Spirit Pubs Debenture Holdings Limited

Annual Report and Financial Statements

2 January 2022

Registered number: 05266779

Company information

Director	R Smothers
Company secretary	Mrs L A Keswick
Registered number	05266779
Registered office	Westgate Brewery Bury St Edmunds Suffolk IP33 1QT
Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ

Strategic report

The director presents his Strategic report for the 52 week period ended 2 January 2022.

Business review and future outlook

The principal activity of the company is that of a holding company. The principal activity of the group is that of pub retailing under the Managed operating model and the leasing of public houses to tenants under the Leased operating model.

The COVID-19 pandemic has continued to restrict hospitality's trading during 2021. Given the various restrictions and closures during the prior and current period the group breached the Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants relating to the Spirit debenture bonds in respect of the July 2020 and all subsequent covenant test dates resulting in multiple borrower-level events of default. In August 2020 the group sought, but failed to obtain, a bondholder waiver in respect of certain of these events of default, and in light of the failure to obtain that initial waiver the group has not sought further waivers in respect of subsequent covenant breaches. As a result, the Spirit debenture remained in a state of technical default at the year end. This gives the trustee of the Spirit debenture the ability at the ultimate direction of bondholders to accelerate the outstanding debt. No such acceleration had taken place as of the year end.

Following the acquisition of the Greene King Limited group by CK Noble (UK) Limited on 30 October 2019, the financial year end of the group was changed to 31 December so as to be coterminous 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 figures stated in the statement of comprehensive income, statement of changes in equity, statement of cashflow and the related notes are not comparable.

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.

Strategic report (continued)

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.

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 £18m, 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.

During the year the group 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 group 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 group has also repaid all the deferred January to March 2020 quarterly VAT liability in the year.

Strategic report (continued)

As a consequence of the COVID-19 pandemic, in the prior period the group breached its Free Cash Flow Debt Service Coverage Ratio (FCF DSCR) covenants, resulting in multiple borrower-level events of default. In August 2020 the group sought, but failed to obtain, a bondholder waiver in respect of certain of these events of default, and in light of the failure to obtain that initial waiver the group has not sought further waivers in respect of subsequent covenant breaches. As a result, the Spirit debenture remained in a state of technical default at the year-end. Management consider the risk of enforcement to be very low.

Although it is certain that the Greene King Limited group's, and therefore the group'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. The Spirit debenture vehicle had a FCF DSCR ratio of -2.8x, which is below the covenant limit of 1.3x.

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 £567,000 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 £673,000 was recognised on bad debt provision reversals on trade debt reflecting the additional information available on debt collection.

The key financial and other performance indicators during the period were as follows:

	52 weeks to 2 January 2022	36 weeks to 3 January 2021	Change
	£000	£000	%
Revenue (1)	207,604	83,317	149.2%
Gross profit (1)	155,637	60,764	156.1%
EBITDA (1,4)	20,760	(21,981)	-194.4%
Adjusted operating loss (1,2)	(12,855)	(45,386)	-71.7%
Operating profit/(loss) (1)	20,664	(24,155)	-185.5%
Adjusted operating margin (1,3)	-6.2%	-54.5%	
Outstanding bond issuance	96,715	96,715	0.0%
Number of pubs at year end			
• Tenanted	217	226	-4.0%
• Managed	300	304	-1.3%

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

1. These KPIs have been materially impacted by COVID-19.
2. Adjusted operating loss is operating profit/(loss) excluding adjusting items provided in note 5.
3. Adjusted operating margin is calculated as adjusted operating loss, as explained above, as a percentage of Revenue as given on the face of the group income statement.
4. EBITDA represents a loss of £217,037,000 before interest of £245,871,000, tax credit of £8,170,000, depreciation of £33,615,000, amortisation of £nil and adjusting item credits of £33,519,000.

Due to the change in financial year end during the prior period, as discussed in the business review section, the comparative figures quoted are not comparable. Revenue for the 52 week period was £207,604,000 compared to prior period revenue for 36 weeks of £83,317,000 and adjusted operating loss was £12,855,000 compared to prior period adjusted operating loss of £45,386,000. As discussed in more detail in the section above in Business Review, the COVID-19 pandemic has continued to have a significant impact on the group. Operating loss of £12,855,000 was 71.7% better than the prior period operating loss of £45,386,000. The group realised a net adjusting item credit of £33,519,000 with £1,581,000 relating to profit on disposal, £618,000 relating to revaluation of property, plant and equipment, £10,871,000 relating to impairment of, property, plant and equipment; £1,432,000 of credits relating to COVID-19 and £19,017,000 credit for VAT claim income (see note 5 for further details).

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.

Strategic report (continued)

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 group to identify and evaluate risks, taking into account the likelihood of their occurrence and the scale of potential impact on the business. Classification of risks follows a standard methodology used in risk management and takes into account the likelihood of their occurrence and the scale of the potential impact (both financial and reputational) on the business.

Once the key risks have been identified, each business unit and functional area is then responsible for evaluating current controls in place to manage their risks, drawing up plans to improve controls and managing new risks as and when they arise. Each key risk has an 'action owner' to ensure that responsibilities are formally aligned. To ensure continuous improvement across the business, progress of these risk implementation plans is monitored by senior management on a regular basis.

The principal risks and uncertainties facing the group are broadly grouped as strategic risks, economic and market risks, financial risks, and operational and people risks. This section highlights some of the key risks and uncertainties which affect the Spirit Pubs Debenture Holdings Limited group. The group is of course exposed to risks wider than those listed, but these are believed to be likely to have the greatest impact on our business at this moment in time.

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 Review's, 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 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.

Strategic report (continued)

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.

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.

Strategic report (continued)

Financial risks

The group's debt structures and financing requirements are reviewed by the board who ensure that the capital structure plan continues to support the requirements of the strategic 5 year plan. We expect the group to be able to access suitable financial facilities to meet the ongoing requirements of the business and our longer term strategic objectives.

If we are unable to meet the covenant requirements of the debenture and other financing arrangements our ability to reinvest cash could be affected, which in turn would damage our reputation and ongoing creditworthiness. 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 board on an ongoing basis. Working capital performance is regularly reviewed and closely managed by the finance teams. The impact on covenant headroom is considered by management when assessing potential future transactions.

The COVID-19 pandemic has had a significant impact on the group's ability to continue to meet its financial covenants (see Business Review section for further details). Given the length of time the pubs were closed in the prior and current period the group has breached Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants relating to the Spirit debenture bonds since July 2020.

Certain of the group's financial instruments reference LIBOR and, as LIBOR ceased to be available from the end of 2021, the group is working to transition to alternative Risk Free Rates. Further details are in note 22.

Director's duties under Section 172 Companies Act 2006

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

The group's 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.

Strategic report (continued)

Pension Trustees:
The group has a final salary pension scheme, which is closed to new members and future accruals. The group's CFO engages proactively with the pension scheme trustee on a range of matters, including triennial valuations, funding deficits and future investment strategy.

Team members:
Our people are our greatest asset, with an average of 39,000 team members employed across the group during the year. Attracting and retaining the best people and developing and investing in them is critical to our continued success.

Employment levels remained high during the lockdown at the beginning of the year, and, apart from a few geographical hotspots, we were able to open for business without staff shortages as the lockdowns came to an end. Since then, we have navigated our way through the "pingdemic" and the Omicron variant and also had to deal with significant recruitment issues, particularly for members of our pub leadership teams.

The board supported management's decisions in the summer to introduce an agile working policy, allowing office-based staff to spend part of their working week away from the office. Recruitment issues were dealt with via a combination of changes, including pay rises, the reintroduction of bonus schemes, a focus on improving work-life balance for some team members and other measures to reward and recognise the commitment of our employees.

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

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 as the long-term strategy for the business was explained, along with an immersion into our values. 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.

Further information on engagement with team members is contained within the COVID-19 section of the strategic report.

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 were stepped up during the COVID-19 crisis to assist the group's cash conservation efforts, with many landlords agreeing to defer rental payments whilst our pubs and restaurants are closed.

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.

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.

Strategic report (continued)

Debt holders:
The group is a borrower in a whole business securitisation financing arrangement whereby the proceeds of bond issuances by Spirit Issuer plc have been on-lent to the group by way of term advances. The bond issued by Spirit Issuer plc is listed on the Luxembourg Stock Exchange. During the period, as a direct consequence of the pub closures due to the COVID-19 pandemic, the group was unable to meet certain of its financial covenants. With the support of the board, the group sought but did not obtain a waiver of the covenants from the bondholders. The outstanding debt has not been accelerated and we continue to operate the Spirit debenture in accordance with the agreements governing its operation.

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.

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

R Smothers
Director
Date 26 April 2022

Director's report

The director presents his annual report and financial statements for the 52 week period ended 2 January 2022.

Results and dividends

The loss after tax for the 52 weeks was £217,037,000 (36 weeks ended 3 January 2021: £171,977,000).

No dividends were paid or proposed during the period (36 weeks ended 3 January 2021: £nil).

Director and their interest

The director during the period and to the date of this report was as follows:

R Smothers

The director did not hold any interest in the share capital of the company during either the current or prior periods.

Matters covered in the Strategic Report

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

Future developments

The group intends to continue operating public houses and leasing public houses to independent publicans for the foreseeable future. Details of any other events occurring after the year-end are set out in note 31 in the financial statements.

The directors sought, but did not obtain, a waiver in respect of the July 2021 Q1 Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants from the bondholders. The directors do not anticipate the debt being re-called and we continue to operate the Spirit debenture in accordance with the agreements governing its operation.

The board of Greene King Limited group will continue to support the business through this difficult trading period.

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the group 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 director of the group has 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.

Directors' and officers' indemnity insurance

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

Director's report (continued)

Financial instruments

The primary treasury objectives of the group 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 group. If appropriate, the group uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised bonds, subordinated loans from other group companies, cash and short term deposits. Other financial instruments arise directly from the operations of the group, such as trade receivables, and payables.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the group'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 22 to the financial statements.

Statement as to disclosure of information to auditor

The director who was a member of the board at the time of approving this report are listed above. Having made enquiries of the company's auditor, the director confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of this report of which the company's auditor unaware; and

- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

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

Post balance sheet events

Spirit (Legacy) Pension Scheme

On 19 January 2022, the Spirit Pension scheme entered into a buy-in policy for c.£110m that provides insurance for a proportion of its pensioner population. The value of the buy-in on an IAS 19 accounting basis matches the value of the underlying pension obligations.

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

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

R Smothers
Director
Date 26 April 2022

Statement of director's responsibilities

The director ise responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the group financial statements in accordance with International Financial Reporting standards ('IFRS') in conformity with the requirements of the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the director must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period.

In preparing these financial statements, the director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- in respect of the group financial statements, state whether IFRSs as adopted by the UK have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and performance;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/or the group will continue in business.

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

Independent auditor's report

to the members of Spirit Pubs Debenture Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Spirit Pubs Debenture Holdings Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 2 January 2022 and of the group's loss for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group cash flow statement; and
- the related notes 1 to 40.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 group and the parent 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.

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 group's and parent 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 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 wc we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report (continued)

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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 considerec 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, 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 legislations.

We discussed among the audit engagement team including 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 reporst and reviewing correspondence with HMRC.

Independent auditor's report (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London, UK
Date: 26 April 2022

Group income statement
For the 52 weeks ended 2 January 2022

	Note	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Revenue	4	**207,604**	83,317
Cost of sales		**(51,967)**	(22,553)
Gross profit		**155,637**	60,764
Administrative expenses, before adjusting items		**(168,492)**	(106,150)
Adjusting items	5	**33,519**	21,231
Operating profit/(loss)	6	**20,664**	(24,155)
Finance income	9	**2,221**	770
Finance costs	10	**(248,092)**	(159,057)
Loss before taxation		**(225,207)**	(182,442)
Taxation	11	**8,170**	10,465
Loss attributable to equity holders of the parent		**(217,037)**	(171,977)

The notes on pages 19 to 58 form part of these financial statements.

Group statement of other comprehensive income

For the 52 weeks ended 2 January 2022

	Note	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Loss for the period		**(217,037)**	(171,977)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Revaluation of property, plant and equipment	12	**(775)**	2,551
Tax effect		**(665)**	(385)
Items that are not reclassified to profit or loss:			
Re-measurement gains/(losses) on defined benefit schemes	26	**49,208**	(3,465)
Tax effect		**(14,051)**	658
Other comprehensive income/(loss) for the period net of tax		**33,717**	(641)
Total comprehensive loss for the period net of tax		**(183,320)**	(172,618)

The notes on pages 19 to 58 form part of these financial statements.

Group balance sheet

As at 2 January 2022

	Note	2 January 2022 £000	3 January 2021 £000
Non-current assets			
Property, plant and equipment	12	**512,723**	514,856
Right-of-use assets	20	**297,321**	308,580
Trade and other receivables	16	**396,758**	396,242
Deferred tax assets	11	**-**	-
Pension asset	26	**87,447**	37,711
		1,294,249	1,257,389
Current assets			
Inventories	14	**4,119**	2,265
Trade and other receivables	15	**276,587**	273,368
Income tax receivable	11	**357**	3,024
Cash and cash equivalents	17	**25,245**	36,233
		306,308	314,890
Property, plant and equipment held for sale	13	**1,077**	818
		307,385	315,708
Current liabilities			
Borrowings	21	**(98,356)**	(98,546)
Trade and other payables	18	**(86,611)**	(114,866)
Lease liabilities	20	**(30,818)**	(19,158)
Provisions	27	**(2,053)**	(1,575)
		(217,838)	(234,145)
Non-current liabilities			
Borrowings	21	**-**	-
Trade and other payables	19	**(2,196,677)**	(1,961,602)
Lease liabilities	20	**(415,583)**	(424,340)
Derivative financial instruments	22	**(7,200)**	(8,478)
Deferred tax liabilities	11	**(7,206)**	(3,406)
Provisions	27	**(738)**	(1,414)
		(2,627,404)	(2,399,240)
Total net liabilities		**(1,243,608)**	(1,060,288)
Capital and reserves			
Share capital	23	**-**	-
Share premium account	24	**39,996**	39,996
Revaluation reserve	24	**11,868**	14,147
Capital redemption reserve	24	**153,287**	153,287
Retained earnings	24	**(1,448,759)**	(1,267,718)
Total equity		**(1,243,608)**	(1,060,288)

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

R Smothers
Director
Date 26 April 2022

Group statement of changes in equity

As at 2 January 2022

	Share capital £000	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
As at 26 April 2020	**-**	**39,996**	**15,462**	**153,287**	**(1,096,415)**	**(887,670)**
Comprehensive income for the period						
Loss for the period	-	-	-	-	(171,977)	(171,977)
Revaluation of property, plant and equipment	-	-	2,551	-	-	2,551
Tax effect	-	-	(385)	-	-	(385)
Re-measurement losses on defined benefit schemes (note 26)	-	-	-	-	(3,465)	(3,465)
Tax effect	-	-	-	-	658	658
Total comprehensive income/(loss) for the period	-	-	2,166	-	(174,784)	(172,618)
Transfer to retained earnings	-	-	(3,481)	-	3,481	-
At 3 January 2021	**-**	**39,996**	**14,147**	**153,287**	**(1,267,718)**	**(1,060,288)**
Comprehensive income for the period						
Loss for the period	-	-	-	-	(217,037)	(217,037)
Revaluation of property, plant and equipment	-	-	(775)	-	-	(775)
Tax effect	-	-	(665)	-	-	(665)
Re-measurement gains on defined benefit schemes (note 26)	-	-	-	-	49,208	49,208
Tax effect	-	-	-	-	(14,051)	(14,051)
Total comprehensive income/(loss) for the period	-	-	(1,440)	-	(181,880)	(183,320)
Transfer to retained earnings	-	-	(839)	-	839	-
At 2 January 2022	**-**	**39,996**	**11,868**	**153,287**	**(1,448,759)**	**(1,243,608)**

The notes on pages 19 to 58 form part of these financial statements.

Group cash flow statement

For the 52 weeks ended 2 January 2022

	Note	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Net cash inflow from operating activities	28	**22,622**	46,410
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12,300)**	(8,170)
Sale of property, plant and equipment		**9,074**	3,131
Interest paid		**(21)**	-
Net cash flow from investing activities		**(3,247)**	(5,039)
Cash flows from financing activities			
Interest paid		**(5,816)**	(12,261)
New subordinated loans		**-**	2,950
Repayment of lease liabilities		**(24,547)**	(626)
Net cash flow from financing activities		**(30,363)**	(9,937)
Net (decrease) / increase in cash and cash equivalents		**(10,988)**	31,434
Opening cash and cash equivalents		**36,233**	4,799
Closing cash and cash equivalents	17	**25,245**	36,233

1 Basis of preparation

Corporate information

The consolidated financial statements of Spirit Pubs Debenture Holdings Limited for the 52 weeks ended 2 January 2022 were authorised for issue by the board on 26 April 2022. Spirit Pubs Debenture Holdings Limited is a private company limited by shares and incorporated and domiciled in England and Wales.

Statement of compliance

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the group for the 52 weeks ended 2 January 2022 (prior year 36 weeks ended 3 January 2021).

Basis of preparation

The consolidated financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared on a historical cost basis, except for property, plant and equipment held under the leased operating model and derivative financial instruments that have been measured at fair value. The group's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where indicated.

Following the acquisition of the Greene King Limited group by CK Noble (UK) Limited on 30 October 2019, the financial year end of the group was changed 31 December so as to be coterminous 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 figures stated in the statement of comprehensi income, statement of changes in equity, statement of cashflow and the related notes are not comparable.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Spirit Pubs Debenture Holdings Limited and its subsidiaries (listed in note 37 to the company financial statements). The financial statements of subsidiaries are prepared for the same reporting period as the parent company.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Intercompany transactions, balances, income and expenses are eliminated on consolidation.

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the group 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 Green 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 director of the group has 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.

1 Basis of preparation (continued)

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 group has early adopted COVID-19 Related rent concessions beyond 30 June 2021 (Amendment to IFRS 16).

The group has considered the above new standards and has concluded that only the COVID-19 related rent concessions has an impact on the group's financial statements and the impact of Interest Rate Benchmark Reform - Phase 2 is not material.

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 in shown in note 20.

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 group has not early adopted them in preparing these consolidated financial statements. It is the group's view that none of the new standards or amendments will have a significant impact on the group's consolidated 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)
- 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)

2 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 group's accounting policies is detailed below:

Adjusting items
Management uses a range of measures to monitor and assess the group's financial performance. These measures include statutory measures calculated in accordance with IFRS but are adjusted to exclude items that management considers would prevent comparison of the group'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 the transaction.

Determining the lease term of contracts with renewal and termination options - Group as Lessee
The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has several lease contracts that include extension and termination options. The group applied judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its controls and affects its ability to exercise or not to exercise the option to renew or to terminate. The total potential effect of these clauses has been dislosed in note 20.

2 Significant accounting judgments and estimates (continued)

Significant accounting estimates

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

Pension liabilities

Management uses estimates when determining the group's liabilities and expenses arising for defined benefit schemes.

The present value of pension liabilities are determined on an actuarial basis and depend on actuarial assumptions. Key assumptions have been identified as the discount rate adopted, implied inflation rate and assumed life expectancy. Any change in these assumptions will impact on the carrying amount of pension liabilities with further details on assumptions adopted and related sensitivity disclosed in note 26.

The group has determined that when all members have left the scheme, any surplus remaining would be returned to the group in accordance with the trust deed. As such the full economic benefit of the surplus under IAS 19 is deemed available to the group and is recognised in the balance sheet.

Recognition of deferred tax assets and liabilities

The group 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 to which the initial recognition exemption applies, the calculation of the tax base on sale (which is subject to certain restrictions under tax law) and the offsetting of inherent losses against inherent gains where tax losses are expected to be utilised against future profits and gains. against future profits and gains.

Determination of the Incremental Borrowing Rate - Group 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). Management have applied the interest rate implicit in the lease when readily available, when this is not, management have applied group 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.

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

IFRS requires management to perform impairment tests annually, 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 is based on expected industry returns which is slightly below the forecast long-term UK inflation rate. The discount rate is based on the group's WACC.

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

The cashflows used in the impairment exercise have been aligned to the group's 5-year strategic 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. Further details are provided in note 12.

Useful economic life of tangible fixed assets

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

Property valuations

The group carries its freehold trading properties held under the Leased operating model at open market valuation. The valuations, which are supported by market evidence and a rolling five-year programme of site visits by independent property surveyors, are prepared with regard to factors such as current and future projected income levels taking account of the location, quality of the pub, and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub, could materially impact the valuation of these properties. The carrying value of the property, plant and equipment held under the revaluation model is disclosed in note 12.

3 Accounting policies

Property, plant and equipment

Property, plant and equipment other than freehold trading properties held under the Leased operating model are stated at cost less accumulated depreciation and impairment losses.

Freehold trading properties held under the Leased operating model are recognised initially at cost and thereafter carried at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Fair value is based on periodic valuations of the entire estate by an external independent valuer and is determined from market based evidence with at least 20% of properties selected for a site visit each year to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A revaluation surplus is recorded in OCI and credited to the revaluation reserve in equity, except where a gain reverses a revaluation loss on the same asset that was previously recognised in profit and loss, then the surplus is recognised in profit and loss. Valuation surpluses realised on sale are transferred from the revaluation reserve to retained earnings. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

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.

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

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

On transition to IFRS, the group elected to use the transition date (23 August 2014) to apply fair value as deemed cost for the Leased estate and there was no change to the UK GAAP carrying value at the date of transition. As required by IFRS 1, the group has set cumulative revaluation reserves to zero at this date and transferred any balances into profit and loss reserves. Revaluations above deemed cost are therefore presented in OCI and downward revaluations below deemed cost in the income statement.

Impairment

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

The property, plant and equipment held under the Managed operating model and leasehold property held under the Leased operating model is subject to impairment assessments along with all the right-of-use assets held by the group regardless of operating model.

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 group makes an estimate of the recoverable amount of each asset group. An asset's or cash generating unit's recoverable amount is the higher of its fair value less costs of disposal and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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

Impairment losses and any subsequent reversals are recognised in the income statement unless they relate to properties for which the revaluation model is applied and the impairment (or its reversal) reverses amounts previously recognised in the revaluation reserve.

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

3 Accounting policies (continued)

Financial instruments

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument and are derecognised when the group 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 group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the group 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 group classifies its financial assets as measured at:

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

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

The group's financial assets measured at amortised cost include amounts due from group undertakings, trade and other receivables and cash and cash equivalents.

Amounts due from group undertakings

The group classifies its amounts due from group undertakings at amortised cost where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost using the effective interest rate method less provision for impairment.

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

Amounts due from group undertakings are classified as non-current where required by IAS 1, even if the terms of the loan are repayable on demand.

The group recognises a loss allowance for expected credit losses on amounts due from group undertakings. The methodology used to determine the amount of the expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those where the credit risk has increased significantly or determined to be credit impaired, lifetime expected credit losses along with the gross interest income or net interest income, respectively, are recognised.

Trade and other receivables

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

For trade and other receivables, the group adopts a simplified approach in calculating expected credit losses. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group 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 group 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 group's calculation of the loss allowance are provided in note 22.

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. For the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

3 Accounting policies (continued)

Financial liabilities

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

Interest-bearing loans and borrowings

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

Amounts owed to group undertakings

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

Trade and other payables

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

Derivative financial instruments

The group uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate loans, notes and bonds. The swap has been deemed an ineffective hedge and therefore does not qualify for hedge accounting, with movements in its fair value being recognised in the income statement.

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. Cash payments or receipts made are recognised in interest payable on secured loan notes so as to show the cash fixed rate on the secured loan notes, with the remaining fair value movement (which is generally the change in the carrying amount of the swaps) presented separately. The group does not have any derivatives that qualify for hedge accounting.

Finance costs and income

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

Inventories

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

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

Property, plant and equipment held for sale

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

Provisions

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

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

Pensions

The group operates one defined benefit pension scheme which requires contributions to be made into separately administered funds. The cost of providing benefits under the scheme is determined using the projected unit credit actuarial method on an annual basis. Remeasurement gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur.

When a settlement or curtailment occurs the obligation and related scheme assets are remeasured and the resulting gain or loss is recognised in the income statement in the same period.

Net interest on the net defined benefit liability/(asset) is determined by multiplying the net defined benefit liability/(asset) by the discount rate both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability/(asset) during the year as a result of contributions and benefit payments.

3 Accounting policies (continued)

The defined benefit asset or liability recognised in the balance sheet comprises the present value of the scheme's obligations less the fair value of scheme assets. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme.

Revenue

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 group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes.

The group 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 group does not adjust any of the transaction prices for the time value of money.

Premium, Urban & Ventures, Locals and Destination Food Brands
Food and drink
Revenue is recognised at the point at which food and drinks are provided based on till receipts taken in our licenced estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

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

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

Tenanted and Leased
Drink/product sales
The group 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 group recognises rental income other than variable rent on a straight line basis over the term of the lease, as the performance obligation is satisfied over time, based on the contractual terms of the lease agreement.

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

Supplier rebates

Supplier rebates are included within operating profit as they are earned as there is no significant uncertainty. The accrued value at the reporting date is included within other receivables.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Amounts received are recognised net within the income statement as income or a reduction to expenses. In the prior year grant accounting has been applied to the Eat Out to Help Out scheme (note 4) and business rates (note 6). The group has also taken advantage of government assistance in the form of both business rates and tax deferrals and benefitted from claims made by fellow group undertakings under the Coronavirus Job Retention Scheme.

3 Accounting policies (continued)

Leases

For any new contracts entered into on or after 29 April 2019, the group 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 group assesses whether the contract meets three key evaluations which are whether:
• the contract contains an identified asset, which is either explicitly identified in the contract or inexplicitly specified by being identified at the time the asset is made available to the group;
• the group 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; and
• the group has the right to direct the use of the identified asset throughout the period of use. The group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the group. 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 group 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 Incremental Borrowing Rate (IBR).

Payments in respect of leases of either short-term, low-value or based on variable rental payments continue to be charged to the income statement on a straight-line basis over the lease term.

Group as lessor

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

Under IFRS 16 lessor accounting is broadly unchanged and therefore the majority of leases under which the group 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 year and the deferred income tax. It is calculated using taxation rates enacted or substantively enacted by the balance sheet date and is measured at the amount expected to be recovered from or paid to the taxation authorities.

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

3 Accounting policies (continued)

Deferred tax

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

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

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

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

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

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

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

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.

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

- profits or losses resulting from the disposal of a business or investment;
- impairment charges/reversals in respect of property, plant and equipment as a result of restructuring, business closure, underperformance of sites or fire damage;
- profit or loss on the disposal of property, plant and equipment, where the group disposes of properties that it no longer considers meet the ongoing need of the business. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results;
- insurance compensation received to meet the costs of restoring sites damaged by fire. Such compensation may be receivable over a lengthy time period period and be of a large total amount;
- one-off past services charges in relation to guaranteed minimum pension benefits;
- gains or losses resulting from the settlement of liabilities in respect of the group's pension schemes;
- one-off costs relating to the outbreak of a pandemic, to include the costs of write off of obsolete stock, increase in the expected credit loss of trade debtors and other costs associated to the closure of pubs during the outbreak period or preparing sites for re-opening.
- finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities where the swaps have been terminatec These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the group's ongoing capital structure;
- revaluation of property, plant and equipment. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results.

4 Revenue

Revenue, 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 group's continuing ordinary activity. The principal business activity is that of pub retailing and the leasing of public houses.

Revenue is analysed as follows:

For the 52 weeks ended 2 January 2022	**Managed estate £000**	**Leased estate £000**	**Total £000**
Goods:			
Food	**71,989**	**-**	**71,989**
Drink	**105,985**	**18,562**	**124,547**
	177,974	**18,562**	**196,536**
Services:			
Other services[1]	**3,590**	**7,478**	**11,068**
	181,564	**26,040**	**207,604**

For the 36 weeks ended 3 January 2021	Managed estate £000	Leased estate £000	Total £000
Goods:			
Food	32,350	-	32,350
Drink	39,769	7,335	47,104
	72,119	7,335	79,454
Services:			
Other services[1]	1,177	2,686	3,863
	73,296	10,021	83,317

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

Revenue in the leased estate from services includes rent receivable from licenced properties of £6,922,000 (36 weeks ended 3 January 2021: £2,417,000). Within the prior period, the group received £3,455,000 revenue as part of the government "Eat Out to Help Out" scheme during August 2020. Grants for business rates of hospitality properties totalling £150,000 (36 weeks ended 3 January 2021: £50,000) were also received.

5 Adjusting items

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Revaluation of property, plant and equipment (note 12)	**618**	3,949
Net impairment reversal of property, plant and equipment and right-of-use assets (notes 12 and 20)	**10,871**	14,522
Net profit on disposal of property, plant and equipment (note 12)	**1,581**	1,682
Loss on pension curtailment (note 26)	**-**	(397)
Income from indirect tax claim	**19,017**	-
COVID-19 related credit (notes 14 and 15)	**1,432**	1,475
	33,519	21,231

During the period the group recognised net revaluation credits on fixed assets of £618,000 (36 weeks ended 3 January 2021: £3,949,000).

5 Adjusting items (continued)

During the period the group has recognised a net impairment reversal of £10,871,000 (36 weeks ended 3 January 2021: reversal of £14,522,000). This is comprised of an impairment charge of £13,133,000 (36 weeks ended 3 January 2021: £7,613,000) and reversal of previously recognised impairment losses of £24,004,000 (36 weeks ended 3 January 2021: £22,135,000). Impairment reversals were recognised to reflect updated trading assumptions or market valuation review conducted at year end.

The net profit on disposal of property, plant and equipment of £1,581,000 (36 weeks ended 3 January 2021: net profit of £1,682,000) comprises a total profit on disposal of £4,029,000 (36 weeks ended 3 January 2021: £2,441,000) and a total loss on disposal of £2,448,000 (36 weeks ended 3 January 2021: £759,000).

In October 2018, the High Court ruled on the Lloyds Bank GMP inequality case, in response to this an allowance of £2,300,000 was included within the group's 2019 accounts. On 20 November 2020, the High Court handed down a further judgement stating that pension schemes should pay uplifts in respect of members who had transferred benefits out in the past (back to 1990), where those benefits were not equalised in line with the 2019 judgement.
In the prior period an additional liability of £397,000 in respect to the above benefits transferred has been recognised as a past service cost.

During the period the group has recognised income of £19,017,000 in respect of VAT claims. This relates to a credit due 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.

A credit of £1,432,000 (36 weeks ended 3 January 2021: £1,475,000) has been incurred as a result of the COVID-19 outbreak. The current period credit is made up of a credit of £614,000 (36 weeks ended 3 January 2021: £1,503,000) relating to lease concessions (net of fees) from landlords that qualified under the COVID-19 Related Rent concessions - Amendment to IFRS 16; a credit of £145,000 (36 weeks ended 3 January 2021: charge of £461,000) relating to a decrease in the provisions for obsolete stock; a credit of £673,000 to decrease the provisions required for trade debtors (36 weeks ended 3 January 2021: £540,000 credit to decease the provision); and a charge of £nil relating to PUBSAFE and other direct costs (36 weeks ended 3 January 2021: £107,000) associated with the closure of the pubs.

6 Operating profit/(loss)

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Operating profit/(loss) is stated after charging/(crediting):		
Cost of products sold recognised as an expense	**51,967**	22,553
Depreciation of property, plant and equipment (note 12)	**16,994**	11,383
Depreciation of right-of-use assets (note 20)	**16,621**	12,022
Revaluation of property, plant and equipment (note 12)	**618**	3,949
Net impairment reversal of property, plant and equipment and right-of-use assets (notes 12 and 20)	**10,871**	14,522
Net profit on disposal of property, plant and equipment (note 12)	**1,581**	1,682
Net impairment profit/(loss) on intercompany financial assets (note 22)	**(284)**	1,176
Expenses relating to short-term leases and low-value assets	**1,568**	786

As a result of the COVID-19 pandemic, on 2 April 2020, the Government instructed all Local Authorities to provide full business rates relief for all properties in retail, leisure and hospitality. This has resulted in a saving of £11,900,000 (36 weeks ended 3 January 2021: £13,638,000).

7 Auditor's remuneration

The auditor's remuneration for the period for the audit of the financial statements of the group and company of £100,000 (36 weeks ended 3 January 2021: £84,000) has been borne by another group undertaking. Furthermore, the auditor's remuneration for the period for the audit of the subsidiaries of the group of £47,000 (36 weeks ended 3 January 2021: £48,500) has also been borne by another group undertaking.

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group financial statements of the Greene King Limited group.

8 Employment costs

The group and company has no employees as all staff that are utilised in the operation of the group and company are employed by Greene King Retail Services Limited and Greene King Services Limited. Staff costs are included in the total overhead recharge paid by the group to Spirit Pub Company (Services) Limited with the proportion relating to staff costs not being separately identifiable.

The director who held office during the period was also a director of fellow company undertakings. Total emoluments, including any pension contributions, received by the director totals £0.7m (2021: £0.3m) paid by the ultimate parent company or other group undertakings. The directors do not believe that it is practicable to apportion this amount between qualifying services as directors to the company and of fellow company undertakings. The director did not receive or exercise share options in a fellow group company during the period (2021: none).

9 Finance income

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Movement in fair value of intercompany loans	**415**	287
Net interest from defined benefit schemes	**528**	483
Movement in fair value of interest rate swaps payable to Spirit Issuer plc	**1,278**	-
	2,221	770

10 Finance costs

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Interest on lease expenses (note 20)	**24,772**	17,361
Interest on corporation tax	**21**	-
Interest payable on secured loan notes to Spirit Issuer plc	**5,524**	3,806
Movement in fair value of interest rate swaps payable to Spirit Issuer plc	**-**	35
Subordinated loan interest payable to group undertakings	**199,675**	126,394
Subordinated loan interest payable to Spirit Issuer plc	**18,100**	11,461
	248,092	159,057

Interest payable on secured loan notes and subordinated loan interest relates to finance liabilities at amortised cost.

11 Taxation

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Current income tax		
UK Corporation tax	**2,554**	-
Adjustment in respect of prior periods	**192**	(7)
	2,746	(7)
Deferred taxation		
Origination/reversal of temporary differences in the period	**(7,357)**	(6,245)
Effect of changes in tax rates and laws	**(2,050)**	-
Deferred tax adjustments arising in previous periods	**(1,509)**	(4,213)
	(10,916)	(10,458)
Tax credit in the income statement	**(8,170)**	(10,465)

11 Taxation (continued)

Reconciliation of tax credit for period

The tax credit in the income statement is higher (2021: higher) than the standard rate of corporation tax of 19% (2021: 19%).
The differences are explained below:

	52 weeks to 2 January 2022 £000	36 weeks to 3 January 2021 £000
Loss before tax	**(225,207)**	(182,442)
Loss multiplied by standard rate corporation tax in the UK of 19% (2021: 19%)	**(42,789)**	(34,664)
Effects of:		
Income not taxable for tax purposes	**(55)**	(113)
Capital allowances	**(191)**	-
Adjustment in respect of prior periods	**(1,317)**	(4,220)
Recognition of deferred tax asset on CIR	**(3,840)**	-
Transfer pricing adjustments	**56,533**	28,262
Deferred tax in respect of licensed estate	**(1,374)**	259
Group relief for nil consideration	**(13,087)**	10
Effects of tax rates and laws	**(2,050)**	-
	(8,170)	(10,466)

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.

Deferred taxation

	2 January 2022 £000	3 January 2021 £000
At the beginning of the period	**(3,406)**	(14,137)
Charged to profit and loss	**10,916**	10,458
Charged to other comprehensive income	**(14,716)**	273
At the end of the period	**(7,206)**	(3,406)

	2 January 2022 £000	3 January 2021 £000
The deferred tax liability is made up as follows:		
Fixed assets	**(14,626)**	(7,682)
Post employment benefits	**(21,862)**	(7,165)
	(36,488)	(14,847)
The deferred tax asset is made up as follows:		
Provisions	**8,873**	157
Interest rate swaps	**1,770**	1,585
Secured loan notes	**1,752**	1,731
Tax losses carried forward	**16,887**	7,968
	29,282	11,441
Net deferred tax liability	**(7,206)**	(3,406)

Movements in deferred tax have been recognised in the group income statement, except for the amounts relating to the rolled over gains and property revaluations and post employment benefits recognised in OCI.

11 Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets and income tax liabilities and when it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities have therefore been offset and disclosed on the balance sheet as follows:

	2 January 2022	3 January 2021
	£000	£000
Deferred tax asset	**-**	-
Deferred tax liability	**(7,206)**	(3,406)
	(7,206)	(3,406)

Of the total deferred tax asset on Other temporary differences £3,840,000 (2021: £nil) 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.

12 Property, plant and equipment

	Managed land & buildings [1] £000	Leased land & buildings [2] £000	Fixtures, fittings & equipment £000	Total £000
Cost or valuation				
At 26 April 2020	494,342	126,944	216,744	838,030
Additions	8,006	758	1,152	9,916
Revaluation	-	6,399	(1,444)	4,955
Transfer between classes	-	(2,218)	2,218	-
Transfer to right-of-use assets	(315)	(46)	-	(361)
Transfer to assets held for sale	(2,169)	-	(785)	(2,954)
Disposals	(7,687)	(2,944)	(2,110)	(12,741)
At 3 January 2021	492,177	128,893	215,775	836,845
Additions	2,688	1,108	10,168	13,964
Revaluation	-	(423)	-	(423)
Reclassification	(15,554)	8,142	15,090	7,678
Disposals	(5,499)	(6,143)	(4,234)	(15,876)
At 2 January 2022	**473,812**	**131,577**	**236,799**	**842,188**
Depreciation				
At 26 April 2020	180,605	-	156,914	337,519
Charge for the period	2,873	424	8,086	11,383
Revaluation	-	(415)	(1,129)	(1,544)
Transfer to right-of-use assets	-	(7)	-	(7)
Transfer to assets held for sale	(1,406)	-	(730)	(2,136)
Impairment charge	6,478	-	845	7,323
Impairment reversal	(12,894)	(1,768)	(7,471)	(22,133)
Disposals	(6,827)	(10)	(1,579)	(8,416)
At 3 January 2021	168,829	(1,776)	154,936	321,989
Charge for the period	8,119	469	8,406	16,994
Revaluation	-	(266)	-	(266)
Reclassification	(8,315)	8,142	7,851	7,678
Transfer to assets held for sale	260	-	-	260
Impairment charge	3,507	1	9,495	13,003
Impairment reversal	(17,852)	(2,675)	(3,264)	(23,791)
Disposals	(2,724)	(154)	(3,524)	(6,402)
At 2 January 2022	**151,824**	**3,741**	**173,900**	**329,465**
Net book value				
At 2 January 2022	**321,988**	**127,836**	**62,899**	**512,723**
At 3 January 2021	323,348	130,669	60,839	514,856
At 26 April 2020	313,737	126,944	59,830	500,511

12 Property, plant and equipment (continued)

[1] Managed land and buildings: land and buildings used by the group.

[2] Leased land and buildings: land and buildings leased to tenants under operating leases.

During the period a review of the the fixed asset register has lead to the reclassification of balances between categories and between cost and accumulated depreciation. The reclassification has increased cost by £7,678,000 and increased accumulated depreciation by £7,678,000 with no impact on net book value nor on the depreciation charge for the period.

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

	2 January 2022	3 January 2021
	£000	£000
Freehold properties	**316,253**	346,889
Leasehold properties >50 years unexpired term	**59,775**	29,228
Leasehold properties <50 years unexpired term	**73,797**	77,900
	449,825	454,017

Revaluation of freehold property, plant and equipment

The revalued property, plant and equipment consists of freehold trading properties held under the Leased operating model. Management determined that these constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property.

The valuation at the balance sheet date was performed in accordance with market practice by Colliers International, independent chartered surveyors, acting as external valuers.

The entire estate was valued in December 2021 with trading properties selected for a desk top review or site visit on a five-year rolling basis, with at least 20% of properties in the Spirit Debenture estate selected for a site visit each year. Colliers have extrapolated the findings of these formal valuations across the remaining properties and it is with reference to these findings that the Directors have performed their valuation.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments on freehold land and buildings held as property, plant and equipment have been taken to the revaluation reserve or income statement as appropriate.

All properties were valued at market value, in accordance with the provisions of Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity.

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.

The valuation considers assumptions such as current and future projected income levels, which take account the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

12 Property, plant and equipment (continued)

At the balance sheet date, the properties that were revalued resulted in a decrease in net assets of £157,000, representing an 0.1% decrease (2021: £6,499,000 decrease representing a 4.5% increase) on those properties.

The carrying amount of all property, plant and equipment had revaluation not been applied would have been £496,831,000 (2021: £497,360,000).

Charges over assets

Included in land and buildings are properties with a net book value of £512,723,000 (2021: £514,856,000) over which there is a first charge in favour of the securitised debt holders of the Spirit secured financing vehicle.

Impairment of property, plant and equipment

During the period £10,788,000 of net impairment reversals were recognised (2021: £14,810,000 net impairment reversals). This is comprised of an impairment charge of £13,003,000 (2021: £7,323,000) and reversal of previously recognised impairment charges of £23,791,000 (2021: £22,133,000).

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

The group estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projection, the discount rate applied to those cash flow projections of 6.8% (2021: 6.70%) and the long-term growth rate of 1.50% for the managed estate and 1.80% for the leased estate which is below the long-term UK inflation rate and reflects anticipated future trends in trading performance.

The cashflows relating to individual CGUs used in the impairment exercise have been algined to the Greene King Limited group's 5-year strategic 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 entire estate was subject to an external valuation 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.

12 Property, plant and equipment (continued)

Sensitivities to change in assumptions - property, plant and equipment

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

	2 January 2022	3 January 2021
	£000	£000
Increased net impairment resulting from a 10% reduction in fair value less cost of disposal	4,421	3,045
Increased net impairment resulting from a 0.5% increase in discount rate	2,830	3,043
Increased net impairment resulting from a 25.0% reduction in growth rate	2,379	2,380

13 Property, plant and equipment held for sale

	2 January 2022	3 January 2021
	£000	£000
Property, plant and equipment held for sale	1,077	818

Property, plant and equipment held for sale represents pubs where a sale is highly probable and expected to be completed within one year from the date of classification.

14 Inventories

	2 January 2022	3 January 2021
	£000	£000
Finished goods for resale	4,119	2,265

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 6th January 2021 and the closure of UK pubs until reopening on 12th April 2021, for outdoor service, and 17th May for indoor, management have written off inventory of £567,000 (2021: £320,000) during the period. Stock provisions decreased by £681,000 in the period to reflect the trading position of the group in 2021. In the prior period provisions incresed by £141,000 as a result of government decisions to lockdown in early 2021.

15 Trade and other receivables: current

	2 January 2022	3 January 2021
	£000	£000
Trade receivables	4,001	1,477
Amounts owed by group undertakings	245,711	261,210
Other receivables	24,525	10,032
Prepayments and accrued income	2,350	649
	276,587	273,368

Trade and other receivables are non-interest bearing.

Trade receivables are shown net of a loss allowance of £368,000 (2021: £1,085,000). Information about the group's exposure to credit and market risks and impairment losses for trade receivables is included in note 22.

Other receivables include VAT recoverable including the VAT claim on gaming machine income (see note 5 for details); balances due from tenants and other receivables.

Amounts owed by group undertakings are unsecured, bear no interest, have no fixed date of repayment and are repayable on demand.
Expected credit losses of £826,000 (2021: £1,009,000) have been recognised against the carrying value.

16 Trade and other receivables: non-current

	2 January 2022	3 January 2021
	£000	£000
Amounts owed by group undertakings - at amortised cost	384,161	384,060
Amounts owed by group undertakings - at fair value through profit and loss	12,597	12,182
	396,758	396,242

Amounts owed by group undertakings held at amortised cost are non interest bearing loans to Spirit Group Equity Limited and Spirit Group Parent Limited of £443,000 and £383,718,000 respectively (2021: £444,000 and £384,355,000). Expected credit losses of £1,217,000 (2021: £1,318,000) have been recognised against the carrying value.

Amounts owed by group undertakings at fair value through profit and loss is a loan to Spirit Managed Inns Limited of £12,597,000 (2021: £12,182,000). Interest accrues at 7% per annum on the original loan.

17 Cash and cash equivalents

	2 January 2022	3 January 2021
	£000	£000
Cash at bank and in hand	25,245	36,233

18 Trade and other payables: current

		As restated
	2 January 2022	3 January 2021
	£000	£000
Amounts owed to group undertakings	61,627	96,905
Other payables	77	72
Accruals and deferred income	24,638	17,620
Interest payable	269	269
	86,611	114,866

Trade payables and other payables are non-interest bearing.

Amounts owed to group undertakings are unsecured, bear no interest, have no fixed date of repayment and are repayable on demand.
During the period an error was identified in the elimination of intercompany balances within the Spirit Pubs Debenture Holdings Limited group of companies whereby some balances were not fully eliminated upon consolidation for a number of years. See note for further details.

19 Trade and other payables: non-current

	2 January 2022	3 January 2021
	£000	£000
Subordinated loans owed to group undertakings	2,002,905	1,803,230
Subordinated loans owed to Spirit Issuer plc	176,472	158,372
Amounts owed to group undertakings	17,300	-
	2,196,677	1,961,602

Subordinated loans owed to group undertakings due in more than one year of £2,002,905,000 (2021: £1,803,230,000) comprises six loans from Spirit Managed Funding Limited totalling £565,506,000 and accrued subordinated loan interest of £1,437,399,000 (2021: £1,237,724,000) calculated using the effective interest rate method.
Interest on the subordinated loan balance on two of the loans accrues at a rate of 16% per annum and interest accrues on unpaid subordinated loan interest at a rate of 15.01% per annum. The total amount of accrued subordinated loan interest per the contract terms outstanding at the balance sheet date is £2,565,307,000 (2021: £2,286,570,000). Repayment of the loans are due in 2034.
Interest on the remaining four subordinated loans from Spirit Managed Funding Limited, accrues at a rate of 16% per annum. The total amount of accrued subordinated loan interest per the contract terms outstanding at the balance sheet date is £9,589,000 (2021: £7,079,000). Repayment of the loans are due in 2036.

19 Trade and other payables: non-current (continued)

The subordinated loan owed to Spirit Issuer plc of £50,000,000 (2021: £50,000,000) and accrued subordinated loan interest of £126,472,000 (2021: £108,372,000 is calculated using the effective interest rate method. Interest on the subordinated loan balance accrues at a rate of 16% per annum and interest accrues on unpaid subordinated loan interest at a rate of 15.01% per annum. The total amount of accrued subordinated loan interest per the contract terms outstanding at the balance sheet date is £237,694,000 (2021: £212,168,000). Repayment of the loan is due in 2034.

Repayment of the subordinated loans due to Spirit Managed Funding Limited and Spirit Issuer plc are only permissible following repayment of the secured loan note owed to Spirit Issuer plc.

20 Leases

Group as a lessee

The group has lease contracts for property used in its operations. Rental contracts are on average for a lease term of 45 years. The group's obligations under its leases are secured by the lessor's title to the lease assets. Generally, the group is restricted from assigning and subleasing the leased assets and some contracts require the group maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

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

	Right-of-use assets £000
Cost	
At 26 April 2020	322,892
Additions and remeasurements	20,037
Transfer from property, plant and equipment	361
Disposals	(1,820)
At 3 January 2021	341,470
Additions and remeasurements	8,670
Disposals	(6,064)
At 2 January 2022	**344,076**
Depreciation	
At 26 April 2020	21,154
Charge for the period	12,022
Transfer from property, plant and equipment	7
Disposals	(581)
Impairment charge	290
Impairment reversal	(2)
At 3 January 2021	32,890
Charge for the period	16,621
Disposals	(2,673)
Impairment charge	131
Impairment reversal	(214)
At 2 January 2022	**46,755**
Net book value	
At 2 January 2022	**297,321**
At 3 January 2021	308,580
At 26 April 2020	301,738

Impairment of right-of-use assets

During the period the group has recognised a net impairment charge of £83,000 (2021: £288,000).

The impairment of right-of-use assets is based on the same assumptions and valuation techniques as the impairment of property, plant and equipment. Further details can be found in the impairment of property, plant and equipment in note 12.

20 Leases (continued)

Sensitivities to change in assumptions - right-of-use assets

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:

	2 January 2022	3 January 2021
	£000	£000
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	113	899
Reduced/increased net impairment resulting from a 0.5% increase in discount rate	44	45
Reduced/increased net impairment resulting from a 25.0% reduction in growth rate	35	45

Lease liabilities

Lease liabilities included in the statement of financial postion.

	£000
At 26 April 2020	418,456
Additions	-
Interest expense relating to lease liabilities	17,361
Disposals	(2,348)
Remeasurements	20,106
Repayment of lease liabilities (including interest)	(10,077)
At 3 January 2021	**443,498**
Additions	1,726
Interest expense relating to lease liabilities	24,772
Disposals	(5,373)
Remeasurements	6,944
Repayment of lease liabilities (including interest)	(25,166)
At 2 January 2022	**446,401**

Maturity of lease liability	2 January 2022	3 January 2021
	£000	£000
Current	30,818	19,158
Non-current	415,583	424,340
	446,401	443,498

Maturity analysis - contractual undiscounted cashflows	2 January 2022	3 January 2021
	£000	£000
Less than one year	47,124	38,188
One to five years	120,809	121,213
More than five years	646,996	682,949
	814,929	842,350

20 Leases (continued)

Amounts recognised in the statement of profit and loss

	2 January 2022	3 January 2021
	£000	£000
Depreciation on right-of-use assets	16,621	12,022
Interest expense on lease liabilities	24,772	17,361
Expenses relating to short-term leases and low-value assets	1,568	907
Income from sub-leasing right-of-use assets	(3,613)	(2,745)
COVID-19 related rent concessions	(734)	(1,503)
	38,614	26,042

The total cash outflow for leases in the 36 weeks to 3 January 2021 was £24,432,000 (36 weeks ended 3 January 2021: £8,573,000).

Rent concessions
The group negotiated rent concessions with its landlords for some of its property leases as a result of the severe impact of the COVID-19 pandemic during the year. The group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its property leases.

Extension and termination options

Some property leases contain extension or termination options exercisable by the group before the end of the non-cancellable period. Where practicable, the group seeks to include these options in new leases to provide operational flexibility. These extension and termination options held are exercisable only by the group and not by the lessors. The group assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

The group has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in future cash outflows of £12,776,000 (2021: £12,251,000) and should it exercise the termination options, it would have no effect on future cash outflows.

21 Borrowings

	2 January 2022	3 January 2021
	£000	£000
Secured loan notes maturity analysis		
In less than one year	96,715	96,715
Impact of effective interest rate method	1,641	1,831
	98,356	98,546
Borrowings: current	98,356	98,546

During the prior period Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited breached various covenants as a result of the COVID-19 pandemic, resulting in multiple borrower-level events of default. In August 2020 the group sought, but failed to obtain, a waiver in respect of certain events of default which were expected to occur, and in light of the failure to obtain that initial waiver the group has not sought further waivers in respect of subsequent covenant breaches. As a result, the two entities were in a state of technical default at the prior year-end and remained in a state of technical default at the current year-end. This gives the trustee of the Spirit secured financing vehicle the ability at the ultimate direction of bondholders to accelerate the advances made to Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited by Spirit Issuer plc, which in turn would trigger the mandatory redemption of the Class A5 secured loan note issued by Spirit Issuer plc.
No such acceleration had taken place as of the year-end, however the entire carrying value of the Class A5 secured loan note has been presented as a current liability in the balance sheet on the basis that the group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

21 Borrowings (continued)

Details of secured loan notes are as follows:

	2 January 2022 £000	3 January 2021 £000
Class A5 fixed / floating rate secured loan notes due 2032 at 5.472% per annum to December 2028 and LIBOR plus 0.75% per annum thereafter	**96,715**	96,715
Impact of effective interest rate method	**1,641**	1,831
	98,356	98,546

	Repayment date	Nominal interest rate per annum	Nominal value 2 January 2022 £000	Carrying value 2 January 2022 £000
Class A5	2032	5.472% to December 2028; LIBOR plus 0.75% thereafter	**96,715**	**98,356**

Secured debt

The impact of cessation of the LIBOR rae is discussed in note 22.

Borrowings represent secured loan notes owed to Spirit Issuer plc, a fellow group undertaking. The terms of the secured loan notes are such that the interest rate, carrying value and repayment schedule is identical to that of Spirit Issuer plc's secured loan notes payable.

Repayment of the nominal is made by quarterly instalments, in accordance with the repayment schedule, within the date ranges shown above. Interest is paid quarterly in arrears on all secured loan notes.

The secured loan notes rank pari passu in point of security and as to payment of interest and principal.

The group has available a £15,000,000 (2021: £15,000,000) liquidity facility which can only be used for the purpose of meeting the debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under this facility during the year and the drawn down amount at the year-end was £nil (2021: £nil).

The debenture structure 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 debenture properties and restrictions on its ability to move cash to other group companies and utilisation of disposal proceeds.

Optional redemption

On giving not fewer than five business days' prior written notice, one or more classes of the loan notes may, at the option of the company, be redeemed in whole or in part (provided that the minimum amount of any such redemption will be £1,000,000 in principal amount of a class of loan notes and thereafter in multiples of £100,000 in principal amount) on any interest payment date subject to certain conditions as set out in the terms and conditions of the loan notes.

22 Financial instruments

The group holds the following financial instruments:

At 2 January 2022

	Note	Current £000	Non-current £000	Total £000
Financial assets				
Assets at amortised cost:				
Trade receivables	15	4,001	-	4,001
Other receivables	15	24,525	-	24,525
Cash and cash equivalents	17	25,245	-	25,245
Amounts owed by group undertakings	15, 16	245,711	384,161	629,872
Assets at fair value through profit or loss:				
Amounts owed by group undertakings	16	-	12,597	12,597
		299,482	396,758	696,240
Financial liabilities				
Liabilities at amortised cost:				
Accruals and other payables	18	24,984	-	24,984
Borrowings owed to Spirit Issuer plc	21	98,356	-	98,356
Amounts owed to group undertakings	18, 19	61,627	2,020,205	2,081,832
Amounts owed to Spirit Issuer plc	19	-	176,472	176,472
Leases liabilities	20	30,818	415,583	446,401
Liabilities at fair value through profit or loss:				
Derivative financial instruments owed to Spirit Issuer plc		-	7,200	7,200
		215,785	2,619,460	2,835,245

At 3 January 2021

	Note	Current £000	Non-current £000	Total £000
Financial assets				
Assets at amortised cost:				
Trade receivables	15	1,477	-	1,477
Other receiveables	15	10,032	-	10,032
Cash and cash equivalents	17	36,233	-	36,233
Amounts owed by group undertakings	15, 16	261,210	384,060	645,270
Assets at fair value through profit or loss:				
Amounts owed by group undertakings	16	-	12,182	12,182
		308,952	396,242	705,194
Financial liabilities				
Liabilities at amortised cost:				
Trade payables and accruals	18	17,961	-	17,961
Borrowings owed to Spirit Issuer plc	21	98,546	-	98,546
Amounts owed to group undertakings	18, 19	96,905	1,803,230	1,900,135
Amounts owed to Spirit Issuer plc	19	-	158,372	158,372
Leases liabilities	20	19,158	424,340	443,498
Liabilities at fair value through profit or loss:				
Derivative financial instruments owed to Spirit Issuer plc		-	8,478	8,478
		232,570	2,394,420	2,626,990

22 Financial instruments (continued)

Financial risk management

The primary treasury objectives of the group 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 group. If appropriate, the group uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised loan notes and subordinated loans with fellow group companies.

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

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

Derivatives

Spirit Issuer plc, a fellow group undertaking, uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates. Spirit Issuer plc has also entered into equal and opposite interest rate swap arrangements with the group in respect of the secured loan notes issued by Spirit Issuer plc. The terms, values and maturity analysis of these swaps directly mirror the swaps entered into by Spirit Issuer plc.

At the balance sheet date Spirit Issuer plc holds 1 (2021: 1) forward starting swap commencing when A5 loan note switches from fixed rate interest to floating rate in December 2028. The swap will receive a variable rate of interest based on 3-month GBP LIBOR and pay a fixed rate of 4.529%. The swap is held on the balance sheet has a fair value liability of £7,200,000 (2021: £8,478,000) and the contract maturity date falls in December 2032. The cashflows occurred quarterly based on a variable rate of interest based on LIBOR.

Where the nominal value of the derivative exceeds that of the related loan note (for example, due to early repayment of floating rate notes) the group will seek to eliminate the over-hedging where this is financially practicable. At the balance sheet date, the nominal value of interest rate swaps outstanding on cancelled floating rate notes was £nil (2021: £nil).

Interest rate risk

Exposure to changes in interest rates on the group's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The group uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The group enters into interest rate swaps to manage the exposure.

In accordance with IFRS 7, the group 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 other comprehensive income or the income statement in line with the accounting policies of the group.

Based on the group's net position at the year end, a 1% increase or decrease in interest rates would change the group's loss for the period by approximately £0.5m (2021: £0.5m).

Whilst cash flow interest rate risk is largely eliminated, the use of fixed rate borrowings and derivative financial instruments exposes the group to fair value interest rate risk such that the group 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.

22 Financial instruments (continued)

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. The financial instruments held by the group will switch to variable GBP LIBOR after December 2028. At 2 January 2022 the group held the following contracts which reference GBP LIBOR and have not been yet transitioned to SONIA or an alternative interest rate benchmark.

	Carrying value 2 January 2022 £000
Non-derivative liabilities exposed to GBP LIBOR	
Secured loan notes owed to Spirit Issuer plc	98,356
Derivative liabilities exposed to GBP LIBOR	
Interest rate swaps owed to Spirit Issuer plc with a nominal amount of £96,700,000	7,200

The group is working on the implementation of changes to the contracts.

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with long-term debt. The group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

The standard payment terms that the group has with its suppliers is 60 days following month end (2021: 60 days).

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

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.

At 2 January 2022	Within one year £000	One to two years £000	Two to five years £000	More than five years £000	Total £000
Term loans:					
Capital [1]	96,715	-	-	-	96,715
Interest [1]	5,278	-	-	-	5,278
	101,993	-	-	-	101,993
Interest rate swaps settled net	-	-	-	7,787	7,787
Lease liabilities	47,124	30,813	89,996	646,996	814,929
Subordinated loan owed to group undertakings:					
Capital	-	-	-	565,506	565,506
Interest	-	-	-	7,445,412	7,445,412
	-	-	-	8,010,918	8,010,918
Subordinated loan owed to Spirit Issuer plc:					
Capital	-	-	-	50,000	50,000
Interest	-	-	-	679,463	679,463
	-	-	-	729,463	729,463
	149,117	30,813	89,996	9,395,164	9,665,090

[1] Due to the covenant breach referred to in note 21, the entire capital of the Class A5 secured loan note has been presented as due within 1 year. The contractual interest in respect of the secured loan note has been reflected accordingly being only the within 1 year interest included in the table above. If the loan notes were not called early contractual interest of £33.7m (2021: £39.9m) would be payable over the next 13 years.

22 Financial instruments (continued)

At 3 January 2021	Within one year	One to two years	Two to five years	More than five years	Total
	£000	£000	£000	£000	£000
Term loans:					
Capital [1]	96,715	-	-	-	96,715
Interest [1]	5,292	-	-	-	5,292
	102,007	-	-	-	102,007
Interest rate swaps settled net	-	-	-	8,679	8,679
Lease liabilities	38,188	30,793	90,420	682,949	842,350
Subordinated loan owed to group undertakings:					
Capital	-	-	-	565,506	565,506
Interest	-	-	-	7,446,113	7,446,113
	-	-	-	8,011,619	8,011,619
Subordinated loan owed to Spirit Issuer plc:					
Capital	-	-	-	50,000	50,000
Interest	-	-	-	679,527	679,527
	-	-	-	729,527	729,527
	140,195	30,793	90,420	9,432,774	9,694,182

The interest on subordinated loans is expected to be paid once the secured loan notes have been settled in full. However, earlier payment might be required as payment depends on a number of variables.

Credit risk

Financial assets include amounts owed by group undertakings, cash and cash equivalents, trade receivables and interest receivable. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the company is the carrying amount of these instruments.
The credit risk on cash and cash equivalents is limited by investment of surplus funds with banks and financial institutions with high credit ratings assigned by international credit agencies. The credit risk on amounts owed by group undertakings is limited as these consist of amounts receivable from other significant subsidiaries of Greene King Limited group.

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 two types of financial assets that are subject to the expected credit loss ("ECL") model:
- trade and other receivables; and
- amounts owed by group undertakings.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Impairment losses on financial assets recognised in profit or loss were as follows:

	2 January 2022	3 January 2021
	£000	£000
Non-adjusting:		
Impairment loss on trade and other receivables	**201**	86
Impairment (reversal)/loss on amounts owed by group undertakings	**(284)**	1,176
	(83)	1,262
Adjusting:		
Impairment reversal on trade and other receivables	**(673)**	(540)
	(756)	722

For more details on adjusting items refer to note 5.

22 Financial instruments (continued)

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure the ECL for trade receivables.
The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The group writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

For the year ended 2 January 2022, the provision matrix has been refined to take into account the additional information available as a result of the COVID-19 global pandemic and the financial distress in the sector. The assessment includes in-depth discussions with key management to reflect the aging analysis of live debts to incorporate deterioration as an indicator of financial distress of customers and a more detailed segmentation of customers to reflect their risk profile.

Set out below is the information about the credit risk exposure on the group's trade receivables using a provision matrix:

	2 January 2022			3 January 2021		
	Gross	**Provision**	**Net**	Provision	Net	Net
	£000	**£000**	**£000**	£000	£000	£000
Not past due	**1,518**	**-**	**1,518**	364	-	364
Past due						
Less than 30 days	**249**	**(32)**	**217**	160	(85)	75
30-60 days	**4**	**(1)**	**3**	294	(157)	137
Greater than 60 days	**2,598**	**(336)**	**2,262**	1,744	(843)	901
	4,369	**(368)**	**4,001**	2,562	(1,085)	1,477

Set out below is the movement in the allowance for expected credit losses of trade receivables held at amortised cost:

	2 January 2022	3 January 2021
	£000	£000
Opening ECL	**1,085**	1,697
Provision for expected credit losses recognised in profit or loss during the year	**(472)**	(454)
Receivables written off during the year as uncollectible	**(245)**	(158)
Closing ECL	**368**	1,085

Amounts owed by group undertakings

The group assesses the credit risk on amounts owed by group undertakings anually and has concluded that there has been an increase in credit risk of some, but not all, of the counterparties since initial recognition, resulting in a change of ECL from a 12-month ECL into a lifetime ECL for those affected balances.

The loss allowance for amounts owed by group undertakings is as follows:

	2 January 2022	3 January 2021
	£000	£000
Opening ECL	**2,327**	1,151
(Decrease) / increase in the allowance recognised in profit or loss during the period	**(284)**	1,176
Closing ECL	**2,043**	2,327

22 Financial instruments (continued)

Fair values

Set out below is a comparison of carrying amounts and fair values of all of the company's financial instruments except current balances where fair value equals carrying value:

	Hierarchical classification	2 January 2022 Fair value £000	2 January 2022 Carrying value £000	3 January 2021 Fair value £000	3 January 2021 Carrying value £000
Financial liabilities:					
Secured debt	1	**(108,824)**	**(98,356)**	(106,576)	(98,546)
Derivative financial instruments	2	**(7,200)**	**(7,200)**	(8,478)	(8,478)
Subordinated loan owed to group undertakings	3	**(2,947,941)**	**(2,002,905)**	(2,384,598)	(1,803,230)
Subordinated loan owed to Spirit Issuer plc	3	**(268,729)**	**(176,472)**	(217,408)	(158,372)
Financial assets:					
Amounts owed by group undertakings non-current					
Held at amortised cost	2	**384,161**	**384,161**	384,060	384,060
Held at fair value through profit and loss	3	**12,597**	**12,597**	12,182	12,182

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

- The fair value of the securitised debt is based on quoted market prices.
- Interest rate swaps are valued by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the company's and counterparty credit risk.
- Amounts owed by group undertakings held at fair value through profit or loss are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs. The valuation technique used to value the financial instruments was discounted cash flow analysis. Fair values of amounts owed by group undertakings are calculated by discounting estimated future cash flows by an implied yield determined with reference to observable market data adjusted to take account of economic differences between the amounts owed by group undertakings and the reference revolving credit facility. These adjustments reflect the credit risk of the loan. The cash flows have been assumed to take place one day after the balance sheet date.

The fair value of other financial assets and liabilities are not materially different from their carrying value.

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.

The following table is a reconciliation of fair value measurements categorised within level 3 of the fair value hierarchy:

	2 January 2022 £000	3 January 2021 £000
Opening balance	**12,182**	11,895
Fair value gains (note 9)	**415**	287
Closing balance	**12,597**	12,182

22 Financial instruments (continued)

Capital risk management

The group's capital structure is made up of subordinated loan notes with fellow group companies, secured loan notes, issued share capital and reserves. The group is able to generate sufficient returns to service the debt. Debt is monitored by a variety of measures which are reported to debt providers on a quarterly basis. These include covenants regarding the maintenance and disposal of debenture properties and restrictions on its ability to move cash to other group companies and utilisation of disposal proceeds.

23 Share capital

	2 January 2022	3 January 2021
	£	£
Allotted, called up and fully paid		
4 (2021: 4) Ordinary shares of £1 each	4	4

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

24 Reserves

Share premium account
Share premium represents the excess of proceeds received over the nominal value of new shares issued.

Revaluation reserve
Revaluation reserve has arisen on the revaluation of property, plant and equipment.

Capital redemption reserve
Capital redemption reserve arose from the purchase and cancellation of own share capital, and represents the nominal amount of the share capital cancelled.

Retained earnings
Retained earnings represents accumulated retained earnings.

25 Commitments under operating leases

The group leases part of its licenced estate and other non-licenced properties to tenants. The majority of lease agreements have terms of between 6 months and 25 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over 3 years include provision for rent reviews on either a 3 year of 5 year basis.

Future minimum rentals receivable under non-cancellable operating leases are are shown in the table below. These future revenues have been reduced following rent concessions provided to tenants.

	2 January 2022	3 January 2021
	£000	£000
Within one year	7,951	8,635
Between one and two years	7,091	7,447
Between two and three years	6,111	6,546
Between three and four years	5,068	5,524
Between four and five years	4,238	4,494
After five years	22,258	27,177
	52,717	59,823

Future minimum lease rentals include £3,484,000 (2021: £2,983,000) receivable in respect of non-cancellable subleases.

26 Pension commitments

The group operates a defined benefit pension scheme Spirit Group (Legacy) Pension Scheme which is closed to new entrants and closed to future accrual. Only administrative costs and deficit recovery contributions are incurred going forward.

Member funds are held in separate funds independently of the group's finances and are administered by pension trustees. Pension benefits are related to members' final salary at the earlier of retirement or closure to future accrual and their length of service.

The Trustees are required to carry out an actuarial valuation every three years. The result of this valuation determines the level of contributions payable by the group. The last triennial valuation of the scheme was performed by the Scheme actuary for the trustees as at 30 June 2018. The valuation as at 30 June 2018 revealed a funding surplus of £0.2m and that no recovery plan is required. The next triennial actuarial valuation of the scheme will be as at 30 June 2021. The triennial valuation is ongoing and is on track to meet the regulatory deadline of 30 September 2022, as which point the position will be reassessed.

The scheme was closed to future accruals on 6 April 2005.

An actuarial valuation was carried out for IAS 19 purposes as at 2 January 2022 by a qualified independent actuary.

All pension costs relating to the pension scheme are incurred by Greene King Services Limited and Greene King Retail Services Limited, the principal employers. These costs are then recharged to Spirit Pub Company (Managed) Limited and Spirit Pub Company (Trent) Limited on a fixed percentage based on a contractual agreement. Contributions are equally allocated. The disclosures quoted below are Spirit Pub Company (Managed) Limited's proportion of the total assets and liabilities of the pension scheme.

The pension scheme is exposed to inflation and interest rate risks, as well as changes in the life expectancy for pensioners. As the scheme's assets include investments in quoted equity shares, the group is also exposed to equity market risk. The majority of the bonds held by the scheme relate to UK government and corporate bonds, plus liability driven investment (LDI) instruments.

In October 2018, the High Court ruled on the Lloyds Bank GMP inequality case, in response to this an allowance of £2,300,000 was included within the group's 2019 accounts. On 20 November 2020, the High Court handed down a further judgement stating that pension schemes should pay uplifts in respect of members who had transferred benefits out in the past (back to 1990), where those benefits were not equalised in line with the 2019 judgement.
An additional liability of £397,000 in respect to the above benefits transferred has been recognised as a past service cost in the prior period.

The assets and liabilities of the scheme are:

	2 January 2022	3 January 2021
	£000	£000
Investment quoted in active markets		
Equities	**55,509**	104,015
Bonds	**347,560**	301,417
Property	**39,304**	30,407
Unquoted instruments		
Cash	**4,671**	5,105
Annuities	**28,637**	32,836
Fair value of scheme assets	**475,681**	473,780
Present value of scheme liabilities	**(388,234)**	(436,069)
Defined benefit pension plan surplus	**87,447**	37,711

Changes in the present value of the defined benefit pension obligation are as follows:

	2 January 2022	3 January 2021
	£000	£000
At the beginning of the year	**436,069**	402,284
Interest cost	**6,007**	4,664
Remeasurement (gains) / losses:		
Actuarial changes arising from changes in demographic assumptions	**(24,097)**	39,631
Actuarial changes arising from changes in financial assumptions	**(15,690)**	-
Experience adjustments	**-**	-
Benefits paid	**(14,055)**	(10,907)
Gain/loss on settlement or curtailment	**-**	397
At the end of the year	**388,234**	436,069

26 Pension commitments (continued)

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

	2 January 2022	3 January 2021
	£000	£000
At the beginning of the year	473,780	443,374
Interest income	6,535	5,147
Remeasurement gains:		
Return on plan assets (excluding amounts included in net interest expenses)	9,421	36,166
Contributions by employer	-	-
Benefits paid	(14,055)	(10,907)
At the end of the year	475,681	473,780

The amounts recognised in profit or loss are as follows:

	2 January 2022	3 January 2021
	£000	£000
Interest on obligation	(6,007)	(4,664)
Interest on scheme assets	6,535	5,147
Profit/(loss) on curtailments and settlements	-	(397)
	528	86

The group expects to contribute £nil to its defined benefit pension scheme in 2022.

The average duration of the defined benefit plan obligation at the end of the period is 16 years (2021: 17 years).

The amounts recognised in other comprehensive income are as follows:

	2 January 2022	3 January 2021
	£000	£000
Remeasurement gains / (losses) on defined benefit schemes	49,208	(3,465)

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2 January 2022	3 January 2021
	%	%
Discount rate	1.90	1.40
Future pension increases	3.10	2.90
Inflation assumption (RPI)	3.30	2.90
Inflation assumption (CPI)	2.60	2.10
	Years	Years
Mortality rates		
• for a male aged 65 now	20	22
• at 65 for a male aged 40 now	22	23
• for a female aged 65 now	23	24
• at 65 for a female aged 40 now	25	26

The sensitivities regarding the principal assumptions assessed in isolation that have been used to measure the scheme liabilities and the increase/(decrease) in scheme liabilities are:

	2 January 2022	3 January 2021
	£000	£000
0.25% increase in discount rate	(14,927)	(18,333)
0.25% increase in inflation rate	13,338	15,023
Additional one year increase to life expectancy	15,529	17,443

27 Provisions

	Dilapidation provisions £000
At 26 April 2020	2,375
Profit and loss account	746
Utilised during the period	(132)
At 3 January 2021	2,989
Released during the period	(46)
Utilised during the period	(153)
At 2 January 2022	**2,790**

Provisions have been analysed between current and non-current as follows:

	2 January 2022 £000	3 January 2021 £000
Current	**2,053**	1,575
Non-current	**738**	1,414
	2,791	2,989

Dilapidation provisions
The provision has been set up to cover dilapidation requirements of property leases.

28 Reconciliation of operating profit to net cash inflow from operating activities

	2 January 2022 £000	3 January 2021 £000
Operating profit/(loss)	**20,664**	(24,155)
Depreciation of property, plant and equipment	**33,615**	23,405
Adjusting items (see note 5)	**(33,519)**	(21,231)
Cashflow on adjusting items	**28**	(103)
Tax (paid) / received	**(0)**	1,369
(Increase) / decrease in inventories	**(1,743)**	2
Decrease in debtors	**16,292**	12,872
(Decrease) / increase in creditors	**(12,517)**	53,637
(Decrease) / increase in provisions	**(198)**	614
Net cash inflow from operating activities	**22,622**	46,410

29 Analysis and movements in net debt

	3 January 2021 £000	Financing cash flows £000	Changes in fair value £000	Non-cash & other changes £000	**2 January 2022 £000**
Cash and cash equivalents	36,233	(10,988)	-	-	**25,245**
Liabilities from financing activities					
Included in net debt:					
Borrowings	(98,546)	-	-	190	**(98,356)**
Subordinated loan owed to group undertakings	(1,803,230)	-	-	(199,675)	**(2,002,905)**
Subordinated loan owed to Spirit Issuer plc	(158,372)	-	-	(18,100)	**(176,472)**
	(2,060,148)	-	-	(217,585)	**(2,277,733)**
Not included in net debt:					
Derivative financial instruments	(8,478)	-	1,278	-	**(7,200)**
Lease liabilities [1]	(443,498)	24,547	-	(27,450)	**(446,401)**
Liabilities from financing activities	(2,512,124)	24,547	1,278	(245,035)	**(2,731,334)**
Net debt	(2,023,915)	(10,988)	-	(217,585)	**(2,252,488)**

1. Other non-cash changes on lease liabilities incorporates £1,726,000 additions, £6,944,000 remeasurements and £(5,373,000) disposals.

30 Related party transactions

The following table provides the total amount of transactions, which have been entered into with other related parties, who are also group undertakings, for the relevant financial period:

	2 January 2022	3 January 2021
	£000	£000
Net recharge of goods and services		
Other related parties	**202,829**	100,671

Amounts owed to group undertakings are shown in notes 15, 16, 18 and 19. Interest income and expense with group undertakings are disclosed in notes 9 and 10.

Spirit Issuer plc is an entity that is controlled by the CK Asset Holdings Limited group but not a wholly owned subsidiary of that group. Amounts owed to Spirit Issuer plc are shown in notes 19 and 21 and interest income and expense is shown in notes 9 and 10.

31 Post balance sheet events

Spirit (Legacy) Pension Scheme
On 19 January 2022 the Spirit Pension scheme entered into a buy-in policy for c.£110m that provides insurance for a proportion of its pensioner population. The value of the buy-in on an IAS 19 accounting basis matches the value of the underlying pension obligations.

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

32 Ultimate parent undertaking and controlling party

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

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

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

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

Company balance sheet

As at 2 January 2022

	Note	2 January 2022 £000	3 January 2021 £000
Fixed assets			
Investments	37	-	-
		-	-
Net assets		-	-
Capital and reserves			
Called up share capital	38	-	-
Share premium account	39	**39,996**	39,996
Capital redemption reserve	39	**153,287**	153,287
Profit and loss account [1]	35	**(193,283)**	(193,283)
Total equity		-	-

[1] The profit and loss account is omitted from the company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The result generated for the period for ordinary shareholders, and included in the financial statements of the parent company, amounted to £nil (36 weeks ended 3 January 2021: nil).

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

R Smothers
Director
Date 26 April 2022

Company statement of changes in equity

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
As at 26 April 2020	-	39,996	153,287	(193,283)	-
At 3 January 2021	-	39,996	153,287	(193,283)	-
At 2 January 2022	-	39,996	153,287	(193,283)	-

33 Accounting policies

Basis of preparation of financial statements

The 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.

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 coterminous 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 figures 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:

- paragraph 79(a)(iv) of IAS 1;
- 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;

Where applicable equivalent disclosures are included in the group's consolidated financial statements.

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 director of the company haas 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.

Investments

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.

34 Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The company bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates.

There are no estimates and judgments made in the company that are considered to be significant.

35 Profit for the period

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006.
The profit after tax for the period is £nil (36 weeks ended 3 January 2021: £nil).

For auditor remuneration for the period see note 7 in the group financial statements.

36 Director's emoluments and staff costs

The company had no employees during the period (36 weeks ended 3 January 2021: none). Regarding director remuneration disclosures see note 8 in the group financial statements.

37 Investments

	Shares in subsidiaries £000
Cost	
At 26 April 2020	94,008
At 3 January 2021	94,008
At 2 January 2022	**94,008**
Impairment	
At 26 April 2020	94,008
At 3 January 2021	94,008
At 2 January 2022	**94,008**
Net book value	
At 2 January 2022	-
At 3 January 2021	-
At 26 April 2020	-

The following were subsidiary undertakings of the company:

Name of company	Class of shares	Holding	Principal Activity
Directly held:			
Spirit Pubs Parent Limited [1]	Ordinary	100%	Holding company
Indirectly held:			
Allied Kunick Entertainments Limited [1]	Ordinary	100%	Non trading
Aspect Ventures Limited [2]	Ordinary	100%	In MVL
AVL (Pubs) No.1 Limited [2]	Ordinary	100%	In MVL
AVL (Pubs) No.2 Limited [2]	Ordinary	100%	In MVL
Chef & Brewer Limited [2]	Ordinary	100%	In MVL
City Limits Limited [2]	Ordinary	100%	In MVL
Cleveland Place Holdings Limited [1]	Ordinary	100%	Holding company
CPH Palladium Limited [1]	Ordinary	100%	Holding company
Dearg Limited [1]	Ordinary	100%	Holding company
Freshwild Limited [1]	Ordinary	100%	Holding company
Huggins and Company Limited [1]	Ordinary	100%	Financing
Moundoop Limited [1]	Ordinary	100%	Financing
Narnain [1]	Ordinary	100%	Holding company
Open House Limited [2]	Ordinary	100%	In MVL

37 Investments (continued)

Name of company	Class of shares	Holding	Principal Activity
R.V. Goodhew Limited [1]	Ordinary	100%	Financing
	Deferred ordinary	100%	
Spirit (AKE Holdings) Limited [1]	Ordinary	100%	Holding company
Spirit (Faith) Limited [1]	Ordinary	100%	Financing
Spirit (SGL) Limited [1]	Ordinary	100%	Holding company
Spirit Group Retail (Northampton) Limited [1]	Ordinary	100%	Financing
	Preference	100%	
Spirit Group Retail (South) Limited [2]	Ordinary	100%	In MVL
Spirit Group Retail Limited [1]	Ordinary	100%	Holding company
	Preference	100%	
Spirit Group Retail Pensions Limited [2]	Ordinary	100%	In MVL
Spirit Pub Company (Leased) Limited [1]	Ordinary	100%	Leasing of public houses
Spirit Pub Company (Managed) Limited [1]	Ordinary	100%	Pub retailing
Spirit Retail Bidco Limited [1]	Ordinary	100%	Holding company
Springtarn Limited [2]	Ordinary	100%	In MVL
The Chef & Brewer Group Limited [1]	Ordinary	100%	Holding company
The Nice Pub Company Limited [2]	Ordinary	100%	In MVL
Tom Cobleigh Limited [1]	Ordinary	100%	Holding company
Whitegate Taverns Limited [2]	Ordinary	100%	In MVL

[1] Incorporated in England and Wales. Registered office: is Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT
[2] Incorporated in England and Wales. Registered office: is Resolve Advisory Limited, 22 York Buildings, London, WC2N 6JU
Member voluntary liquidation "MVL"

38 Called up share capital

Refer to note 23 to the group financial statements.

39 Reserves

Refer to note 24 to the group financial statements.

40 Ultimate parent undertaking and controlling party

Refer to note 32 to the group financial statements.