

15. Creditors: amounts falling due after one year

	2022 **£m**	2021 £m
Subordinated loan	**752.4**	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.

16. 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 typically made for periods of 9 years to 178 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.

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

Right-of-use assets	**Property** **£m**
Cost	
At 3 January 2021	9.5
Additions	0.2
Remeasurement	0.1
At 2 January 2022	9.8
Depreciation	
At 3 January 2021	0.6
Charge for the period	0.2
Impairment	0.1
At 2 January 2022	0.9
Net Book Value	
At 2 January 2022	8.9
At 3 January 2021	8.9

Impairment of Right-of-Use assets

During the period to 2 January 2022 the group has recognised a net impairment loss of £0.1m (2021: £nil) in respect of the group's Premium, Urban & Ventures, Local Pubs and Destination Food Brands.

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 10.

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.

Notes to the financial statements
for the period ended 2 January 2022

16. Leases (continued)

Lease Liabilities

Lease liabilities included in the statement of financial position at 2 January 2022	£m
As at 26 April 2020	9.2
Interest expense relating to lease liabilities	0.4
Remeasurements	0.1
Repayment of lease liabilities (including interest)	(0.2)
As at 3 January 2021	9.5
Interest expense relating to lease liabilities	0.6
Additions	0.2
Remeasurements	0.1
Repayment of lease liabilities (including interest)	(1.0)
As at 2 January 2022	**9.4**

Maturity of lease liabilities	**2022 £m**	2021 £m
Current	**0.1**	**0.2**
Non-current	**9.3**	**9.3**
	9.4	**9.5**

Maturity analysis – contractual undiscounted cashflows	**2022 £m**	2021 £m
Less than one year	**0.8**	0.7
One to five years	**2.7**	2.5
More than five years	**33.2**	33.1
	36.7	36.3

Amounts recognised in the statement of profit and loss	**£m**
2022 – Leases under IFRS 16	
Depreciation on right of use assets	**0.2**
Other lease expenses and sublease income	**0.7**
Charged to operating profit	**0.9**
Interest expense related to lease liabilities	**0.6**
Charge to profit before taxation for leases	**1.5**
2021 – Leases under IFRS 16	
Depreciation on right of use assets	**0.1**
Other lease expenses and sublease income	**0.6**
Charged to operating profit	**0.7**
Interest expense related to lease liabilities	**0.4**
Charge to profit before taxation for leases	**1.1**

The total cash outflow for leases in the period was £1.1m (2021: £0.2m).

Notes to the financial statements
for the period ended 2 January 2022

16. Leases (continued)

As a lessor

The company leases out its owned 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 of the risks and rewards incidental to the ownership of the assets.

The company leases part of its licensed estate and other non-licensed properties to tenants. 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.

Rental income recognised by the company in the period was £18.2m (2021: £7.2m).

The company provided rent concessions as a result of the COVID-19 outbreak for their tenants totalling £10.8m (2021: £10.5m).

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

	2022 £m	2021 £m
Within one year	**23.0**	21.7
Between one and five years	**57.4**	53.6
After five years	**59.8**	56.2
	140.2	131.5

Future minimum rentals include £0.2m (2021: £0.1m) receivable in respect of non-cancellable subleases.

17. Borrowings

	Current 2022 £m	**Non-current 2022 £m**	**Total 2022 £m**	Current 2021 £m	Non-current 2021 £m	Total 2021 £m
Secured debt with Greene King Finance plc	**62.1**	**1,302.9**	**1,365.0**	47.0	1,365.1	1,412.1
Deferred issue costs	**(1.2)**	**(9.2)**	**(10.4)**	(1.2)	(10.5)	(11.7)
	60.9	**1,293.7**	**1,354.6**	45.8	1,354.6	1,400.4

Securitised debt

Greene King Finance plc has issued various tranches of bonds in connection with the securitisation of 1,481 (2021: 1,485) of Greene King Limited group's pubs which are all held by the company. The company 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 2022 £m	**Carrying value 2022[1] £m**	Nominal value 2021 £m	Carrying value 2021 £m	Interest	Interest rate[2] %	Last repayment period	Weighted average life [3]
Term Advances A2	**194.4**	**192.8**	204.5	202.7	Fixed	5.32	2031	5.7 years
Term Advances A4	**254.0**	**252.8**	258.9	257.6	Fixed	5.11	2034	6.7 years
Term Advances A5	**190.9**	**190.9**	201.3	201.3	Floating	3.93	2033	6.8 years
Term Advances A6	**225.4**	**222.5**	239.9	236.6	Fixed	4.06	2035	7.4 years
Term Advances A7	**239.5**	**236.0**	246.7	242.7	Fixed	3.59	2035	7.2 years
Term Advances AB2	**40.0**	**40.0**	40.0	40.0	Fixed	6.06	2036	13.2 years
Term Advances B1	**120.9**	**120.1**	120.9	120.1	Floating	6.96	2034	11.4 years
Term Advances B2	**99.9**	**99.5**	99.9	99.4	Floating	6.92	2036	13.5 years
	1,365.0	**1,354.6**	1,412.1	1,400.4				

[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.

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

Notes to the financial statements
for the period ended 2 January 2022

17. Borrowings (continued)

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

Tranche	Interest rate payable	Interest rate swap	Total interest rate
Term Advances A5	L+2.50%	1.43%-L	3.93%
Term Advances B1	L+1.80%	5.16%-L	6.96%
Term Advances B2	L+2.08%	4.84%-L	6.92%

[1] For the floating rate bonds the interest rate payable is 3 month LIBOR (L) plus the margin as shown. The company has agreed with its bondholders to replace 3 month LIBOR with the compounded SONIA plus 0.1193% after the discontinuance of LIBOR.

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

The Class A2, A4, A5, 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.

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 group. These include covenants regarding the maintenance and disposal of 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 (2021: £nil).

In April 2021, Greene King Retailing Limited breached its FCF DSCP covenant as a consequence of the COVID-19 pandemic, resulting in a borrow-level event of default. The company obtained a waiver in respect of this breach and certain other connected events of default, and at the year end no other covenant breaches had occurred.

18. Financial instruments

The company holds the following financial instruments:

	Note	**Current 2022 £m**	**Non-current 2022 £m**	**Total 2022 £m**	Current 2021 £m	Non-current 2021 £m	Total 2021 £m
Financial assets							
Assets at amortised cost							
Trade debtors	13	**9.9**	-	**9.9**	4.7	-	4.7
Other debtors	13	**11.0**	-	**11.0**	2.7	-	2.7
Cash and cash equivalents		**57.3**	-	**57.3**	87.5	-	87.5
		78.2	-	**78.2**	94.9	-	94.9
Financial liabilities							
Liabilities at amortised cost							
Trade creditors and accruals	14	**83.9**	-	**83.9**	58.4	-	58.4
Borrowings	17	**60.9**	**1,293.7**	**1,354.6**	45.8	1,354.6	1,400.4
Lease liabilities	16	**0.1**	**9.3**	**9.4**	0.2	9.3	9.5
Subordinated loan	15	-	**752.4**	**752.4**	-	752.4	752.4
Accrued interest on subordinated loan	14	**280.8**	-	**280.8**	161.3	-	161.3
Liabilities at fair value							
Derivative financial instruments	18	**10.7**	**94.9**	**105.6**	13.2	139.6	152.8
		429.7	**2,150.3**	**2,580.0**	278.9	2,255.9	2,534.8

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.

Notes to the financial statements

for the period ended 2 January 2022

18. Financial instruments (continued)

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 receivables and trade 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.

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 2 January 2022 the company held 3 (2021: 3) interest rate swap contracts for a nominal value of £411.7m (2021: £422.1m), which are designated cash flow hedges against £411.7m (2021: £422.1m) of variable rate bonds issued. These swaps are hedges of the A5, B1 and B2 term advances, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 1.426% on the A5 tranche, 5.155% on the B1 tranche and 4.837% on the B2 tranche. The company has agreed with its bondholders to replace 3 month LIBOR with the compounded SONIA plus 0.1193% after the discontinuance of LIBOR. The weighted average fixed rate of the swaps was 3.3% (2021: 3.3%).

The interest rate swaps hedging the A5, B1 and B2 term advances are held on the balance sheet as a fair value liability of £105.6m (2021: £152.8m). The contract maturity dates range from December 2033 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. 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 recognised within finance costs, amounted to £nil (2021: £nil).

Scheduled cash payments of £13.6m (2021: £9.7m) 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.

During the year a loss of £7.3m (2021: £5.6m) was recycled from the hedging reserve to the income statement in respect of interest rate swap liabilities settled in prior periods. This has been recognised in adjusted finance costs (see note 7). The remaining losses in the hedging reserve in respect of these swaps, which had been designated cash flow hedges, will be recycled over the period over which the hedged forecast cash flows affect profit or loss.

Interest rate risk

Exposure to changes in interest rates on the company's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The company 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 company's aim is that no less than 95% of the overall interest rate exposure should be at a fixed rate. The company enters into interest rate swaps to manage the exposure. Certain swaps are designated as cash flow hedges at inception, and tested for effectiveness every six months.

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 2 January 2022 and 3 January 2021. 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 equity 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/decrease in interest rates would change the company's other comprehensive income by £44.9m (2021: £50.5m).

Whilst cash flow interest rate risk is largely 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.

Interbank offered rate (IBOR) reform

In accordance with the UK Financial Conduct Authority's announcement on 5 March 2021, Sterling LIBOR benchmark rates have been discontinued after 31 December 2021. During the year the company transitioned all of its exposures from Sterling LIBOR based to Sterling Overnight Index Average (SONIA) based. There have been amendments to the contractual terms of LIBOR-referenced interest rates and the corresponding update of the hedge designations.

The company applied Phase 1 amendments to IFRS 9 until the LIBOR-referenced contracts were amended to replace the interest rate benchmark with SONIA. Further the company started to apply Phase 2 amendments which provides relief from applying specific hedge accounting and financial instrument derecognition requirements directly affected by IBOR reform.

Notes to the financial statements

for the period ended 2 January 2022

18. Financial instruments (continued)

By applying the practical expedient the company has not been required to discontinue its hedging relationships as a result of changes in reference rates due to the IBOR reform. For financial instruments measured using amortised cost measurement changes to the basis for determining the contractual cash flows required by interest rate benchmark reform have been reflected by adjusting effective interest rates. No immediate gains or losses have been recognised.

Liquidity risk

The table below summarises the maturity profile of the company's financial instruments at 2 January 2022 and 3 January 2021 based on contractual undiscounted payments including interest.

Period ended 2 January 2022	**Within one year £m**	**One to two years £m**	**Two to five years £m**	**More than five years £m**	**Total £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

Period ended 3 January 2021	**Within one year £m**	**One to two years £m**	**Two to five years £m**	**More than five years £m**	**Total £m**
Subordinated loan					
- Capital	-	-	-	752.4	752.4
- Interest[1]	255.1	94.0	282.2	1,030.0	1,661.3
	255.1	94.0	282.2	1782.4	2,413.7
Term loans					
- Capital	47.1	62.1	225.0	1,077.9	1,412.1
- Interest	53.8	51.5	139.1	220.2	464.6
	100.9	113.6	364.1	1,298.1	1,876.7
Interest rate swaps settled net	13.9	13.8	38.6	97.9	164.2
	369.9	221.4	684.9	3,178.4	4,454.6
Trade payables and accruals	58.4	-	-	-	58.4
Lease liabilities[1]	0.7	0.6	1.9	33.1	36.3
	429.0	221.0	686.8	3,211.5	4,549.3

[1] Restated - Interest and lease undiscontinued payments have been restated to correct numbers disclosed in the prior year financial statements.

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 group 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.

Notes to the financial statements
for the period ended 2 January 2022

18. Financial instruments (continued)

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 group.

Impairment of financial assets

The group has trade and other receivables that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

	2022 £m	2021 £m
Underlying:		
Impairment (reversal)/loss on trade and other receivables	(0.2)	0.2
Adjusting:		
Impairment (reversal)/loss on trade and other receivables	(1.9)	(1.5)
	(2.1)	(1.3)

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 2 January 2022 and 3 January 2021 there were no transfers between levels 1, 2 or 3 fair value measurements.

Capital risk management

Capital management takes place on a group wide basis. The group aims to maximise shareholder value by maintaining a strong credit rating and a core level of debt which optimises the weighted average cost of capital (WACC) and shareholder value.

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 group 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.

19. Deferred taxation

	Deferred taxation £m
At 3 January 2021	7.3
Credited to income statement	48.3
Charged to other comprehensive income	(1.7)
At 2 January 2022	53.9

	2022 £m	2021 £m
Deferred tax liability		
Fixed assets	(71.0)	(52.0)
Deferred tax asset		
Other temporary differences	65.2	2.4
Derivatives	35.9	37.6
Taxable losses	23.8	19.3
Net deferred tax asset	53.9	7.3

Notes to the financial statements
for the period ended 2 January 2022

20. Deferred taxation (continued)

Deferred tax assets and liabilities have been offset as follows:

	2022 £m	2021 £m
Deferred tax liability	(71.0)	(52.0)
Offset against deferred tax assets	71.0	52.0
Deferred tax liability	-	-
Deferred tax asset	124.9	59.3
Offset against deferred tax liabilities	(71.0)	(52.0)
Deferred tax asset	53.9	7.3

At the balance sheet date, the company has unused capital losses of £nil (2021: £nil) available for offset against future chargeable gains.

21. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
222,000,001 Ordinary shares of £1	222,000,001	222,000,001

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

22. 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 1. Amounts recycled to income are included within finance costs in the income statement.

23. 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.

24. Post balance sheet events

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

25. Ultimate parent company

At 2 January 2022, the directors consider the immediate parent undertaking and immediate controlling party of Greene King Retailing Limited to be Greene King Retailing Parent Limited, a company incorporated in England and Wales.

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

The ultimate parent undertaking and ultimate controlling party is CK Asset Holdings Limited, a company incorporated in the Caymen Islands at PO Box 309, Ugland House, Grand Cayman, KY1-1104, with its headquarters and principal place of business in Hong Kong. The company's shares are listed on the Main Board of the Hong Kong Stock Exchange.

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.