



GREENE KING
BURY ST EDMUNDS



Time well spent

ANNUAL REPORT 2012
Greene King plc

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Delivering growth.

This year we have achieved strong growth and made further strategic progress, delivering record results and attractive returns for our shareholders.

All of our businesses are building customer loyalty by delivering industry-leading value, service and quality as we strive to become Britain's best pubs and beer business.

WHERE CAN I FIND MORE INFORMATION?

- ▶ Pages 12-13 Chief executive's review

Our chief executive's review outlines our financial and strategic performance during the year.

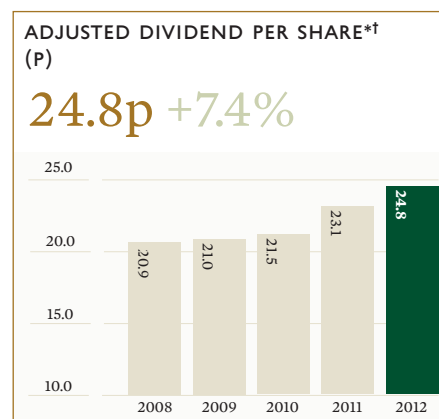
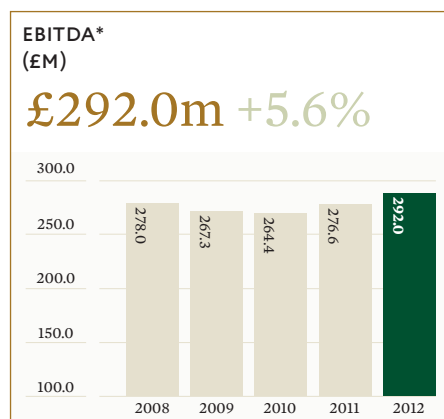
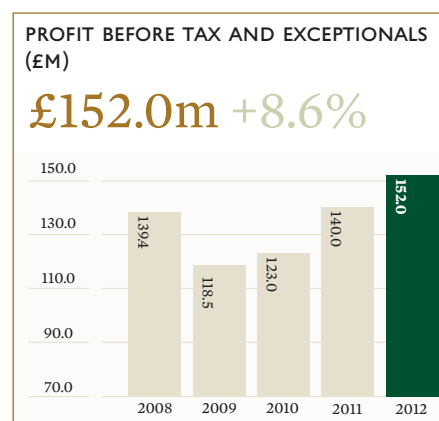
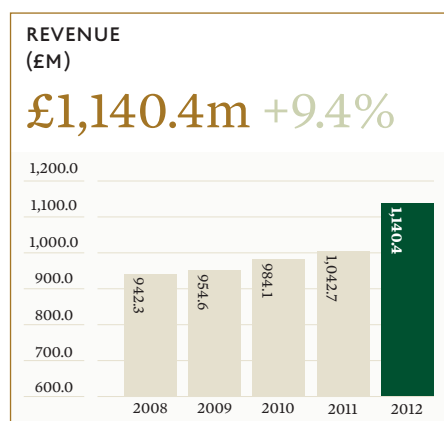
- ▶ Pages 16-22 Operational review
 - Pages 16-18 Retail
 - Pages 19-20 Pub Partners
 - Pages 21-22 Brewing & Brands

PERFORMANCE

Strong growth and record results

Our team has once again delivered record results and attractive returns to our shareholders in a difficult environment.

- Retail like-for-like sales growth of 4%; food sales growth of 17%.
- Retail operating profit growth of 13%; EBITDA per pub over £200k for first time.
- Average EBITDA per pub in Pub Partners up 4%; substantive agreements at 98%.
- Brewing & Brands total volumes up 8%; revenue up 5%.
- Strong growth of 10% in adjusted earnings per share.
- Strong margins and cash generation support total dividend growth of 7%.



* As throughout, profit figures are shown before exceptional items.

† Adjusted to reflect the bonus element of the rights issue.

2007/2008 rebased to 52 weeks for comparative purposes.

OUR FOCUS

OUR AIM: TO BE BRITAIN'S BEST PUBS AND BEER BUSINESS

PUB PARTNERS

Our focus for Pub Partners is to improve the estate, through a combination of:

- Reducing the estate to 1,200 high quality, sustainable sites;
- Driving growth via agreement innovation; and
- Linking tenant support to commitments to improve the customer offer.



Our business model relies on all three parts of our business contributing to our success. Our smaller two businesses, Pub Partners and Brewing and Brands, are highly cash generative and therefore help fund our Retail growth and add to Retail's purchasing scale.

BREWING & BRANDS

For Brewing & Brands the focus is on:

- Maintaining the market-leading positions of our core brands;
- Investing in marketing and sales; and
- Exploiting the benefits of our low-cost operating model.



RETAIL

We aim to achieve growth in our Retail division through:

- Expanding the estate to 1,100 sites through either packages or single site acquisitions or through new build developments;
- Improving the quality of the estate, towards being either food led or premium drinks led; and
- Increasing our exposure to the eating out market.



To achieve this, underpinning everything we do is a commitment from all of our businesses to deliver value, service and quality to all of our customers

VALUE, SERVICE, QUALITY

Together, these three businesses help us

DRIVE ATTRACTIVE SHAREHOLDER RETURNS AND DELIVER EARNINGS AND DIVIDEND GROWTH

WHERE CAN I FIND MORE INFORMATION?

► Pages 16-18 Retail

The operational review provides information on Retail's progress in the year.

► Pages 14-15 Our strategy

Turn to pages 14 and 15 for more information on our Retail strategy.

RETAIL

Our strategy to grow Greene King Retail to around 1,100 sites and improve the overall quality of the estate through targeted acquisitions and investment in our people, our offers and our assets remains on track.

Our leading brand Hungry Horse grew to 180 sites at the year end and saw its first new build site, the Hem Heath at Trentham Lakes in Stoke on Trent (pictured), open for business.



WHERE CAN I FIND MORE INFORMATION?

► Pages 19–20 Pub Partners

More information on Pub Partners' performance during the year can be found in the operational review.

► Pages 14–15 Strategy

For more detail on our strategy for Pub Partners please turn to pages 14 and 15.



A photograph of two men in a pub setting. The man on the left is wearing a dark blue polo shirt and is smiling. The man on the right is wearing glasses and a dark blue t-shirt, also smiling. They are both looking towards the camera. The background is slightly blurred, showing a pub interior with a dartboard and other decorations.

PUB PARTNERS

It is critical for the long-term success of the tenanted and leased model that we increase the level of influence over, and control of, the consumer offer in our pubs.

We now have two franchise-style agreements in our estate, Meet & Eat and Local Hero. Local Hero (here the Bedford in Tunbridge Wells is pictured) is a retail solution for wet-led community pubs centred on cask ale, selling a minimum of six ales at any time.



WHERE CAN I FIND MORE INFORMATION?

► **Brewing & Brands**

Turn to pages 21 and 22 for more information on Brewing & Brands' performance during the year.

► **Strategy**

The strategy section on pages 14 and 15 also contains more detail on our strategy for Brewing & Brands.

BREWING & BRANDS

As part of our strategic commitment to the continued investment in our sector-leading portfolio of core ale brands, we relaunched Greene King IPA via a £4m investment in our 'Crafted for the Moment' campaign.

The new brand identity is more contemporary and appeals to a younger audience. Early consumer reaction and demand has been very encouraging.

CHAIRMAN'S STATEMENT

ANOTHER SUCCESSFUL YEAR

“This year has seen substantial growth in sales, profits and earnings. We are recommending a final dividend of 18.1p per share, up 7.7% on last year.”



Results

This has been another very successful year for Greene King with substantial growth in sales, profits and earnings. Revenues were up 9.4% to a record £1,140.4m with operating profit before exceptionals at £236.2m, up 6.4%. Profit before tax and exceptional items was a record £152.0m, up 8.6%, and adjusted earnings per share was up 10.0% at 53.0p.

Dividend

A strong second half of the financial year, supported by confidence in the company's future, has led the board to recommend a final dividend of 18.1p per share, up 7.7% on last year. This takes the total dividend for the year to 24.8p per share, up 7.4%. The final dividend is expected to be paid on 10 September 2012 to those shareholders on the register at the close of business on 10 August 2012.

Acquisitions

As part of our Retail expansion strategy, we completed the acquisition of Capital Pub Company in September for £96.0m. At the time of the acquisition, Capital had 33 high quality, largely freehold sites

located across London. During the year, we also acquired a further 13 pubs for £18.7m and exchanged or completed on 16 additional sites for development, which are spread up and down the country.

Disposals

In line with our strategy to reduce the size of our tenanted and leased estate, we disposed of 115 non-core pubs and other properties during the period for £29.9m, marginally ahead of the book value of the assets concerned.

Board

In July, we were pleased to welcome Mike Coupe to our board as a non-executive director. He is the group commercial director of J Sainsbury plc and brings valuable executive multi-site retailing experience to our board.

We welcomed Matthew Fearn to the company as group finance director in September. He was previously with Brakes Group, De Vere Group plc and Whitbread plc and has a wealth of sector-related experience.

Governance

The board sets itself high standards of corporate governance, supported by its nomination, remuneration and audit committees. The details of our compliance with the UK Corporate Governance Code, on which we are reporting for the first time, are contained in the corporate governance statement.

People

Our consistent delivery of industry-leading value, service and quality would not be possible without the talented and industrious people who work in our pubs, our brewing operations and at our head office. I would like to express my sincere thanks to them all for their efforts and their achievements, both individually and collectively, in delivering another year of significant progress for Greene King. We face the future with great confidence in the ability of our team.

Tim Bridge
Chairman
27 June 2012

MARKET OVERVIEW

Introduction

The key markets in which we compete are the UK drinking out, eating out and staying out markets. In each market, Greene King Retail has outperformed the overall market over the last twelve months. Beer volumes in Pub Partners, our tenanted, leased and franchised division, have outperformed the UK on-trade beer market, while own-brewed volumes of our core ale brands have outperformed the total UK ale market.

Environmental analysis

Political

Our industry remains a heavily regulated one with the beer duty escalator having the largest single impact on our business. As duty is a producer tax, retailers do not have to pass this tax onto the consumer. In the on-trade, where alcohol sales continue to generate most profit, the tax is generally passed on. In the off-trade, where most alcohol is now sold and where it does not constitute a large portion of the major retailers' profits, the duty is not always passed on. This means the retail price differential between the on- and the off-trades continues to grow, affecting the sustainability of community pubs across the UK.

The UK government is also looking more closely at the negative impact that alcohol can have on society if sold and consumed irresponsibly. With this in mind it released its Alcohol Strategy during the year, which included the intention to implement a minimum unit price (MUP) for alcohol at 40p. This follows the Scottish government's plans to introduce one at 50p. We believe a MUP for alcohol will have benefits for both society as a whole and for the 'great British pub'.

During the year, we have also seen the conclusion of the latest round of investigation and report on the pub companies, with respect to the workings of the 'beer tie'. We are pleased that the government has recognised the legality of the tie and the positive impact that a traditional brewery tenancy can have on attracting entrepreneurs into the pub industry at a low-cost of entry.

Economic

The UK economy remains subdued, slipping back into a technical recession in the last quarter of our financial year. Specifically, for the UK consumer, cost inflation has been running at a higher rate than wage inflation, driving down real household disposable income. Despite low interest rates and an employment market that has held up well, consumer confidence therefore remains low and volatile.

The primary outcome of this is a reluctance to spend on expensive consumer goods but a predilection to spend on 'everyday treats' such as a good value meal in the local pub. This concentration of consumer spending on 'lower ticket items' such as pub food and drink, has helped our main markets to continue to deliver value growth throughout the recession.

Social

UK alcohol consumption is in decline although it is difficult to differentiate between the economic and social reasons for this decline. Beer consumption is in even steeper decline, averaging 2% per annum since 2002. Factors driving this decline include a more health conscious UK consumer and increased leisure alternatives to the pub.

In addition, partly due to the price differential between the on- and off-trades and partly due to the continuous improvement of home entertainment, there is an increasing propensity to consume alcohol at home. Beer consumption in the on-trade has declined at an average of 3.9% per annum since 2002, including a 3.2% decline in 2011, while the off-trade has increased by 0.7% per annum over the same period, although there was also a 3.5% decline in 2011. This was the first year the on-trade outperformed the off-trade since 1996.

The UK consumer is also continuing to eat out more due to time pressures and the increasing value offered by competitors in this market. The value of the informal eating out market has grown by 42% since 2002 (CAGR : 3.9%) to stand at £42bn by the end of 2011. Within this, pubs have been taking a greater share of the growth as they have improved the relative quality and value of their offer against other 'casual dining' competitors. Against an overall growth in informal eating out of 2.4% ex VAT in 2011, branded pub food has grown by 3.6% ex VAT¹. We expect these trends to continue.

Finally, the UK staying out market has also benefited from the improved provision of budget and mid-market accommodation, satisfying the increased demand for business related overnight accommodation and, particularly in the recession, an increase in domestic holidays and short breaks. Revenue per available room (RevPAR) in the UK has risen 8.7% ex VAT since 2009 and grew 2.9% ex VAT in 2011. Although growth may be moderate in the near-term, we still expect long-term value growth in this market².

Greene King performance

Drinking out

With the value of alcohol in the on-trade up 1.7% ex VAT in 2011³, Greene King Retail has delivered drink LFL sales growth of 2.4% and total sales growth of 11.4% in the last financial year.

Against the UK ale market down 5.3%⁴ in the twelve months to April 2012, Greene King's core brands saw volumes down 0.7% in the same period, while Pub Partners also achieved a better beer volume performance across its estate than the overall market.

Eating out

Against an informal eating out market up 2.4% ex VAT in value terms in 2011 (branded pub eating out market up 3.6% ex VAT)¹, Greene King Retail has delivered food LFL sales growth of 5.6% and total food growth of 16.8% in its financial year. In the last four years, Greene King Retail has almost doubled its food sales.

Staying out

In a UK provincial market that achieved RevPAR decline in 2011 of 0.7% ex VAT², Greene King Retail's accommodation business delivered RevPAR growth of 2.7% in its financial year.

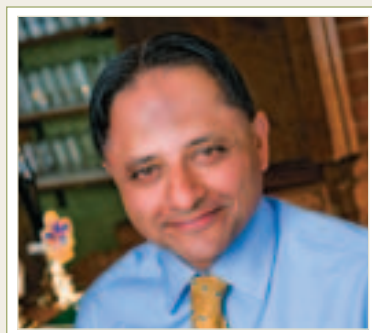
- 1 Allegra Strategies Project Restaurant 2012.
- 2 PwC.
- 3 CGA Brand Index.
- 4 BBPA.

	Market size	Greene King Retail sales	Greene King Retail's share of the market
Eating out	£42bn	£450m	2.0%
Drinking out	£22bn	£307m	0.7%
Staying out	£43bn	£24m	0.1%

CHIEF EXECUTIVE'S REVIEW

A RECORD PERFORMANCE

“Greene King has again made significant progress over the last 12 months, delivering record results in a challenging consumer environment. Our strategy is delivering attractive and sustainable growth in earnings and dividends, and we are confident we can continue to make strong progress.”



PERFORMANCE SUMMARY

Greene King has again made significant progress over the last 12 months, delivering another set of record results:

- Revenue was £1,140.4m, a record, following 9.4% growth over last year.
- Operating profit before exceptionals, at £236.2m, was also a record, after growth of 6.4%.
- Despite the negative impact of cost inflation, operating margins remained strong at 20.7%, 60 basis points (bps) below last year, driven by a change in business mix.
- Profit before tax and exceptionals was £152.0m, up 8.6% on last year – another record.
- Adjusted earnings per share grew 10.0% to 53.0p.
- The board is recommending a final dividend of 18.1p per share, leading to a total dividend of 24.8p per share, up 7.4% on last year.

Market overview

Greene King has had another successful year in a challenging consumer environment. Although inflation is coming down, the job market has steadied and interest rates are low, consumer confidence remains weak and volatile. This is driving the UK consumer to seek out ‘everyday treats’, rather than ‘big ticket’ items. With no economic recovery on the horizon, we anticipate another tough twelve months ahead of us, although we are confident of benefiting from the exciting summer in Britain, including the Olympics in August, notwithstanding the unpredictable weather.

This predisposition to ‘everyday treats’ is helping the industry to deliver steady growth. In 2011, the £22bn drinking out market grew 1.7% in value terms and it is expected to grow by 2.5% per annum between 2011 and 2015¹. The £42bn eating out market was up 2.4% in value terms in 2011 and is expected to grow by 3.4% per annum between 2011 and 2015². And the £43bn staying out market was up 2.9% in 2011 and is expected to grow by 0.1% in 2012³.

There are political challenges too, with the business having to bear significant annual beer duty rises. However, we are supportive of the UK government’s intention to implement a minimum unit price for alcohol. Set at the right level, we believe this can be an effective measure to combat the irresponsible retailing and consumption of alcohol. This will have positive benefits for both society as a whole and the ‘great British pub’. However, we have concerns that the proposed 40 pence per unit will not have enough of a positive societal impact and therefore we recommend the UK government looks to harmonise minimum unit pricing with Scotland, at 50 pence per unit.

Our aim: to be Britain’s best pubs and beer business

Greene King aims to be Britain’s best pubs and beer business, as measured by our customers, our shareholders and our people.

1 CGA Brand Index December 2011.

2 Allegra Strategies, Project Restaurants, 2012.

3 ONS Family Spending 2011, PwC UK Hotels Forecast February 2012.

In our largest business, Greene King Retail, we constantly measure our customers' satisfaction with us through our mystery guest and customer feedback programmes. By understanding their needs and responding to their issues we ensure consistent offer and service improvement. The key measure is the Net Promoter Score (NPS). This highlights the difference between customers who would recommend a pub, restaurant or hotel to others (the 'promoters' of our business) and those who would not (the 'detractors' of our business). In the year, this score reached a new high of 53%, up 13 percentage points (% pts) on the previous year. Only one retail brand in the UK achieved a higher score than both Local Pubs and Destination Pubs.

“This was the second year of our focused growth strategy and we have again made good progress in all areas.”

Our strategy aims to deliver sustainable growth in earnings and dividends. We are confident that this strategy is building value for our shareholders, both now and for the long term. We have grown adjusted earnings per share by 22.1% in the last two years, following a 44 year unbroken run of earnings growth between 1964 and 2008. In addition, since 1952, we have delivered a dividend per share CAGR of 9.1%.

We are also making progress in terms of our employees and our licensees. Our annual employee engagement survey showed an overall score up four % pts to 71%, closing the gap between the UK retail average from nine % pts points to two, while licensee tenure has improved further this year to be the best for five years at 3 years and 10 months.

We have set an ambitious target and we have made excellent progress this year. Our ability to retain and attract the best talent from within our industry and more broadly from retail and consumer goods sectors gives me confidence that we can continue to

build our positive momentum as we strive to be Britain's best pubs and beer business. Our people have worked extremely diligently this year, as always, and our results are, once again, a testament to their effort, commitment and the talent we have across our all parts of our business. In a customer facing, people-centred business, the quality of our team and their application to our task is a key driver of our continued success.

Strategic progress

Our strategy is to improve our growth and returns to shareholders through increasing our exposure to the more attractive categories in our markets, such as food, coffee, wine and rooms, and by increasing the level of influence and control we have over our offers in these categories. In order to achieve this most efficiently and successfully, we aim to:

- grow Greene King Retail to around 1,100 sites and improve the overall quality of the estate through targeted acquisitions and investment in our people, our offers and our assets;
- improve the quality and sustainability of Pub Partners, our tenanted, leased and franchised business, by improving the customer offer, investing in core assets and reducing the estate to a maximum of 1,200 sites; and
- continue investing in our sector-leading portfolio of core ale brands.

This was the second year of our focused growth strategy and we have again made good progress in all areas:

- We acquired or transferred in 51 new Retail sites and, net of disposals, there are 954 pubs, restaurants and hotels in Greene King Retail, up from 888 when we began our accelerated Retail expansion strategy. We also have a healthy pipeline of new sites. All key growth categories have performed well in the year, led by food sales, up 16.8%, and coffee sales, up 20.1%. Over the last two years, EBITDA per pub in Retail has grown 14.1% to over £200k for the first time.
- In Pub Partners, we disposed of 103 non-core sites and transferred five sites to Greene King Retail. Average EBITDA per pub grew by 3.8%. We took greater control of the customer offer by increasing Meet & Eat franchise sites to 29, launching ten Local Hero sites and introducing specific price support for over 180 Belhaven sites. There is therefore now an element of direct offer influence in 378 sites, or 27% of the Pub Partners estate.

- Full year investment in our core ale brands increased by 7.2%, leading to another year of strong market outperformance for Brewing & Brands. Most significantly, we re-launched Greene King IPA, the UK's no. 1 cask ale brand, including our first national TV advertising for five years. We have also increased our investment in innovation with the launch of a number of new brands and brand extensions including Old Golden Hen and Belhaven Black.

Overall, across our two pub estates, EBITDA per pub grew 8.8% to £114k in the year and has grown 17.0% over the last two years, since we announced our accelerated growth strategy.

Current trading and outlook

Strong momentum in our underlying trading performance has continued into the new financial year, augmented by the Diamond Jubilee and Euro 2012. After the first eight weeks of the new financial year, LFL sales in Greene King Retail are +7.1%, average EBITDA per pub in Pub Partners is +4.6% and Brewing & Brands' core brand volume is +2.7%.

The outlook for the rest of the year remains uncertain as our customers continue to be challenged by pressure on their disposable income and uncertainty around their job security. However, our strategy is tailored for the prevailing conditions, focusing on providing 'everyday treats' to our customers and delivering attractive and sustainable growth in earnings and dividends. We are confident we can continue to make strong progress, not only for this year, but also for the long term.

Rooney Anand
Chief executive
27 June 2012

DELIVERING OUR STRATEGY

Building the best pubs and beer business in Britain

PRIORITIES

RETAIL

Our key priorities are to grow our Retail estate to 1,100 sites, to improve the overall estate quality and to increase our exposure to the UK eating out market.



PUB PARTNERS

As well as reducing the size of the Pub Partners estate to 1,200 sites, we also aim to improve the overall estate quality and to continue to exert greater influence over the customer offer in our tenanted sites.



BREWING & BRANDS

For Brewing & Brands the key priorities are to grow our core brand volume and market share, to undertake industry-leading investment in our brands and to increase our exposure to the take home and export channels.



KPIs	PERFORMANCE	PLANS FOR 2012/13
1. Number of sites	1. 954 at year end, up from 915 at the start of the year	During the forthcoming year we intend to continue our estate expansion, acquiring a minimum of 25 new build and single sites. We also want to see further growth in earnings, demonstrated by an increase in the average EBITDA per site, through our ongoing focus on value, service, quality and innovation. And finally we aim to get food to amount to 40% of Retail sales.
2. Average EBITDA per site	2. Up 5.4% to £204k	
3. Food as a percentage of sales	3. 39% of sales, up from 38% last year	

► Pages 16–18 Retail

For a more detailed review of Retail, please turn to page 16.

1. Number of trading sites	1. 1,380 at year end, down from 1,514 at the start of the year	We will continue to target disposals during the year to continue the estate reduction plan and reach around 1,200 sites in 2014. As well as achieving further average EBITDA growth per site, we also aim to increase the number of sites, operating under a franchise or innovation agreement where we have greater influence over the customer offer.
2. Average EBITDA per site	2. Up 3.8% to £55.2k	
3. Number of pubs where we help shape the offer	3. 378, up from 181 last year	

► Pages 19–20 Pub Partners

Further information on Pub Partners' progress can be found on page 19.

1. Core brand own-brewed volume	1. -0.7% in the year vs ale market down 5.3%	During the forthcoming year we aim to return our core brands to volume growth despite the market conditions, to continue to invest in our core brands, to undertake brand innovation and investment to increase shelf space and rate of sale in supermarkets and to focus on North America to drive export growth.
2. Percentage increase in marketing and innovation investment	2. Up 7.2% to £5m	
3. Profit growth from take home and export	3. Both channels delivered profit growth in excess of 10%	

► Pages 21–22 Brewing & Brands

Turn to page 21 for more detail on Brewing & Brands.

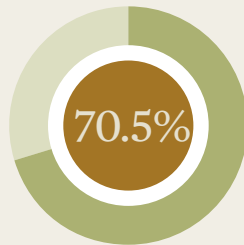
OPERATIONAL REVIEW

RETAIL

Revenue

£803.9m
+13.1%

% of total revenue



What we do

Our Retail division comprises 482 branded destination pubs and restaurants and 472 unbranded but segmented local pubs across Britain, appealing to a broad range of the population.

We focus on providing the best value, service and quality to our customers to ensure that they want to return.

Food development continues to be important in both our destination and local pubs, as does expansion via new build opportunities and acquisitions.

Our brands



Old English



Eating Inn



Highlights at a glance

LIKE-FOR-LIKE SALES

+3.6%

FOOD SALES (% OF TOTAL SALES)

39%

OPERATING PROFIT

+13.3%

SITES ACQUIRED

51

Greene King Retail is our biggest and fastest growing business, generating 71% of total revenue and 63% of group profit in the year, with three-year growth per annum of 9% and 8% respectively. At the year end, there were 954 pubs, restaurants and hotels across the UK, split between Destination Pubs for our branded, food-led destinational sites and Local Pubs, for our unbranded, more wet-led community sites. All sites are either branded or clearly segmented by customer occasion.

Our growth and quality improvement strategy for Greene King Retail is based on:

- Driving industry-leading organic sales growth through our focus on consistent value, service and quality delivery, alongside the development of growth categories such as food, coffee, wine and rooms.
- Maintaining investment levels in our leading brands, such as Hungry Horse and Old English Inns (OEI), and investing in upgrading our food provision and amenity in Local Pubs.
- Acquiring additional sites from a number of sources, including packages, single sites, new builds and transfers from Pub Partners.

Full year revenue was £803.9m, 13.1% ahead of last year, with revenue per pub rising 7.6% to an average weekly turnover (AWT) of £16.4k. LFL sales were up 3.6%. This was generated equally between volume growth and price and sales mix improvement. Again, we achieved LFL sales growth in our three main sales categories with drink LFL sales up 2.4%, food LFL sales up 5.6% and room LFL sales up 2.9%. Food is now 39% of total sales, a 120bps improvement on last year.

Other growth categories also delivered strong growth: coffee sales, helped by the rollout of Illy coffee, were up 20.1%; wine sales were up 15.3%; and soft drink sales were up 15.2%.

Operating profit was £149.6m, 13.3% ahead of last year, with the operating margin in line at 18.6%, despite significant duty and cost pressures.

Value, service and quality

As the UK consumer is prepared to spend money on 'everyday treats', the value of our offers is critical to our continued success, whether it be in our premium high street sites or our value locals. In Local Pubs, we continue to offer known value item (KVI) pricing on main product lines. For example, we sold 8.1m pints of Carlsberg in the year, of which over 25% was at £1.99 or under. In Hungry Horse, we have kept entry price dishes low, starting at £3.99, while in Cloverleaf, the small carvery option starts at £4.45. Our two meals for £9.95 offer in Old English Inns (OEI) and two courses

for £9.95 offer in Loch Fyne Restaurants (LFR) continue to drive strong lunchtime and early evening trade.

But value is not just about price – providing excellent service and quality can deliver great value at 'premium' prices too.

So, we are investing heavily in our Retail service proposition. We believe there is a real opportunity for our pubs, restaurants and hotels to differentiate themselves from their peers through industry-leading service levels. Excellent service will be rewarded while poor or inconsistent service will be punished particularly in an environment where loyalty to a brand is both harder to achieve and harder to hold onto.

In Destination Pubs, we introduced tailored service training programmes in all brands to drive customer experience improvements. Around 9,000 employees were trained on these programmes in the year. In OEI, staff turnover fell and customer satisfaction improved. Since launch, complaints are down 10%, compliments are up 120% and the NPS is up 32% pts. Hungry Horse launched its 'Can you feel the Horse?' programme leading to a 12% pts improvement in NPS, LFR is encouraging its chefs to serve meals direct to customers and Belhaven has increased the frequency of its mystery guest visits to align with the rest of the estate. Overall, NPS hit a record high of 53% for the year, up 13% pts on the previous year. And there is a strong correlation between NPS

and LFL sales performance – we estimate an additional seven points of NPS equates to an additional one point of LFL sales growth.

Another area of potential differentiation is in the quality of our people, our offers and the pub amenity.

In a retail business, the quality of the people will ultimately determine the success of the business. We have approaching 21,000 employees across our Retail business now, many of whom are part-time. Improving the quality and length of service of our teams is a real focus for Greene King Retail.

In the year, we increased our investment in people to recruit and retain higher quality retail managers and team members. Our Discovery Apprentice scheme is the centrepiece of this programme and by the year end we had 1,549 apprentices in learning and another 427 who had completed their apprenticeship and were still with us. This equates to 12% of our Retail workforce. Local Pubs' management induction programme won a NITA award and retail manager turnover fell seven % pts. We also increased the internal appointment rate to 69% across Greene King Retail.

In addition, we made a step change in the quality of our premium local food offering, using learnings from Realpubs and Capital Pub Company, while Illy coffee is now in almost 800 sites. OEI won a national award for the quality of its fish and chips.

KEY PERFORMANCE INDICATORS

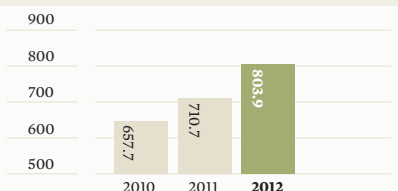
AVERAGE NO. OF PUBS TRADING

938 +5.2%



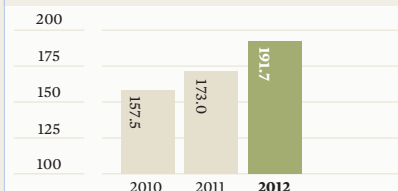
REVENUE (£M)

£803.9m +13.1%



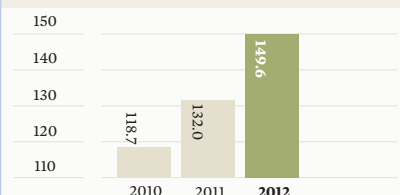
EBITDA (£M)

£191.7m +10.8%



OPERATING PROFIT (£M)

£149.6m +13.3%



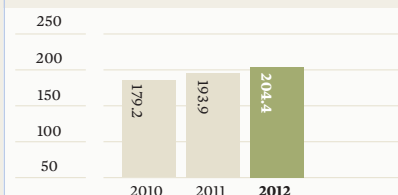
OPERATING PROFIT MARGIN (%)

18.6%



EBITDA PER SITE (£K)

£204.4k +5.4%



OPERATIONAL REVIEW CONTINUED

Value, service and quality continued

Finally, outside of acquiring new sites, we spent £65.0m on repairing, maintaining and improving the quality of our Retail estate. £27.0m of this was expansionary capital, split equally across Destination Pubs and Local Pubs. This was invested in 149 sites, or 16% of the estate, and achieved an EBITDA ROI of 27.7%.

Food

The eating out market is a significant long-term growth opportunity for Greene King Retail. Our food sales were over £300m in the year, still less than 1% of the fragmented, growing UK eating out market worth around £42bn¹. The pub sector is growing its share of this market – for example, the value of the branded pub food sector grew 3.6% in 2011, ahead of the overall eating out market growth rate.

Greene King Retail outperformed the pubs sector. Total food sales growth was 16.8%, improving food's share of our total sales to 39%, with LFL food sales growth of 5.6%. Both Destination Pubs and Local Pubs delivered strong growth, with food sales growing its share of total sales in Local Pubs from 20.5% to 23.5%.

Our strategy is to broaden the appeal of our food offers to drive cover growth, alongside price and mix improvements to help offset annual cost inflation.

To achieve this we have introduced lower calorie dishes, we have brought in takeaway options and we have continued to launch innovative new menu items such as 'fish your way' in LFR. This helped to drive

almost 4% cover growth in the year, with below inflation price and mix improvements of 1.7%.

To offset this pricing policy and protect margins, we have increased our purchasing power through bringing Belhaven pubs and Cloverleaf into our main food distribution contract, and we have used our rising skill base in the team to further engineer our menus.

Branded and segmented estate

In Greene King Retail, we only operate either branded sites or sites clearly segmented by customer occasion and demographics. Fully branded pubs, restaurants and hotels represent 41% of our Retail estate, with our leading brand, Hungry Horse, up to 180 sites at the year end. This brand has doubled in size in four years and we will continue to invest in the brand going forward, particularly in the current consumer environment, but also due to the significant growth opportunities for the brand across the UK. Our other main Retail brands are Old English Inns (96 sites), Loch Fyne Restaurants (42 sites) and Eating Inn (25 sites).

Our Local Pubs estate has been re-segmented following the acquisitions of Realpubs and Capital Pub Company to create the Metropolitan division within Local Pubs. We expect this division to consist of a minimum of 70-80 premium, urban sites, mainly, but not exclusively, in London. This estate will be made up of the two acquired estates and 25-35 Greene King conversions into either the Realpubs or the Capital Pub Company operating model. We have already converted two sites – the Maynard Arms

in Crouch End and the Black Lion in West Hampstead – to the Realpubs model and we have seen AWT uplifts of 156% and 135% respectively.

Digital

We have significantly increased our investment in improving our digital platform over the last twelve months. We are now seeing over 100k website 'hits' per week, with a 44% increase in the year, and a 270% increase via mobile devices. We have introduced online reservation bookings into LFR, which already generate 4% of covers, and we have launched facebook pages across much of our Retail estate. In Local Pubs, we have already reached around 300 'fans' per pub. We have seen a 61% increase in our email database following a number of highly targeted promotions across the estate, among the one million emails we send out each month. The 'open rate' on these emails is 30%. We are also trialling loyalty card schemes covering about 25% of our Retail estate.

Expansion

We remain on track to deliver our target of 1,100 sites as part of our Retail expansion strategy. In the year, we acquired or transferred in 51 sites, but disposed of 12 non-core sites, taking the year-end estate to 954 pubs, restaurants and hotels. On average the number of sites rose 5.2% to 938. Of those 51 new sites, 44 were single site or package acquisitions, including 33 in the Capital Pub Company acquisition, two were new build sites and five were transfers from Pub Partners. In addition, we exchanged or completed on 16 further sites, of which 12 were brownfield or greenfield opportunities.

¹ Allegra Strategies.

A key element of our Retail strategy is to develop growth categories such as food, wine and coffee:

- LFL food sales were up 5.6% and food now accounts for 39% of total sales;
- wine sales were up 15.3%; and
- coffee sales, helped by the rollout of Illy coffee, were up 20.1%.

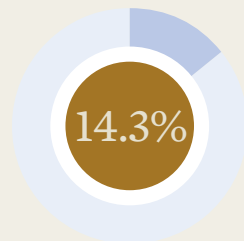


PUB PARTNERS

Revenue

% of total revenue

£162.7m
-2.2%



What we do

Pub Partners is responsible for letting our 1,380 tenanted, franchised and leased pubs across Britain and aims to ensure that each pub has the right licensee to operate it, on the right agreement, with the right offer.

As well as standard tenancy agreements, we also operate innovative new franchise-style agreements for our Meet & Eat and Local Hero pubs. Value, service and quality contracts with licensees help us ensure that all our pubs provide a good customer offer.

Highlights at a glance

SITES ON SUBSTANTIVE AGREEMENTS

98%

MEET & EAT SITES

29

SITES WITH AN ELEMENT OF OFFER INFLUENCE

27%

LICENSEE SUPPORT PER PUB

-14%



Our agreements

- Touchstone tenancy agreement
- Touchstone + tenancy agreement
- Access tenancy agreement
- Horizon lease agreement
- Meet & Eat franchise agreement
- Local Hero franchise-style agreement

Pub Partners is responsible for our tenanted, leased and franchised pub operations. This segment of the market has been under most pressure from trading conditions over the last five years, post the introduction of the smoking ban and through the recession. There are too many 'lifestyle' licensees operating in the sector and too many pubs with insufficient offer and amenity quality.

Our aim is to build the highest quality, most customer-focused non-managed pub estate in the UK. This will be achieved by recruiting and retaining the best licensees, delivering industry-leading agreement innovation, taking greater control of the customer offer and proactively disposing of the estate tail.

As a result of this focused strategy, we have segmented our estate as follows:

- A core estate of 900 sites operated under traditional tenancies and leases. These require less overhead support and are highly cash generative and capable of delivering consistent EBITDA per pub growth.
- An innovation estate of 300 sites operated under new agreement styles and with enhanced influence over the customer offer.
- A disposal estate, currently comprising around 200 sites. These sites will not generate sufficient and sustainable profit to be shared equitably between Pub Partners and its licensees.

OPERATIONAL REVIEW CONTINUED

Our strategy is on track and Pub Partners is delivering a resilient performance as we continue to reposition it for a sustainably profitable and cash generative future.

In the year, Pub Partners achieved revenue of £162.7m, down 2.2%, but on 6.4% fewer pubs. Beer volume per pub was marginally behind last year while rental income per pub was ahead. EBITDA was £80.2m, down 2.9%, although average EBITDA per pub was up 3.8%. LFL EBITDA in the core estate was up 0.2% and total LFL EBITDA was down 0.3%. Operating profit was £72.2m, 3.1% lower than last year on a margin 40bps lower, impacted by the rollout of our franchised model.

Pub Partners has achieved much in the year: it has successfully integrated the Belhaven tenanted and leased estate, with no impact on performance; it has delivered strong returns on its capital investment; it has seen twelve Business Development Managers achieve their Diploma in Multi-Site Leadership; and it has launched BarGains, a new buying club for licensees, utilising Greene King's scale purchasing advantages.

Recruitment and retention

The most important element of the tenanted, leased and franchised business model is the recruitment and retention of the best licensees. Our recruitment process is rigorous, including Operating Director sign-off of all new licensees and the completion of seven mandatory training courses before taking a pub. Licensee tenure has improved again and is now just short of four years. The improved quality of our licensees

is also reflected in further improvement in the key licensee health measures: there were just 29 temporary agreements at the year end, or 2.1% of our trading pubs, the lowest recorded level since 2003; there were five closed pubs for reopening and the number of licensees on 'cash with order' was 20% lower than last year.

Agreements and licensee support

We also aim to increase the level of influence over, and control of, the consumer offer in our pubs. At the more basic level, we provide price support to over 300 sites via Business Builder and Love Your Local. In Scotland, volumes were ahead of last year through specific brand price support.

All price support is agreed in conjunction with value, service and quality contracts with licensees to improve the value our licensees can provide to their customers, to raise service standards towards those we achieve in Greene King Retail, and to try to impact on the quality of the offer and amenity in the pubs. We have also provided new correx signs outside around 800 sites within the estate. Overall, despite a greater number of pubs operating with support, the value of our licensee support per pub fell 14%.

We also have two franchise-style agreements. The franchise model allows us to develop brands for Pub Partners' pubs to utilise, supported by our purchasing scale and Retail experience. 'Meet & Eat' was launched at the British Franchise Association annual exhibition in September. It is a food, drink, service and entertainment package for the

value community segment of the market. We had 29 Meet & Eat sites trading at the year end, having transferred two to Greene King Retail. AWT has risen 150% to £8k per week while annual franchisee earnings are on target at c. £40k.

We have also developed 'Local Hero'. This is a retail solution for wet-led community pubs which have lower opportunities to expand into food. The offer is centred on cask ale, selling a minimum of six at any time, split 50/50 between Greene King brands and those from local micro-breweries. The food offer is created in conjunction with our food development team and is focused on local provenance. The up-front investment from both Pub Partners and the licensee is lower than Meet & Eat, while licensee earnings are c. £25k per annum.

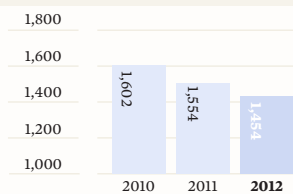
Disposal programme

We continue to make excellent progress on our disposal programme. In the year we disposed of 103 non-core sites. We therefore had 1,380 trading sites at the end of the year, down from almost 1,700 four years ago. We continue to target a reduced estate of around 1,200 sites in 2014. We believe this is the right strategy to pursue for the long-term benefit of the company and its shareholders although in the short term it does hold back Pub Partners' profitability. In the year, EBITDA of c. £1m was lost due to declining trade and income at these pubs during the disposal process and we anticipate a slightly higher level in the new financial year.

KEY PERFORMANCE INDICATORS

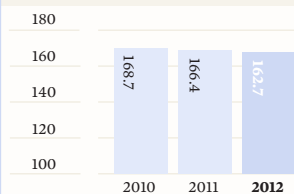
AVERAGE NO. OF PUBS TRADING

1,454 -6.4%



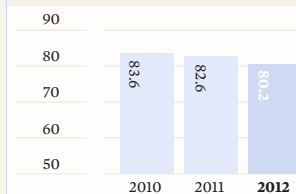
REVENUE (£M)

£162.7m -2.2%



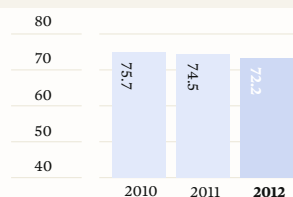
EBITDA (£M)

£80.2m -2.9%



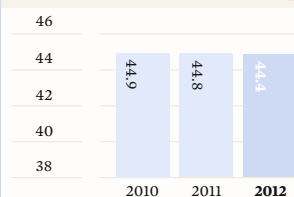
OPERATING PROFIT (£M)

£72.2m -3.1%



OPERATING PROFIT MARGIN (%)

44.4% -0.4% pts



EBITDA PER PUB (£K)

£55.2k +3.8%

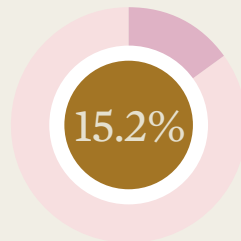


BREWING & BRANDS

Revenue

% of total revenue

£173.8m
+5.0%



Our brands



What we do

Brewing & Brands is responsible for brewing, marketing and distributing our wide range of award-winning craft ales, including the no. 1 cask beer in the UK (Greene King IPA), the no. 1 premium ale in the UK (Old Speckled Hen), the no. 1 Scottish ale (Belhaven Best) and the no. 1 premium cask ale (Abbot Ale).

We operate from two breweries, one in England and one in Scotland, to optimise our production efficiencies. This, combined with our efficient route to market, enables us to undertake industry-leading investment in our brands, such as our new national TV campaign for Greene King IPA.

Highlights at a glance

OWN-BREWED BEERS
OUTPERFORMED ALE MARKET BY

4.6%

INVESTMENT
IN BRANDS UP

7.2%

GREENE KING IPA
RELAUNCHED

SUCCESSFUL
NEW PRODUCT
DEVELOPMENT

Our Brewing & Brands division is responsible for brewing, distributing, marketing and selling the UK's leading portfolio of ale brands. Our strategy is to utilise the most efficient operating model in the industry to fund industry-leading investment in our core ale brands to make them category leaders. This is supported by a passion for excellence in product quality and customer service to differentiate Brewing & Brands from other brewers.

As a result, Greene King is the no. 1 cask ale brewer in the UK, the no. 1 premium ale brewer in the UK and the no. 2 ale brewer in the UK¹ with each of its core brands leading their categories:

- Greene King IPA is the UK's no. 1 cask ale brand².
- Old Speckled Hen is the UK's no. 1 premium ale brand¹.
- Abbot Ale is the UK's no. 1 premium cask ale brand².
- Belhaven Best is Scotland's no. 1 ale brand¹.

¹ CGA Brand Index MAT to 17/03/12, Nielsen Scantrack MAT to 28/04/12.

² CGA Brand Index MAT to 17/03/12.

OPERATIONAL REVIEW CONTINUED

Innovation has been an important part of the Brewing & Brands business during the year:

- Old Golden Hen was the most successful bottled ale launched into the off-trade in 2011;
- London Glory saw 86% volume growth in the year; and
- we have launched a Scottish stout, Belhaven Black.



In an ale market down 5.3%¹, our core ale brands were down 0.7%. Second half volume decline was driven by a more competitive environment in Scotland, price increases, particularly in Take Home, and more difficult comparatives. However, in the year we saw strong growth in Export, Take Home and Free Trade, and in our own Retail estate. Total volume, including third party drink sales, was up 8.1% leading to revenue up 5.0% to £173.8m. Operating profit was £33.0m, down 0.3%. The operating margin fell 100bps, driven by channel and product mix, together with inflationary cost pressures, particularly from third party lager suppliers.

Alongside a marketing and innovation investment increase of 7.2% in our core ale portfolio, we have launched our first apprenticeship scheme with 18 apprentices already within the business, we have invested £850k in upgrading and extending the capacity at Belhaven, we have re-launched our online

shop and visitor centre and we have again won numerous awards both for our brands and our breweries.

Core ale brands

- Towards the end of the year, we relaunched Greene King IPA via a £4m investment, spread over twelve months, in our 'Crafted for the Moment' campaign. Early consumer reaction and demand has been very encouraging.
- Old Speckled Hen had another strong year. The brand has driven our strong performance in Take Home and Export. Hen family volume growth in the year was 4.7%.
- In a more competitive market, Belhaven brands continued to perform well, achieving volume growth of 3.9%, with Belhaven Best winning Marketing Strategy of the Year at the Scottish Business Awards.

Brand innovation

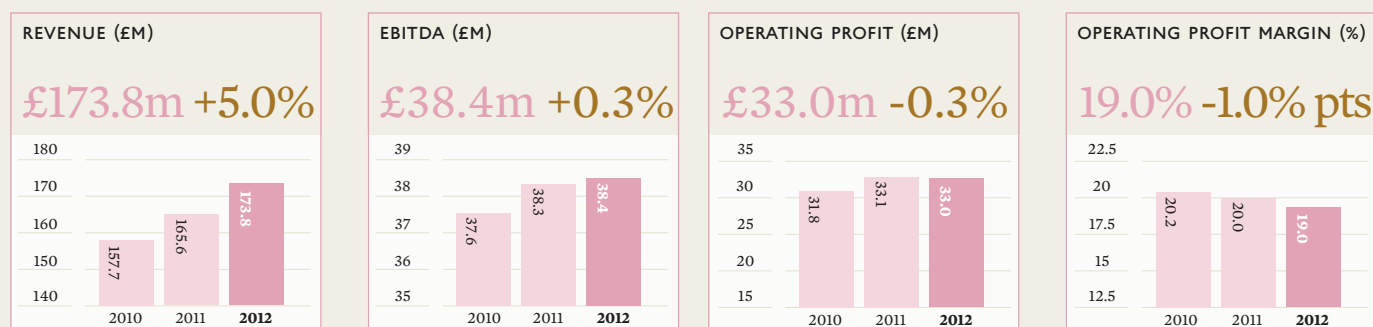
We continue to invest in innovation within Brewing & Brands:

- As part of the Greene IPA re-launch, we introduced Greene King IPA Gold and Reserve.
- Old Golden Hen was the most successful bottled ale launch into the off-trade in 2011 and accounted for 18% of all bottled ale growth in the year to April 2012².
- London Glory, ahead of the Jubilee and the Olympics, achieved 86% volume growth.
- In Scotland, we launched Belhaven Black, a Scottish stout, which has seen on-trade installations ahead of schedule.

¹ BBPA.

² AC Nielsen MAT value to 29/4/12.

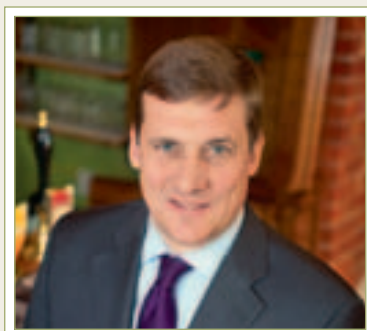
KEY PERFORMANCE INDICATORS



FINANCIAL REVIEW

STRONG PERFORMANCE

“Revenue grew by 9.4%, operating profit before exceptionals by 6.4% and profit before tax and exceptionals by 8.6%. Operating cash flows remain strong, as do our overall credit metrics.”



The benefits of a consistent and clear strategy to deliver earnings and dividend growth, despite the weak economic backdrop, can be seen in the performance of the business.

Results

Revenue grew by 9.4% on last year to £1,140.4m. The biggest driver of this growth came from the Retail estate where revenue grew by 13.1% with average revenue per pub rising by 7.6%. The Retail estate now accounts for over 70% of group revenue. Total revenue in Pub Partners was down 2.2% while average revenue per pub increased by 4.5%. Brewing & Brands grew revenue by 5.0%, primarily driven by volume growth.

Operating profit before exceptionals was £236.2m, up 6.4% on last year with the operating margin down 57bps to 20.7%. The main driver of the reduction in group operating margin remains the changing business mix of the group, accounting for 50bps of the decline. Control over costs and cash remains strong with the operating margin of the Retail estate in line with last year at 18.6%, despite significant cost inflation, the growth in food as a percentage of sales and the impact of the duty escalator.

Net interest costs, before exceptional items, of £84.2m were only 2.7% higher than the same period last year, as a result of strong cash flow management and an IFRS pension interest credit of £2.3m. Profit before tax and exceptionals was £152.0m, an increase of 8.6% on last year. The tax charge before exceptional items of £38.0m equates to an effective tax rate of 25.0%. Earnings per share before exceptional items of 53.0p was up 10.0%, benefiting from the reduction in the effective tax rate. Total profit before tax for the year, after exceptional items, was £125.1m, up 7.1% on last year.

Exceptional items

As set out in note 5, we recorded a net exceptional charge of £11.6m during the year, consisting of a charge of £26.9m against profit before tax and an exceptional tax credit of £15.3m.

The charges against profit before tax include £5.8m in relation to the acquisitions of Cloverleaf, Realpubs and Capital Pub Company, the final costs in relation to the integration of our financial systems now completed and an impairment charge of £22.1m against the carrying value of a small number of our pubs where specific market conditions have impacted trading.

Offsetting these charges we achieved a profit over book value on disposed pubs and other properties of £0.2m and have recognised a £4.4m credit in relation to the curtailment of certain discretionary benefits provided to retired members of the main defined benefit pension scheme.

The exceptional tax credit of £15.3m is made up of four items: a credit of £12.2m arising from the reduction in the rate of corporation tax from 26% to 24% effective April 2012; a credit of £5.1m in relation to tax on exceptional items; a £6.3m adjustment in relation to prior years; and a £4.3m credit in relation to the movement in the tax base cost of our properties. A £2.0m finance cost has been charged in relation to the adjustment of prior period tax.

Cash flow

Operating cash flows remain strong. We delivered EBITDA of £292.0m, up 5.6% on last year, from 2.2% fewer pubs. After investing in the core estate, paying interest, tax and dividends, we generated free cash flow of £38.5m, comfortably ahead of our debt service obligation of £26.3m. This remains a consistent part of our long-term financial strategy.

FINANCIAL REVIEW CONTINUED

Cash flow continued

During the year we disposed of 115 sites as part of our strategy to improve the quality of our estate. Cash proceeds from disposals totalled £29.9m and we expect to maintain the rate of disposal into the next financial year.

As outlined below we made good progress in our target of growing the Retail estate to 1,100 sites and the cash outflow on acquisitions and acquired sites totalled £143.6m, bringing the net cash outflow in the year to £83.0m.

Capital expenditure

During the year we continued to invest in both maintaining and developing our core estate in addition to growing the size of our Retail estate. Total expenditure during the year was £224.9m compared to £209.5m in the previous year.

Capital expenditure on the core estate, including maintenance capital, was £81.3m compared to £71.9m in the previous year. In the Retail estate we continue to identify opportunities to drive better returns from our sites through selective investment such as the conversion of sites to the Hungry Horse format, which now totals 180, investing in kitchens and gardens as well as generally improving the amenity in our pubs. During the year we increased our investment in Pub Partners through the development of our franchise offers as well as increased investment in our sites to ensure they remain safe environments for our licensees. Going forward we expect the level of core capex to remain at roughly the same or a slightly lower level, focused on continuing to improve the overall quality of our estate.

On 3 September 2011 we completed the acquisition of Capital Pub Company plc for a total of £96.0m including acquired debt. This brought us 33 high quality, predominantly freehold sites in the attractive and growing premium eating and drinking out market in London. A further £18.7m was invested in acquiring single sites and £26.8m was invested on these and previously acquired sites. During the year we also converted the first two existing Greene King Retail sites to the Realpubs format driving significantly improved trading.

Looking forward we have a strong pipeline of new retail sites and expect to open a minimum of 25 sites a year from a combination of new builds, single site acquisitions and transfers.

Net debt and treasury

Net debt at the year end was £1,493.2m, an increase of £83.0m from the previous year end, with the key movements being positive free cash flow of £38.5m, disposal proceeds of £29.9m and investment in growing our retail estate of £143.6m.

Our high quality and primarily freehold assets support £1,329.0m of securitised bonds with a flat debt service profile and amortisation of £26.3m in the year. Last year we announced a new five-year, £400m, revolving credit facility starting in April 2011. At the year end this was £210.0m drawn.

Our overall credit metrics remain strong, with interest rate hedges in place for 97% of the variable rate debt and a blended average cost of debt of 5.9%. Fixed charge cover remains stable at 2.6x, and interest cover at 2.7x. Annualised net debt/EBITDA of 5.1x remains in our target area and will continue to improve as cash is invested ahead of the earnings stream generated. Our securitised vehicle had a free cash flow debt service cover ratio of 1.5x at the year end, giving 27% headroom.

Dividend

The recommended final dividend of 18.1 pence per share is expected to be paid on 10 September 2012 to shareholders on the register at the close of business on 10 August 2012.

The proposed final dividend brings the total dividend for the year to 24.8 pence per share representing an increase on last year of 74%. This is in line with the board's policy of targeting a minimum dividend cover of around two times underlying full year earnings.

Pensions

The group maintains a defined contribution scheme which is open to all new employees.

The group's three defined benefit schemes are all closed to new entrants. As at 29 April 2012 there was an IAS 19 pension deficit of £67.3m, which compares to £45.7m at the previous balance sheet date. The movement is primarily driven by the fall in the discount rate applied to the scheme liabilities.

Total cash contributions in the year were £13.1m for both past and current service.

As at the year end, the group was in consultation with the remaining active members of the defined benefit schemes in relation to closing the schemes to all future accrual. These discussions will be completed in the next financial year and no impact of any outcome of these discussions has been included within the accounts.

Matthew Fearn
Finance director
27 June 2012

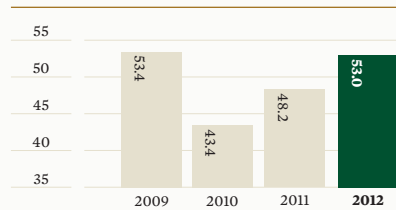
KEY PERFORMANCE INDICATORS

ADJUSTED EARNINGS PER SHARE (P)

53.0p

Summary

EPS grew 10.0% to 53.0p as strong growth and margins converted into record PBTE.



Definition

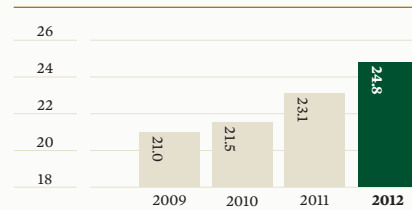
Profit for the period attributable to equity holders, excluding the effect of exceptional items, divided by the weighted average number of shares in issue during the period excluding own shares held.

DIVIDEND PER SHARE (P)

24.8p

Summary

Following strong growth and continued cash generation, the board has recommended a final dividend payment of 18.1p per share, 77% ahead of last year, producing a total dividend per share for the year of 24.8p, 74% ahead of last year.



Definition

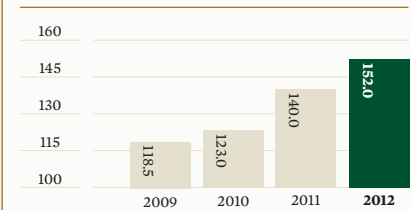
Total dividend per share paid and proposed in respect of the period.

PBTE (£M)

£152.0m

Summary

We achieved a record profit before tax and exceptionals of £152.0m, up 8.6% on last year. This was driven by 6.4% operating profit growth with interest costs increasing by 2.7%.



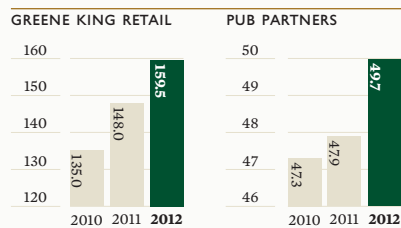
Definition

Group profit for the period after financing charges but before tax and exceptional items.

AVERAGE PROFIT PER OUTLET (£K)

Summary

In a challenging consumer environment, Greene King Retail average profit per outlet grew 7.8% and Pub Partners average profit per outlet grew 3.8%. This was achieved through strong revenue growth and tight cost control.



Definition

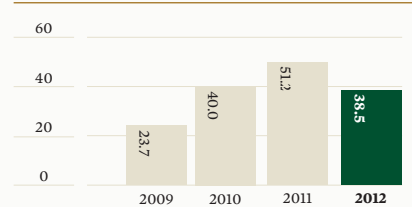
Operating profit for the period, before exceptional items, divided by the average number of pubs in the period.

FREE CASH FLOW (£M)

£38.5m

Summary

We delivered EBITDA of £292.0m, up 5.6% on last year from 2.2% fewer pubs. After investing in the core estate, paying interest, tax and dividends, we generated free cash flow of £38.5m, comfortably ahead of our debt service obligation of £26.3m.



Definition

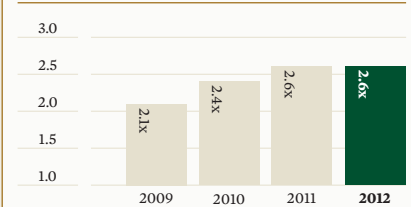
Free cash flow is the movement in net debt due to operating cash flows, after interest payments, tax payments, core capex and dividends, but excluding exceptional items, acquisitions, disposals and share movements.

FIXED CHARGE COVER

2.6x

Summary

Fixed charge cover has remained stable at 2.6x in the year.



Definition

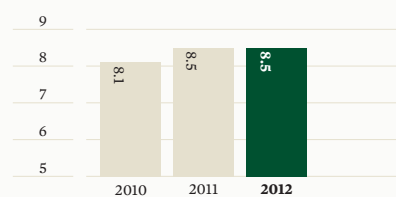
Fixed charge cover is calculated using the formula EBITDAR (operating profit before depreciation, amortisation, rent and exceptionals) less maintenance capex divided by the sum of interest and rent.

RETURN ON CAPITAL EMPLOYED (%)

8.5%

Summary

The focus on underlying profit and cash, along with investment in our retail estate has seen our return on capital employed increase by 0.4% pts.



Definition

Return on capital employed is calculated by dividing pre-exceptional operating profit by average capital employed throughout the year. Capital employed is defined as total net assets excluding deferred tax balances, derivatives, post-employment liabilities and net debt.

RISKS AND UNCERTAINTIES

The group's operations expose it to a variety of risks, effective management of which is essential to the delivery of the group's business plans and strategic objectives, as well as maximising shareholder returns. Our approach is geared towards early identification of key risks, managing and mitigating those risks and responding quickly and effectively should a risk crystallise.

Formal risk management processes are in place across the group to identify and evaluate risks, taking into account the likelihood of their occurrence, the scale of potential impact on the business and the effectiveness of planned risk mitigation actions, so that risks can be ranked on formal risk registers and actions suitably prioritised. Given that some risks are external and not fully within our control, the risk management processes are designed to manage risks which may have a material impact on our business, rather than to fully mitigate all risks.

Using a group-wide consistent approach, each business unit or functional area reviews its risks and mitigation plans on a regular basis, and draws up plans to manage new risks or gaps in mitigation plans. Progress of these risk implementation plans is monitored by senior management on a regular basis. In addition, a company-wide risk committee reviews in detail and monitors those risk mitigation plans, ensuring that plans work across the group as well as the sharing of best practice.

The audit committee regularly reviews the risk management processes for each division and also reviews the group's key risks, as set out on the group's risk register, on an annual basis, prior to their submission to the board, which retains ultimate responsibility for the company's risk management framework.

This section highlights some of the key risks and uncertainties which affect Greene King, but it is not intended to be an exhaustive analysis of all risks facing the business.

STRATEGIC RISKS

Specific risk areas

To achieve our Retail expansion plans we need to be able to acquire existing pubs, smaller pub businesses and brown- or green-field sites on which to build new pubs.

Potential impact

A failure to find and secure the acquisition (and development where appropriate) of top quality sites could reduce our rate of growth in the future.

Mitigation

We maintain a pipeline of sites available for purchase and a team of acquisition managers responsible for securing new sites on an ongoing basis. Our in-house property development team is employed to help deliver new-build projects on time and on budget.

Monitoring/assurance

Regular updates are provided to management as to the status of potential acquisitions and of development progress for new build sites or major conversions of acquired pubs. Monthly estate plan meetings are held to discuss progress.

The current economic situation and fluctuations in the UK property market may make it more difficult to reduce the size of our tenanted estate.

It may be more difficult to dispose of properties at an appropriate valuation, impacting our ability to reinvest those funds elsewhere or service debt. This may also lead us to continue operating pubs that are in long-term profit decline.

We have an ongoing programme of investment in our sites, in the form of both expansionary and maintenance capital. Under-performing sites receive additional operational focus through our Independence Pub division. Our team of estate managers is tasked with achieving the sale of proposed disposal sites at the best possible prices.

There is regular assessment of the long-term value of all of our sites by the property department.

We are investing significantly in our core ale brands to deliver continued profitable growth in our branded beer business.

A failure to execute this strategy correctly could result in lower or stagnant sales growth in those brands, affecting profitability.

This year our investment in marketing and innovation is up 7.2% including £4m invested in relaunching the UK's no. 1 cask ale, Greene King IPA is under way. This has included extending the Greene King IPA family with new versions to broaden its appeal.

The Brewing & Brands executive team reviews and approves brand investment proposals, monitors customer opinions and is tasked with turning increased investment into increased sales.

ECONOMIC AND MARKET RISKS

Specific risk areas

We are dependent on the extent to which our customers choose to spend their discretionary spend in our pubs and restaurants or buying our beers, and are thus impacted by the wider economic situation within the UK and by competitor activity.

Potential impact

A prolonged recession or delay in economic recovery, or significant competitor activity, could lead to a potential reduction in our revenue and lower growth rates.

Mitigation

Our diversified business model enables us to provide a wide range of offers targeted at different consumer groups. Our emphasis on value, service and quality is designed to ensure that we continue to appeal to consumers. We have a broad geographic spread of pubs with a focus towards the more affluent areas of London and the South-East.

Monitoring/assurance

The executive teams and the board receive regular updates on performance. Competitor activity is monitored at both a strategic and tactical level to enable suitable actions to be developed in response. All business units keep and update profit protection plans in case of any downturn in trading conditions.

Inflationary trends increase the costs of our key products, including food, drink and site services including utilities.

Higher costs could impact margins and lead to reduced profitability.

We have contracts in place with major suppliers designed to protect us against significant increases in major cost items and against price volatility. We continually evolve the composition of menus and retail prices to optimise value to the customer and profits for the company.

All costs, including labour, are closely monitored by the executive teams to ensure that they remain in line with budget.

The challenging economic situation impacts our tenanted and leased licensees too.

There is the risk of more tenant defaults and business failures, potentially reducing revenue and increasing costs in the form of tenant support or recruiting new licensees.

Operational and financial support is provided to licensees where necessary and appropriate. Business Development Managers are trained to help grow and diversify our licensees' businesses. There is ongoing agreement innovation to ensure that more of our tenants are able to run profitable businesses.

Our Pub Partners division constantly monitors the vital signs of our licensee health, including debt levels and the numbers of tenancies at will.

FINANCIAL RISKS

Specific risk areas

Our financing structure requires us to be able to repay capital borrowed and interest on time and to ensure that we operate within certain financial covenants.

Potential impact

Breaching our financial covenants would have a significant impact on our ability to pay dividends or reinvest cash back into the business. It could also impact our reputation and ongoing creditworthiness.

Mitigation

Our long-term strategy and yearly business plans are formulated to ensure that financial covenants can be met. Our securitised vehicle had a free cash flow debt service cover ratio at the year end of 1.5x, giving 27% headroom. Under our bank facility we had 94% headroom on the key net debt/EBITDA covenant.

Monitoring/assurance

We regularly monitor our performance against our financial covenants, including stress-testing. Working capital is carefully forecast, regularly reviewed by the finance teams and closely managed.

We are reliant on maintaining robust systems of internal control to deal accurately with the large numbers of transactions undertaken by the business and to ensure compliance with statutory obligations particularly with regard to taxation.

Inadequate internal control systems increase the risk of fraud being perpetrated against us. Non-compliance with statutory obligations or a material misstatement in the reported results of the company could damage our reputation.

Our systems of internal control, more details of which appear on page 40, include robust controls, appropriately qualified staff, segregation of duties and authority levels for expenditure and payments. Appropriate advice is taken to ensure relevant statutory compliance.

Regular management accounts are produced for each area and reviewed in detail, to enable irregularities to be exposed. There is a detailed external audit of our statutory accounts.

We operate three defined benefit pension schemes which must be funded to meet the required benefit payments. The value and funding of the schemes are subject to the risk of changes in life expectancy, actual and expected price inflation, changes in investment yields and future salary increases.

The difference in value between the schemes' assets and liabilities may vary, resulting in an increased deficit being recognised on our balance sheet. The volatility of this deficit makes longer-term planning more difficult.

All the schemes are closed to new members and we have been consulting with members regarding closure of the schemes to future accrual, to reduce volatility.

There is regular monitoring of the schemes' investments and dialogue with the trustees on an ongoing basis regarding funding requirements.

RISKS AND UNCERTAINTIES CONTINUED

REGULATORY RISKS

Specific risk areas	Potential impact	Mitigation	Monitoring/assurance
<p>Increasing public focus on issues such as binge drinking, underage drinking and the health impacts of drinking alcohol mean that there is the risk of further legislative changes in these areas, including additional taxation.</p>	<p>Additional taxation or further changes to laws on the sale of alcohol could lead to both reduced revenue and increased costs across the group.</p>	<p>We engage actively with government to ensure that it appreciates that the safest and most responsible place to consume alcohol is in a well-managed licensed on-trade premises.</p>	<p>The regulatory landscape is monitored on our behalf by public affairs advisers, so we remain aware of any potential changes which may adversely impact our business.</p>
<p>We are required to comply with a wide range of health and safety legislation, including in the areas of food safety and fire safety, across all parts of our business.</p>	<p>A major incident which causes serious illness, injury or even loss of life to one of our customers, employees or tenants could have a significant impact on our reputation.</p>	<p>We have a comprehensive range of formally documented policies and procedures in place to ensure compliance with current legislation and approved guidance in this area, as well as our own high standards. We have entered into a primary authority partnership with Reading Borough Council to validate our health and safety policies and they have rated our safety management systems as very good. A new programme in Pub Partners is designed to improve safety levels for new tenants. Safety measures are in place to ensure that product integrity is maintained and that all food and drink products are fully traceable.</p>	<p>We have a centrally managed system of compliance tracking (KPIs), which is validated by both internal and independent external audits carried out at all Retail sites to measure performance against certain strict health and safety standards including food safety and fire safety. Operational managers are regularly briefed on performance and remedial actions are tracked from the centre.</p>

OPERATIONAL AND PEOPLE RISKS

Specific risk areas	Potential impact	Mitigation	Monitoring/assurance
<p>Given that we have some well known national brands it is vital to avoid poor service standards or non-compliance with brand standards.</p>	<p>Customers may stop visiting our sites or visit less frequently, leading to a loss of revenue and reputational damage.</p>	<p>We maintain tight controls to protect and enhance our reputation and brand values, alongside staff training, targeted investment programmes and mystery guest visits. Incident escalation and management systems are also in place.</p>	<p>Mystery guest scores are regularly measured and reviewed by the relevant executive teams in our Retail divisions.</p>
<p>We are reliant on information systems and technology for many aspects of our business.</p>	<p>A lengthy failure of any such systems could impact our ability to do business and cause reputational damage.</p>	<p>Our networks are protected by firewalls and anti-virus protection systems and back-up procedures are also in place. A business continuity plan is in place for critical business processes. We have access to an off-site disaster recovery facility in the event of a major issue with our head office or our systems.</p>	<p>The IT department constantly monitor threats to data protection by viruses, hacking and breach of access controls. The business continuity plan is also regularly reviewed and tested.</p>
<p>We are reliant on a number of key suppliers and third party distributors to supply our pubs and restaurants.</p>	<p>Interruption of supply or key supplier or distributor failure could over the longer term reduce our revenue or lead to increased costs if alternative arrangements are required.</p>	<p>Our key suppliers are expected to maintain disaster recovery plans. We also maintain back-up plans in the event of the failure by or loss of a key supplier.</p>	<p>The financial stability of key suppliers that we regard as most at risk is monitored with the help of external advisers. Disaster recovery plans of suppliers are reviewed regularly and our own supply chain alternative plans tested.</p>
<p>An event may occur preventing us from producing, packaging and distributing our own beers.</p>	<p>Supply disruption could impact customer satisfaction and, in the longer term, lead to reduced revenue and profitability.</p>	<p>Detailed risk management and mitigation plans exist in our internal production and distribution activities.</p>	<p>The risk mitigation plans are reviewed and tested regularly by the Brewing & Brands division.</p>
<p>We are reliant on the quality of our employees and our licensees.</p>	<p>A failure to attract, develop, retain and motivate the best employees at all levels of the organisation and the best tenants may mean that we are not able to execute our business plans and strategy.</p>	<p>We aim to recruit the best people and offer training and development programmes to ensure that we retain them. Remuneration packages are benchmarked to ensure that they remain competitive. The range of tenancy agreements, training programmes and support available is designed to attract and retain the best quality licensees.</p>	<p>Our annual employee engagement survey is used to obtain direct feedback from employees on a range of issues. Both staff and licensee turnover is measured and reviewed by relevant management teams.</p>

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading pub and beer businesses in the UK, it is vital that we operate a sustainable and responsible business, and we take the maintenance and delivery of an effective social responsibility programme very seriously. We continue to make good progress in our CSR goals despite setting ever more challenging targets for our business.

This year our focus was on a number of priorities including various commitments made in connection with the government's Public Health Responsibility Deal. Details of our progress on these priorities, together with a number of other highlights, are set out here. If you would like full details of our CSR policies and practices, please visit the social responsibility section of our website, www.greeneking.co.uk.

The environment

Our work on reducing our impact on the environment continues to focus on reducing our overall energy consumption, our water use, how we deal with our waste and on reducing our emissions.

The year has seen an increase in the size and number of our pubs and an increase in the amount of beer we have brewed and yet we have still made excellent progress in reducing our overall emissions.

We have also continued to improve our environmental performance in other areas. Improved efficiencies in our Brewing & Brands division have led to a reduction in the average amount of water required to produce our beer, from 4.32 barrels of water per barrel of beer last year to 3.85 barrels this year.

The scope of our Environmental Management System has been expanded and now covers all our Bury St Edmunds production sites.

Accreditation to the ISO 14001 standard confirms that the system effectively meets all legislation and good practice requirements.

In our Retail division we have continued to test a range of energy saving initiatives including the installation of voltage optimisers, the use of LED lighting, above ground cellar cooling systems and better boiler controls.

Finally, we are delighted to have again been awarded the Carbon Trust Standard, which demonstrates our commitment to cutting our carbon footprint. To attain the standard for the second time we were able to demonstrate a genuine reduction in our CO₂ emissions by 6.3% across all our operations.

Our key environmental data is set out on the following page.

Our environmental priorities this year were:

A reduction in CO₂ emissions in our existing estate of breweries, offices and managed houses on a like-for-like basis with a target of a 4% reduction for the next financial year.

Our total energy consumption was down 2.9% compared with last year and our CO₂ emissions were down 1.8%.

In addition, the amount of CO₂ used relative to £100,000 of revenue in our Retail and Brewing & Brands divisions was down from 16.67 tonnes to 14.68 tonnes per £100,000 of revenue.

A reduction in the amount of waste sent to landfill with a target of ensuring that 80% of waste generated in our Retail sites is not sent to landfill by the end of the calendar year 2011.

Through on-site separation and segregation of glass, card and dry mixed recyclables, over 85% of the waste from our Retail pubs, restaurants and hotels is now not sent to landfill.

Of those, 172 sites are diverting 100% of their waste away from landfill, and 72% are diverting over 80% of their waste away from landfill.

We also collected 19% more used cooking oil than last year for recycling into bio-diesel.

A reduction in water usage in our existing estate of breweries, offices and managed houses on a like-for-like basis with a target this year of installing meters across our managed houses and setting reduction targets.

Water usage has fallen by around 3% during the last year, despite an increase in the number of managed houses.

The installation of water meters in our Retail division has begun and 73 sites now have them installed. Work to install the remainder will continue, provided that the water companies agree, as early indications from sites where meters have been installed suggest that considerable saving can be made if leaks or high usage sites can be identified and issues addressed.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Environmental data

	UNITS	FY 2010/11	FY 2011/12	DIFFERENCE	% CHANGE
Natural gas	MWh	210,094	197,333	-12,761	-6.1
Other fossil fuels	MWh	30,472	24,920	-5,552	-18.2
Electricity	MWh	171,877	178,174	+6,327	+3.7
Energy for operations	MWh	412,443	400,427	-11,986	-2.9
Vehicles	MWh	29,219	31,099	+1,880	+6.4
Total energy (vehicles and operations)	MWh	441,662	431,526	-10,106	-2.3
Total CO ₂ emissions	Tonnes	146,036	143,389	-2,647	-1.8
Water consumption	M ³	2,126,919	2,049,826	-77,093	-3.6

Food safety and supply

This has been a key priority for us this year, having committed to two of the government's key targets in the Public Health Responsibility Deal:

Compliance with the government's salt targets for the end of 2012.

We have made considerable progress in meeting the 2012 salt targets and are continually reviewing our products against them. However, some products, such as bacon, require the manufacturers to develop a technical solution in order for them to meet the standards whilst still maintaining the taste, quality and shelf life of the product.

The removal of artificial trans fats from our products by the end of 2011.

All products within our core estate have been reformulated to ensure artificial trans fats have been removed.

Work continues in both these areas to ensure that the businesses we acquired over the last 18 months are also able to meet these commitments.

Scores on the doors

As the programme of audits continues by Environmental Health Officers across the UK we are proud to now have 209 of our Retail pubs rated good or excellent by the scheme.

Healthy eating

Eating Inn has launched a range of low-calorie cocktails starting at just 48 calories, introduced skinny coffees and is also offering low-calorie rosé wine.

This year we added more salads to our summer menu. We have highlighted dishes that are under 700 calories on our Locals menus and have shown lower calorie options on our Hungry Horse menu with a 'heart' icon. We are currently working on dishes under 600 calories for our next menu cycle and continue to work on developing lower calorie or healthier dishes. For our Premium Locals menus we are looking to introduce healthier ingredients such as wholewheat pasta, oven baked fishcakes, chickpeas, beans and lentils as well as 'healthy' fats.

Training materials were created and sent to all our kitchens regarding gluten and, whilst we have a number of dishes that contain no gluten, due to stringent labelling requirements, we are not able to call these gluten free.

The health and safety of our staff and customers

Our principal commitment during the year was to continually strive to identify and reduce health and safety risks and to improve the safety of our premises.

We are now commencing our third year of external food safety and hygiene compliance audits in our Retail division, tasking the business to deliver an average in excess of 85%. This is from a base at end of year one of 79%, progressing to 83% in year two.

This year we also joined with Reading Borough Council to form a new Primary Authority Partnership (PAP), to create a single point of contact for consultation with councils on health and safety issues across all of our pubs. The agreement enables us to deal with Reading Borough Council on all health and safety issues rather than with each individual local authority, of which there are over 400, thereby cutting red tape. It has already resulted in a reduction in the number of enforcement letters that we receive.

Stay safe with Safe Start

This year saw the introduction of a new Safe Start initiative in our leased and tenanted division. The Safe Start pack comprises a complete set of statutory tests including gas, electricity and fire safety which are carried out before the new licensee takes over the pub. Licensees are now also required to pass an online Safe Start exam before taking on a pub.

Awards

Once again we continued our good record of receiving awards for our health and safety practices in our Brewing & Brands division.

- RoSPA Occupational Health and Safety Award
- RoSPA Managing Occupational Road Risk Award (MORR) Gold award
- British Safety Council International Safety Award

Responsible retailing

Under the government's Public Health Responsibility Deal we committed to ensuring that effective action was taken in all premises to reduce and prevent under-age sales of alcohol (primarily through rigorous application of Challenge 21 and Challenge 25).

We have been working with suppliers to develop and implement new software, which not only prompts our employees to confirm on every transaction that the customer is over 18 but also now displays a date of birth 18 years ago so that staff can see at a glance if someone is old enough to purchase alcohol.

We are also rolling out a new training package across the whole business. All new staff are required to sign a confirmation that they have completed this training before they are authorised to sell alcohol. We continue to use in-house test purchases to monitor compliance.

Best Bar None and Pub Watch schemes
172 of our managed pubs belong to recognised Pub Watch schemes and a further 22 have or are currently signed up to Best Bar None award schemes.

In local communities we committed to providing support for schemes appropriate for local areas that wish to use them to address issues around social and health harms, and will act together to improve joined up working between schemes operating in local areas.

We see Best Bar None and National PubWatch as being the routes through which we might do this, and have identified all of our pubs, restaurants and hotels covered by a Best Bar None scheme, promoted the benefits internally of the awards and set a target of 90% signing up to participate in the next available awards. 77 of our sites are eligible for inclusion in the scheme and all will sign up for the next round of awards. We are looking at making registration for the scheme easier for our house manager by producing, where possible, downloadable templates and documents on our intranet as well as talking to Best Bar None about how to make the requirements of the scheme more uniform across the country.

We have been in discussion with Best Bar None and National PubWatch to explore how we might work together in future and what scope there is for supporting new schemes and start ups. No decisions on funding have yet been made.

Last year a number of our pubs were presented with Best Bar None awards including the Twa Tams in Perth which gained a Gold award and went on to represent us in the finals of Scotland's Best Bar None awards where they also won the innovation award.

Our team at the Peacock in Nottingham won both their category and the overall title of Best Bar None in Nottingham. And our team at the Rudds Arms in Middlesborough was awarded Best Bar None, Community Pub and overall Best Bar None for Teesside.

Quality standards for our beers

Our Bury brewery site has been awarded the highest grade for the second consecutive year of unannounced audits with the British Retail Consortium. Our Belhaven brewery also has a similar level of award with pre-planned visits. This means that our beer is produced with the highest quality and food safety standards.

The engagement and wellbeing of our staff

This year our key priority was to achieve an improvement in employee engagement demonstrated by our annual attitude survey with a target to achieve 74% engagement across our teams.

We achieved an improvement in employee engagement, increasing it from 67% to 71%, just shy of our target 74%. We also saw an increase of 15% in respondents vs. the previous year with a total of 65% of the business sharing their views.

Action plans are in place across the business as we continue our work to move the employee engagement score closer to our goal.

Three of our other priorities for this year related to the health and wellbeing of our staff, and once again reflect our commitment to the government's Public Health Responsibility Deal:

We committed to increasing physical activity in the workplace.

Our work in this area is still in its early stages but we are working with Healthy Ambitions, Suffolk to promote the importance of health and wellbeing to our employees by raising awareness of health issues, running activities to engage our employees and offering tips and advice, principally at our head office, and via our intranet, which has a dedicated Healthy Ambitions section to provide useful information and signposts for our staff to empower them to adopt healthy lifestyles.

We said that we would include a section on health and wellbeing of employees within our annual report, including details of our staff sickness absence rate.

At this time it is not possible for us to provide reliable sickness and absence rates although this is something we are working towards with the planned introduction of a new HR system during 2014.

During 2011 we included a health and wellbeing question within our annual employee survey, the results of which are being followed up in team meetings.

We undertook to implement some basic measures for encouraging healthier staff restaurants, vending outlets and buffets.

We provide a staff restaurant at our head office in Bury St Edmunds which ensures that staff based or visiting there have the opportunity to eat freshly prepared healthy meals each day.

There is a good availability and selection of fruit and vegetables within our staff restaurant. All food prepared uses no trans fats, has low salt content and uses low calorie products such as light mayonnaise and skimmed milk where appropriate.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Retaining, developing and attracting talent

Apprenticeships

Last year Greene King signed up to participate in the government's new apprenticeship scheme, starting with our Retail business. At our financial year end we had 1,549 apprentices in learning across our Retail business and a further 427 who had completed their programme and were still working with us. This is almost 10% of our entire workforce.

Our apprenticeship programme has now been extended to our Brewing & Brands business. Seven members of the customer sales team are already working towards their apprenticeship qualifications and a further 11 new apprenticeships have been created in warehouse & distribution and engineering.

Developing management talent

This year twelve of our business development managers were awarded their Post Graduate Diploma in Multi-Site Retail Management from Birmingham City Business School. The programme, which focuses on multi-site leadership, takes twelve months to complete and was developed by Birmingham exclusively for Greene King. A further six managers joined the programme in May this year.

As part of our commitment to develop from within, twelve Belhaven team members also graduated from Belhaven's Management Development Programme. Now in its third year, the scheme has produced 36 graduates in three years, of which 28 are still in the business and all of whom have taken on or are due to take on more senior roles.

First class training

Our Local Pubs HR team was the winner of the "Best Licensee Induction Programme – Managed Estate" at the 2011 BII National Industry Training Awards. The award is given to the entry which best "demonstrates training excellence and the effective use of resources to achieve measurable results, and recognises those people and organisations which create success through training and development".

Support for our tenants

Induction training

During the year our Pub Partners business refreshed its induction training for new licensees. The enhanced training takes the form of a four-day residential course and now includes a new Retail Excellence module alongside the award winning Go for Growth training which has been extended to two days. Cellar management is held separately at the Greene King specialist cellar management training facility. Licensees and their staff also have access to online training modules on every aspect of running a pub.

Stay on track

Demonstrating the success of our training and other support for our tenants, Pub Partners was awarded the Tenant Track Pub Company of the year award after receiving the highest satisfaction ratings against our competitors in a survey of five hundred tenants.

Charitable support

This year our managed pubs, hotels and restaurants raised a massive £325,000 for charities close to their hearts. Our Brewing & Brands division's Annual Charity Ball took place in May and raised £22,000 for Bury St Edmunds-based drug and alcohol rehabilitation charity Focus12.

Macmillan Cancer Support

Since the year end we have launched our new national partnership with Macmillan Cancer Support to help improve the lives of people affected by cancer. We hope to raise £1m over the next three years to help Macmillan provide support to people living with cancer, every step of the way. The money raised will help fund essential information services, emotional support, expert medical care and financial help for people living with cancer as well as their family and carers.



Apprenticeships

As youth unemployment broke through the 1 million mark, celebrity chef Marco Pierre White took time out of his own kitchen to back our apprenticeship scheme. White, a former apprentice himself, helped officially launch our Discovery Apprenticeship programme with a masterclass cookery demonstration to celebrate the achievements of some of the first apprentices to qualify.

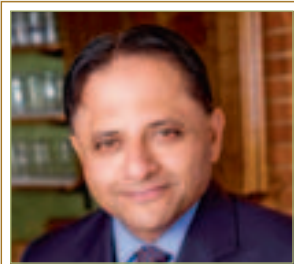


CURRENT YEAR PRIORITIES

Our priorities for this year are:

Salt targets	We remain committed to the government's salt targets for the end of 2012.
Menu information	We will extend our work on providing calorie, fat, sugar and salt levels in all our dishes, allergen information and information about dishes that are prepared with ingredients free from gluten to all our individual pub websites to assist our customers who have food issues, intolerances or are simply interested in learning more about our food.
Responsible retailing	In local communities we will provide support for schemes appropriate for local areas that wish to use them to address issues around social and health harms, and will act together to improve joined up working between schemes operating in local areas.
Preventing under-age drinking	We commit to continuing to ensure that effective action is taken in all premises to reduce and prevent under-age sales of alcohol (primarily through rigorous application of Challenge 21 and Challenge 25).
Health and safety	We will continue to strive to identify and reduce health and safety risks and to improve the safety of our premises.
Reducing CO₂	We are aiming for a reduction in CO ₂ emissions in our existing estate of breweries, offices and Retail pubs, hotels and restaurants with improving the ratio of CO ₂ emissions relative to revenue in our Retail and Brewing & Brands divisions from 14.68 tonnes CO ₂ per £100,000 of revenue to around 14.4 tonnes.
Reducing waste	Our aim is an ongoing reduction in the amount of waste sent to landfill and at the same time we have committed to participate fully in the voluntary Food Service and Hospitality Agreement drawn up by WRAP on behalf of the government, which aims to reduce food waste, optimise packaging and increase recycling rates.
Reducing water usage	We aim to achieve a reduction in water usage in our existing estate of breweries, offices and Retail sites on a like-for-like basis with a target this year of a 2.5% reduction.
Improving employee engagement	We are aiming to improve employee engagement demonstrated by our annual attitude survey with a target to achieve 74% engagement across our teams.
Increasing physical activity	We will continue to increase physical activity in the workplace, for example through modifying the environment, promoting workplace champions and removing barriers to physical activity during the working day.
Charitable support	We will endeavour to raise, through fundraising and events, £1m for Macmillan Cancer Support in the three years to 2015.

BOARD OF DIRECTORS



Key of committees

- N Nomination committee
- R Remuneration committee
- A Audit committee

Tim Bridge, DL (63)

Chairman

Appointed in 2005
(joined the board in 1977)

N

Having joined Greene King in 1970 Tim Bridge was appointed to the board in 1977. He held a variety of positions within the group, becoming managing director in 1990 and chief executive in 1994. In 2005 he stepped down as chief executive to take over the role of chairman.

Matthew Fearn (47)

Finance director

Appointed in September 2011

Matthew Fearn joined Greene King in 2011 from Brakes Group where he was Chief Financial Officer. Matthew previously gained extensive finance experience in the leisure sector with De Vere Group plc and Whitbread plc. Matthew is a member of the ICAEW.

Mike Coupe (51)

Non-executive director

Appointed in July 2011

A

With current experience gained as an executive director on the board of a premium, listed company, Mike Coupe also brings knowledge of a large, multi-site retail organisation developed through his role as group commercial director at J Sainsbury plc.

Norman Murray (64)

Senior independent

Non-executive director

Appointed in 2004

N
R

Norman Murray brings invaluable experience to the Greene King board having been both a chairman and non-executive director on a range of boards across a number of sectors. He is currently chairman of Petrofac Limited and a non-executive director of Edrington Group Ltd, the premium spirits company.

Rooney Anand (48)

Chief executive

Appointed in 2005
(joined the board in 2001)

Rooney Anand joined the group as managing director of Brewing Company and was promoted to chief executive in 2005. He was previously president and managing director of the UK bakery division at Sara Lee, the international consumer goods business, and, prior to that, at United Biscuits.

John Brady (60)

Non-executive director

Appointed in 2005

N
R
A

Having been a director of McKinsey and Company, the management consulting firm, until 2004 with experience in European retail and marketing, John Brady brings an extensive background in strategy development to the board. John is also a non-executive director of Aegis Plc.

Ian Durant (53)

Non-executive director

Appointed in 2007

R
A

As a former finance director at Liberty International plc, Ian Durant contributes extensive financial experience to the Greene King board. Ian is also the chairman of Capital & Counties Properties PLC and a non-executive director of Home Retail Group PLC and Greggs plc.

SENIOR MANAGEMENT



Jonathan Webster (50)

Managing director
Destination Pubs
In role since 2007
(joined company in 2006)

Having worked for more than 25 years in the pub and leisure sector, Jonathan Webster brings extensive experience and knowledge to the senior management team. Jonathan joined Greene King with the acquisition of Hardys & Hansons plc where he was chief executive.

Simon Longbottom (41)

Managing director
Pub Partners
In role since 2010

Having joined Greene King from Gala Coral where he was managing director of the gaming division and after senior positions at Mill House Inns and Mitchells & Butlers, Simon Longbottom contributes eleven years' experience in the sector.

Euan Venters (54)

Managing director
Brewing & Brands
In role since 2010
(joined company in 2008)

Euan Venters joined Greene King as managing director of Belhaven. He has more than 25 years' experience in the consumer goods industry and was previously at Sara Lee, where he was most recently global brand president for its body care business.

Richard Lewis (41)

Managing director
Local Pubs
In role since July 2011

Richard Lewis joined Greene King from The Warehouse, where he was chief operating officer of New Zealand's largest non-food retailer. He has developed a career in retailing through roles within the Kingfisher Group before moving into food retailing with Sainsbury's.

CORPORATE GOVERNANCE STATEMENT



Chairman's introduction

"The board is committed to ensuring that high standards of corporate governance are maintained as we recognise that good governance is important in helping the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests. I am pleased therefore to introduce the corporate governance report for 2011/12.

The report contains details of the wide range of matters considered by the board and its committees during the year. During a year in which two new directors joined the board, one executive and one non-executive, it also covers the issue of diversity. Information is also provided on the board evaluation exercise which we conducted in 2011, the first time that we have used an external facilitator.

We will continue to monitor corporate governance developments going forward and will endeavour to ensure that we maintain good standards of corporate governance."

Tim Bridge
Chairman

Statement of compliance with the UK Corporate Governance Code

The company became subject to the new UK Corporate Governance Code for the first time during the year. The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority (FSA) requires companies listed in the UK to disclose how they have applied the main principles and whether they have complied with its provisions throughout the financial year. Where the provisions have not been complied with companies must provide an explanation.

The board considers that the company has complied with the UK Corporate Governance Code dated June 2010 throughout the year, except in the following areas:

B.7.1

B.7.1 requires that all directors of FTSE 350 companies should be subject to annual

election by shareholders. Recognising that a number of institutional shareholders were not in favour of annual re-election of the entire board and in view of the specific circumstances applying to the board last summer, the board decided not to ask all directors to submit themselves for re-election. The specific circumstances were that the board comprised just five directors, three of whom had been re-elected during 2010. The remaining two directors at that time submitted themselves for re-election at last year's AGM, along with the two new board members.

C.3.1

C.3.1 requires the audit committee to comprise at least three directors, all independent non-executive directors. This requirement was not met between 2 May and 26 July, in that the committee had just two members during that short period. The position was rectified with the appointment of Mike Coupe as a new independent non-executive director and a member of the audit committee.

The board

Board composition

As at the year end the board comprised the chairman, two executive directors and four non-executive directors. The non-executive chairman is Tim Bridge, the chief executive is Rooney Anand and the senior independent director is Norman Murray.

The directors' biographies are on page 34. The board believes that the structure and size of the board is appropriate and that no single individual or group dominates the decision making process.

Independence of non-executive directors

In compliance with the UK Corporate Governance Code, more than half of the board, excluding the chairman, are non-executive directors and the board is satisfied that all of these were independent throughout the year, in that they satisfied the independence criteria of the code on their appointment and continue to satisfy those criteria.

Tim Bridge, the chairman, was not independent on appointment, having previously served as chief executive. However, the board is satisfied that he shows independent judgment, that his performance as chairman is effective and that he demonstrates continued commitment to the role.

Norman Murray, the senior independent non-executive director, was appointed to the board in January 2004. He has never been employed by the company and has had diverse business interests. The board considers that he has remained independent in both character and judgment, that his performance has been effective and that he has demonstrated commitment to the

role. As well as supporting the chairman, a key responsibility for him is to be available for direct contact from shareholders.

Diversity

The board approves of the principle of trying to recruit more women into senior management and director roles and, although currently we have no female directors on the board, we have had a female non-executive director in the past. When making new appointments, the policy of the company is to recruit the best possible individual for each role on offer, whether executive or non-executive. We set out a job specification and a profile of the likely characteristics, qualifications, experience and merits required before starting a search, and aim to find the individual who is best suited to the role, without prejudice between male and female candidates.

Conscious of the desire expressed by Lord Davies for targets to be set and looking forward to where we may be by 2015, we do not think a percentage target is the right way to address the issue of women on boards for a board of seven people, where the key will be to ensure a suitable range of skills, experience and knowledge across the board members. We would, however, like to have at least one woman on our board by then, in order to achieve that particular aspect of diversity.

Leadership

Role of the board

The board is collectively responsible for the long-term success of the company. The chairman is responsible for the leadership and effectiveness of the board. The chief executive has responsibility for executing the company's strategy, achieving

operational and financial goals and leading senior management in dealing with the operational requirements of the business. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are carefully examined and fully discussed and that the performance of the company is monitored and challenged.

The offices of chairman and chief executive are separate and distinct. The division of responsibilities between them has been clearly established, set out in writing and agreed by the board. The job descriptions are available on request.

The board has delegated certain responsibilities to standing committees, details of which are set out below. By delegating key responsibilities to these committees, the board is able to ensure that adequate time is devoted by board members to the oversight of key areas within their responsibility.

Operation of the board

The board has a formal schedule of matters which are reserved for its decision, including approval of the long term objectives and strategy, approval of budgets and financial statements including the report and accounts, acquisitions and disposals, changes to the structure of the group and overall corporate governance issues. It reviews trading performance and considers major capital expenditure and acquisition opportunities.

Day to day management and control of the business is delegated to the executive directors and the business unit managing directors, who meet formally on a monthly basis together with other senior managers as appropriate.

Board meetings are scheduled to be held eight times a year, with main meetings linked to key events in the company's financial calendar, with the annual results and dividend being approved in June or July and the interim results and dividend in November or December. There is a two-day off-site meeting for the board in February each year focusing on strategy. Following approval of the company's strategy, budgets are prepared for the next financial year to be approved by the board in April. Each of the main business units and function areas is reviewed in detail at least once each year, with the relevant managing director attending to present and answer questions.

Between meetings, as required, the board can be in frequent contact to progress the company's business and, if necessary, board meetings can be held at short notice, such as that called to deal with the company's offer for The Capital Pub Company in July 2011. Where possible, however, ad hoc committees of the board are appointed to deal with matters which it is known will need to be dealt with between scheduled board meetings. It is expected that all directors attend board and relevant committee meetings, unless they are prevented from doing so by prior commitments. If directors are unable

to attend meetings in person or by telephone they are given the opportunity to be consulted and comment in advance of the meeting.

Attendance at scheduled meetings held during the year is set out on page 38.

Board papers are circulated seven days prior to each board or committee meeting to ensure that directors have sufficient time to review them before the meeting. Documentation includes detailed reports on current trading and full papers on matters where the board is required to give its approval.

The chairman holds regular, informal meetings with the non-executive directors without the executive directors being present.

Board effectiveness

Board performance and evaluation

The board believes it is appropriate to undertake a regular performance evaluation of itself, its committees and individual directors. An evaluation exercise was completed during the summer of 2011, facilitated by Boardroom Review, an independent external firm with no links to the company. The review took the form of confidential interviews with the directors at the time and a review of selected papers, with a view to considering the effectiveness of the board within the context of three key criteria, namely the ability of the board to achieve its objectives, its ability to work together effectively and the extent to which it maximises its use of time. The principal of Boardroom Review, Dr Tracy Long,

GREENE KING BOARD

The board is ultimately responsible for the long term success of the company. Its principal responsibilities are to:

- approve the group's long-term objectives, commercial strategy and the overall funding strategy;
- approve the budgets and financial statements, including the report and accounts;
- approve acquisitions and disposals; and
- oversee the group's operations and review performance in the light of the group's strategy, objectives, business plans and budgets.

Committees

Nomination

Reviews structure, size and composition of the board; makes recommendations for appointments; succession planning.

Remuneration

Sets remuneration policy; sets executive director remuneration and incentives; approves annual performance objectives; approves granting of long-term incentives.

Audit

Reviews and monitors full year and interim results; monitors internal financial controls; oversees external audit relationships; oversees risk management.

Members

Tim Bridge (Chairman)

John Brady

Norman Murray

Norman Murray (Chairman)

John Brady

Ian Durant

Ian Durant (Chairman)

John Brady

Mike Coupe

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board effectiveness continued

Board performance and evaluation continued

then attended one of the company's board meetings to present her findings and facilitate a discussion on areas to be addressed.

Particular strengths were perceived to be the consideration of shareholder and stakeholder views, a thoughtful approach to control and risk and the management of time and information. Whilst the board was satisfied that it and its committees are operating effectively, key actions agreed as a result of the review included a greater emphasis on long-term strategy, more challenging input during meetings, greater use of board dinners and a clearer policy on diversity.

In conjunction with the board evaluation, the senior independent director and non-executive directors conducted an appraisal of the chairman's performance. The performance of the executive directors is reviewed annually by the remuneration committee in conjunction with their annual pay review and the payment of bonuses.

Training and support

Each director is responsible for ensuring that they remain up to date in their skills and knowledge of the company and the training needs of the board and its committees are regularly reviewed. Particular emphasis is placed on ensuring that directors are aware of proposed legislative changes in areas such as remuneration, corporate governance and financial reporting and sector specific issues such as minimum pricing. All directors are also encouraged to visit the company's pubs and restaurants and do so throughout the year.

Newly appointed directors receive a tailored induction on joining the board to acquaint them with the company. This generally takes the form of meetings with other board members and senior management and the provision of an induction pack containing

general information on the company, its policies and procedures, financial and operational information and a briefing on directors' responsibilities. Matthew Fearn received specific refresher training on the obligations of directors of listed companies shortly after his employment commenced.

There is an agreed procedure, set out in writing, for directors, in furtherance of their duties, to take independent professional advice at the company's expense. Directors also have access to the services of the company secretary. The company has in place directors' and officers' liability insurance.

Conflicts of interest

The board has the right, under the articles of association, to approve potential situational conflicts of interest. A small number of such potential conflicts have been approved by the board following disclosure by certain directors, in each case with the relevant director not taking part in any decision relating to their own position. Directors are also aware that the disclosure and authorisation of any potential conflict situation does not detract from their requirement to notify the board separately of an actual or potential conflict in relation to a proposed transaction by the company.

Communication with shareholders

The board is keen to ensure that our shareholders have a good understanding of the business and its performance, and that the directors are aware of any issues or concerns which shareholders may have. Communication with shareholders takes a variety of forms.

Institutional shareholders and analysts

There is a regular dialogue with institutional shareholders, including meetings after the announcement of the year end and interim results. Analysts are also invited to presentations at those times and separately to analyst trips to visit our premises and hear

presentations on specific divisions of the business. The board receives regular reports from the chief executive on the meetings he and the finance director have with principal shareholders and receive copies of analysts' reports on the company. The senior independent non-executive director, Norman Murray, is available to shareholders if they have concerns about governance issues which the normal channels of contact fail to resolve.

AGM

The AGM is fully utilised as a means of communicating directly with private shareholders, who receive a brief presentation on the business before the substantive part of the meeting begins. They also have the full opportunity to ask questions and to meet directors and senior management informally after the meeting. The board aims to ensure that all members of the board, including in particular the chairmen of the board committees, are available to answer questions at the AGM.

All substantive items of business at shareholders' meetings are dealt with under separate resolutions, including a resolution to adopt the report and accounts. The chairman announces the results of the proxy voting on each resolution after it has been dealt with on a show of hands.

Website

The company maintains a website (www.greeneking.co.uk) to provide up-to-date, detailed information on the company's operations and brands, which includes a dedicated investor relations section. All company announcements are available on this site, as are copies of slides used for presentations to investment analysts. We are happy to answer questions by telephone or email (investorrelations@greeneking.co.uk or companysecretary@greeneking.co.uk).

ATTENDANCE AT MEETINGS

	Board	Nomination committee	Remuneration committee	Audit committee
Executive directors				
Rooney Anand	8/8	—	—	—
Matthew Fearn *	6/6	—	—	—
Ian Bull **	1/1	—	—	—
Non-executive directors				
Tim Bridge	8/8	3/3	—	—
John Brady	8/8	3/3	3/3	3/3
Ian Durant	8/8	—	3/3	3/3
Norman Murray	7/8	2/3	3/3	—
Mike Coupe ***	7/7	—	—	2/2

* Matthew Fearn was appointed to the board in September 2011.

** Ian Bull left Greene King in July 2011.

*** Mike Coupe was appointed to the board in July 2011.

Board committees

The board has established a nomination committee, a remuneration committee and an audit committee, each of which has formal terms of reference governing its method of operation. Each of the terms of reference, which have been approved by the board, are available on request or to download from the company's website and will be available for inspection at the AGM.

Set out below are reports from each of the nomination committee, remuneration committee and audit committee.

Nomination committee report

During the year the nomination committee was chaired by Tim Bridge and the other members of the committee were Norman Murray and John Brady. Apart from the chairman, all members were considered by the board to be independent.

The role of the nomination committee is to identify, evaluate and nominate candidates for appointment to the board, to review regularly the structure, size and composition (including skills, knowledge and experience) of the board and make recommendations to the board with regard to any adjustments that are deemed necessary.

The committee is also responsible for considering the company's succession plans for board members and senior management, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the board in the future, and for reviewing membership of the board's committees to ensure that undue reliance is not placed upon any individuals.

The committee met three times during the year, with the other non-executive directors frequently in attendance at those meetings. The chief executive, at the request of the committee, also attended one meeting. Attendance at these meetings by the committee members is shown in the table on page 38.

Matters considered by the committee during the year included the proposed appointment of Mike Coupe, a policy regarding board diversity, board succession planning, a reflection on the board evaluation exercise and the re-election of directors.

With regard to the appointment of Mike Coupe, the key experience sought was for someone still in an executive role

in a listed PLC, with direct involvement in of multi-site retailing. Hanson Green was appointed to assist in the search and it produced a candidate list containing both men and women. Ultimately Mike Coupe was selected as the best proposed appointee. Arrangements are made for proposed appointees to meet all of the non-executive directors prior to their appointment being recommended to the board.

Continuing the policy applied in 2011 and on the recommendation of the nomination committee, the board is not proposing to ask all directors to stand for re-election at the forthcoming AGM. Instead, those three directors who were not re-elected during 2011 will be submitting themselves for re-election this year, for the reasons set out in the AGM notice of meeting.

Norman Murray, the senior independent director who is also chairman of the remuneration committee and a member of the nomination committee, will have served for nine years at the end of December 2012 and is proposing to stand down from the board at that time. A process for recruiting a successor is already under way.

Remuneration committee report

The remuneration committee was chaired during the year by Norman Murray and the other members were Ian Durant and John Brady. All the members are considered by the board to be independent.

The role of the committee includes determining the remuneration policy for the executive directors, the chairman and those members of senior management whose details appear on page 34 and 35. It agrees the total individual remuneration package of each of the executive directors and those senior managers, considers the granting of share options and awards under the long-term incentive plan and determines bonuses payable to the executive directors and senior managers.

The remuneration committee met three times during the year. The chairman and the chief executive, at the request of the committee, attend its meetings. The chairman does not participate in any discussions relating to his own remuneration. The chief executive is consulted by the committee on its proposals, but does not participate in any discussions relating to his own remuneration. The committee's external adviser, NewBridgeStreet Consultants, attended one of the meetings to present a review of the company's remuneration structure.

Details of the company's policies on remuneration, service contracts and compensation payments are set out in the remuneration report on pages 41 to 47.

Audit committee report

The audit committee was chaired during the year by Ian Durant. The other members of the committee were John Brady and, from his appointment in July 2011, Mike Coupe. All members are considered by the board to be independent. The board is satisfied that Ian Durant has recent and relevant financial experience, as the former finance director of Liberty International plc, since renamed as Capital Shopping Centres Group PLC.

The role of the audit committee is to review the financial reporting process, and the related external audit conclusions, of the full year and interim results, in each case prior to their submission to the board. It is also responsible for reviewing the company's internal financial control systems, advising the board on the appointment of external auditor, overseeing the relationship with the external auditor, reviewing the company's whistle blowing procedures and considering the need for a full internal audit function. It also reviews the group's risk management policies and procedures prior to submission to the board and receives detailed reports on the risk management processes within the business units. Regular updates are provided to the committee on regulatory, accounting and reporting developments under relevant financial standards and codes.

There is a planned programme of meetings during the year to deal with all matters within the committee's sphere of responsibility. The committee had three meetings and on each occasion the finance director and senior members of the finance function attended. One meeting was attended by the chairman of the company. The external auditor attended all of the meetings. There is an opportunity at each meeting for the committee to discuss matters privately with the auditor without management present. In addition, the chairman of the committee is in regular contact with the external audit partner to discuss matters relevant to the company.

Financial statements and audit

Before the start of each audit cycle, the committee reviewed the audit plan presented by the auditor and agreed the scope of the audit work. During the audit process the committee kept under review the consistency of accounting policies on a year to year basis and across the group, and the methods used to account for significant or unusual transactions, including in particular the assessment of impairment losses and tax.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Audit committee report continued Financial statements and audit continued

The financial statements and interim results were reviewed in detail prior to their submission to the board. Following the audit the committee discussed issues arising from the audit, and any matters the auditor wished to discuss. The committee also assessed the effectiveness of the audit process through discussion with the auditor and by reviewing the management letter to ensure that the auditor had a good understanding of the business and receiving and reviewing a report from the Audit Inspection Unit on Ernst & Young LLP.

External auditor

During the course of the year the audit committee monitored the relationship with the auditor and assessed their performance, cost-effectiveness, objectivity, independence and suitability for re-appointment. The board is satisfied that the auditor are independent of the company and that best practice is being observed. A new audit partner was put in place during the year, following the planned retirement of the previous incumbent, and a suitable induction programme was arranged for him. Ernst & Young LLP report to the committee regularly to confirm compliance with their own policies, procedures and ethical standards in relation to auditor objectivity and independence.

The audit committee has established a policy in relation to the use of Ernst & Young LLP for non-audit work. The company will award non-audit work to the firm which provides the best commercial solution for the work in question, taking into account the skills and experience of the firm, the nature of the services involved, the fees payable for the work in question, with particular attention to the level of fees for non-audit services (both for individual services and in aggregate) relative to the amount of the audit fee and whether there are safeguards in place to mitigate to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from such services.

Work estimated to cost in excess of £25,000 and for which the auditor are being considered are put out to tender unless agreed otherwise by the chairman of the audit committee. The finance director may approve specific engagements up to £50,000 and £100,000 cumulatively, and the chairman of the audit committee may approve engagements up to £100,000 and £200,000

cumulatively, with fees in excess of those limits being subject to approval of the full committee. During the year the company made limited use of specialist teams within Ernst & Young LLP for non-audit work such as taxation advice, primarily in relation to the resolution of legacy tax issues on which Ernst & Young LLP specialists had originally advised. The total fees paid to Ernst & Young LLP amounted to £324,000, of which £27,000 related to non-audit work.

Internal audit

The committee reviewed the company's internal audit function, which currently focuses primarily on the group's Retail division, although its remit is being expanded. Elsewhere within the group a combination of the external audit procedures and the types of financial risks involved are felt to be such that a wider internal audit function is not required. This will be reviewed on an annual basis.

Other matters

In reviewing the whistle blowing policy for the group the committee recommended a change to the policy which has been implemented by management. The terms of reference of the committee were also reviewed and updated.

Internal control and risk management

The board has overall responsibility for the group's risk management framework and systems of internal control and for reviewing their effectiveness. The audit committee monitors and reviews the group's internal controls and risks on a regular basis, and reports to the board on its findings. The implementation of risk management and internal control systems is the responsibility of the executive directors and other senior management.

A summary of the risk management framework is set out on page 26. The risk management framework and internal control systems are designed to manage, and not to eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance that the group's assets are safeguarded and that the financial information used within the business and for external reporting is reliable.

The company has in place procedures to assess the key risks to which it is exposed and has formalised the control environment needed to address these and other issues. There are processes in place which accord with the guidance of the Turnbull

Committee on internal control, and these remained in place up to the date of this report. The board is satisfied that there are no significant weaknesses in these systems.

The key elements of the internal control framework are:

- the schedule of matters reserved for the board;
- the group's defined management structure with suitable authority limits and responsibilities, staffed by appropriate personnel;
- regular updates for the board on strategy;
- a comprehensive planning and financial reporting procedure including annual budgets and a three year strategic plan, both of which are reviewed and approved by the board;
- ongoing monitoring by both the board and senior management of performance against budgets, through the periodic reporting of detailed management accounts and key performance indicators;
- ongoing monitoring by the board of compliance with financial covenants;
- a centralised financial reporting system, with procedures designed to gather and present information in a consistent way that facilitates the production of the consolidated accounts;
- clearly defined evaluation and approval processes for acquisitions and disposals, capital expenditure and project control, with escalating levels of authority (including board approval for major acquisitions and disposals), detailed appraisal and review procedures and post-completion reviews;
- an internal audit team responsible for reviewing controls in the group's Retail division and the availability of comprehensive information from the EPOS till system; and
- documented policies to cover bribery and whistle blowing and regular updates on any incidents.

DTR disclosure

The information required by DTR 7.1 and DTR 7.2 is set out in this report, except for information required under DTR 7.2.6 which is set out in the directors' report.

DIRECTORS' REMUNERATION REPORT



Introduction from the chairman of the committee

"I am pleased to introduce our directors' remuneration report which provides further details on the remuneration policies for our executive directors and senior management and on how these were applied in terms of remuneration paid during the 2011/12 financial year.

The remuneration committee's overall philosophy and approach to its responsibilities are driven by two key principles, namely 'pay for performance' and the belief that the remuneration structure should ensure that there is close alignment between the interests of senior management and those of our shareholders. We are very aware of the current environment in which the committee must determine appropriate remuneration packages for

executives and believe that, in addition to the philosophical points mentioned above, we ensure that there is fairness and common sense applied to our thinking. The non-executive directors believe that we have an excellent management team which must be paid in line with comparable businesses, provided that performance is delivered and value is created for shareholders.

For the year under review the business has delivered a good set of results. Profit before tax has increased by 8.6% and our share price was up year-end on year-end. The dividend increased by 7.4% and is well covered. In addition to our financial and stock market performance we have continued to make progress on our strategic priorities, highlighted elsewhere in this report. I am pleased that this performance has generated good bonuses and a healthy level of likely vesting under our long-term incentive plan, both in terms of awards vesting this year based on performance over the three years to April 2012 and the pipeline of unvested awards based on subsequent three year periods.

Notwithstanding the strong performance we continue to exercise restraint in pay levels. Salary increases for executives have been modest and no higher than the average of the workforce generally.

We are not proposing any changes to the remuneration policy this year, but the long-term incentive plan (LTIP) reaches the end of its ten year life next year, so we will be considering its replacement over the forthcoming year, and reviewing the remuneration policy generally so as to ensure that it remains aligned with our business

strategy and the interests of shareholders. There will be a full consultation with the company's major investors and the new LTIP will be subject to shareholder approval at next year's AGM.

The main body of this report is divided, as required by legislation, into two parts, the first containing unaudited information, principally on our policies, and the second containing audited information, principally relating to the remuneration paid to directors over the 2011/12 financial year, which the company's auditor are required to audit and to state whether in their opinion that part has been prepared in accordance with the Companies Act 2006.

Shareholders will be asked to vote on this remuneration report, as an ordinary resolution, at the company's AGM, where we hope to receive your support."

Norman Murray

Chairman of the remuneration committee
27 June 2012

DIRECTORS' REMUNERATION REPORT CONTINUED

UNAUDITED INFORMATION

The remuneration committee

The remuneration committee is appointed by the board. During the year the members were Norman Murray (chairman of the committee), Ian Durant and John Brady. All of the committee members were regarded by the board as independent non-executive directors.

The role of the committee includes determining the remuneration policy for the executive directors, the chairman and those members of senior management whose details appear on pages 34 and 35. It agrees the total individual remuneration package of each of the executive directors and of those senior managers, considers the granting of awards under the long-term incentive plan and determines bonuses payable to the executive directors and senior managers.

It approves the contracts of the executive directors and those senior executives referred to above and any compensation arrangements arising from their termination. The committee is made aware of, and takes into account, the salary levels of the wider senior management team and of the incentive arrangements operating throughout the company.

Advisers to the remuneration committee

The committee seeks advice on general remuneration matters and comparator information from New Bridge Street, a brand of Aon plc. Aon plc provides insurance broking and consultancy services to the group.

The committee is satisfied that the provision of these services does not in any way prejudice the position of New Bridge Street as independent advisers to the committee.

Rooney Anand, chief executive, attends meetings of the committee and provides advice to help the committee determine appropriate remuneration and incentive packages for the finance director and the other senior executives, but he leaves the meeting when his own remuneration is being discussed.

Remuneration policy

Within the overall philosophy, the committee's policy is to ensure that the group offers a competitive, and not excessive, remuneration package to ensure that it can attract, motivate and retain high quality directors able to deliver continued growth of the business and achieve the group's strategic aims.

The policy provides an appropriate balance between fixed and variable remuneration, with a significant proportion of the package being performance related pay measured over one and three year performance periods. Further details are provided below.

The committee considers whether there are any aspects of the remuneration policy which could inadvertently encourage executives to take inappropriate risk and is satisfied that the policy remains appropriate in this regard. The committee also ensures that the incentive structure for executive directors and senior management does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

When setting remuneration for the executive directors and senior management, the committee is made aware of and has regard to pay and conditions elsewhere within the group and endeavours to ensure that pay rises for executive and non-executive directors are generally comparable with those being applied in other parts of the group. The committee is also made aware of some of the bonus plans operated for managers throughout the group, and notes that all staff with the requisite qualifying service are able to participate in the company's share save scheme.

Executive directors' potential overall remuneration profile

In 2012/13, if the executive directors earn a maximum annual bonus award of 150% of salary and are granted an LTIP award of 133% of salary, basic salary will represent 26% of total remuneration, with performance related elements of 39% attributable to annual bonus and 35% to LTIP (excluding pension provision), as shown in the chart on page 43.

Components of directors' remuneration

The key elements of the remuneration package of each executive director are set out in the table below.

COMPONENTS OF DIRECTORS' REMUNERATION

Element	Description	Objective	Performance period	Conditions
Base salary	Annual salary paid to executive directors	To ensure that the executive directors receive an appropriate level of fixed remuneration having regard to their skills and experience	n/a	n/a
Annual performance bonus	A maximum of 150% of salary can be earned by the executive directors during the year, one third of which is dependent on the achievement of a stretching economic profit target for FY12/13, with the remaining two-thirds dependent on a range of financial and non-financial targets	To incentivise executive directors to deliver superior performance during the course of a year, and to promote retention and stability amongst the senior management team	1 year (with the economic profit element (up to 50% of salary) subject to deferral into shares for 12 months)	Achievement of challenging performance goals over the course of a financial year, including economic profit, group profitability and return on capital employed
Long-term incentive plan (LTIP)	The LTIP awards are in respect of a maximum of 133% of salary for the executive directors, payable at the end of the performance period if the conditions have been met	To incentivise the executive directors to deliver superior levels of long-term performance for the benefit of shareholders, thereby aligning their interests with those of our shareholders	3 years	A combination of two challenging conditions apply, namely an EPS target (which accounts for 40% of the total) and a free cash flow target (which accounts for the remaining 60% of the total award)
Pension	The company contributes to defined contribution pension arrangements for the executive directors or provides cash in lieu where appropriate	To ensure that directors are provided with an appropriate pension provision	n/a	n/a

Base salary

The base salary of the executives, which is reviewed annually or when a change in responsibility occurs, is intended to reflect their responsibilities, market value and sustained performance level. In setting pay levels, the committee considers current market practice and makes comparisons against a selection of other companies determined by reference to turnover, market capitalisation and operational details. For the 2012/13 financial year overall pay rises across the group have generally been limited to 2.5% and, for the executive directors and senior management team, the average pay rises were 2.4%.

Bonus

Bonus payments are determined by the remuneration committee and awarded where justified by performance. For the financial year 2012/13, the executive directors will be eligible to receive an annual incentive bonus, the maximum amount being 150% of salary, for the achievement of stretch targets. Two-thirds of this amount, up to a maximum of 100% of salary, is based on pre-determined performance metrics, set at the start of the year, based on group profitability, return on capital employed, and a range of financial and non-financial specific targets relevant to each individual.

The remaining one third of the bonus entitlement, equal to a maximum of 50% of salary, is subject to a separate performance condition based on challenging levels of annual economic profit performance to be achieved in 2012/13 in excess of the company's strategic plan. This element of the annual bonus is deferred into shares for 1 year. The deferred bonus and would be forfeited in the event that the relevant director or employee leaves the group, other than as a good leaver, during the deferral period, to improve motivation, lock-in and

alignment of interest. In addition, the one third of the bonus based on economic profit will be reclaimable by the company in exceptional circumstances of misstatement or misconduct.

Economic profit (operating profit before exceptional items less the weighted average cost of capital multiplied by capital employed) is an important management tool and its use in the annual bonus complements this strategic focus. The use of economic profit also provides a balance to the rest of the bonus plan.

The additional focus on economic profit encourages the management team to target medium-term decisions to achieve growth by: ensuring better deployment of capital expenditure; encouraging further improvements in relation to returns on invested capital; freeing up assets where higher economic profit can be gained by the group; and extracting higher returns from existing uninvested assets.

The target set for 2012/13 is to achieve a stretching level of economic profit over and above the budget for the year, with a sliding scale for vesting which will ensure that management, in addition to the bonus being limited to a maximum 50% of salary, will not benefit from more than 20% of the uplift in economic profit, with the remaining 80% being retained for the benefit of shareholders. There will be disclosure in the directors' remuneration report at the end of the year of the basis on which the bonuses were payable.

Long-term incentives

Directors are entitled each year to an LTIP award equivalent to a maximum of 133% of base salary.

Awards in 2012 will be made in the form of restricted forfeitable shares, on which dividends will be held in escrow pending vesting to be released to the directors to the extent that the awards vest.

All LTIP awards are subject to two performance measures, namely an adjusted free cash flow condition and an earnings per share condition, both measured over a three-year period. There is a 60:40 weighting in favour of the cash measure, given the importance of cash management as a medium term business priority. The use of two separate performance conditions is designed to provide a rounded assessment of the company's financial performance.

The three-year adjusted free cashflow measure will be determined by reference to net cash flow from operating activities less capital expenditure. Net cash flow from operating activities will include the impact of changes in working capital, and interest and tax payments, but will be adjusted to exclude exceptional items at the discretion of the remuneration committee in consultation with the audit committee.

The capex-related deduction in the free cashflow measure will be for capital

expenditure on properties that were within the estate at the beginning of the performance measurement period, where that capital expenditure has not been funded from property disposal proceeds. Free cashflow has been chosen as a performance condition because converting EBITDA to positive cashflows to support debt repayment, continued investment in the business and the ongoing payment of dividends is a key measure for both management and shareholders.

The target range for the adjusted free cash flow performance target for the 2012/13 awards will be that the aggregate adjusted free cash flow of the company for the three financial years ending in April 2013, 2014 and 2015 must be more than £262m to vest at the minimum level and at least £302m to vest in full. Measuring on an aggregate three-year basis (rather than the more common approach of focusing on the end-year only of the three) will ensure that there will be a focus on delivering cash across all three years.

The adjusted earnings per share part of the performance condition for awards granted in 2012/13 will be based on a sliding scale range of 'pence per share' targets for the 2014/15 financial year end, with between 0% and 100% of that part of the award vesting depending on the extent to which the targets are met. The committee does not consider it appropriate to disclose the range due to its price sensitive nature, but does consider it to be appropriately challenging in the current economic climate. There will be disclosure of the conditions and the extent to which they have been achieved in the remuneration report at the time each award vests.

It will not be possible for the company to make any further awards under the current LTIP scheme after the 2012/13 financial year. The company proposes to consult with shareholders during the course of this financial year with regard to a replacement LTIP scheme.

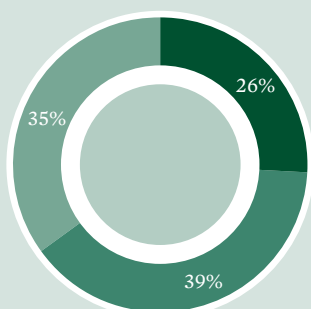
Outstanding LTIP awards

The 2009 LTIP awards will vest at a rate of 100% on the third anniversary of their grant in December 2012 provided that the recipients remain employed by the group. The performance targets, vesting levels and the actual targets achieved are set out below:

Vesting condition	
EPS (represented 40% of the award)	
Figure for nil vesting	38.0p
Target for 50% vesting	44.0p
Target for 100% vesting	50.0p
Figure achieved	53.0p
Free cash flow (represented 60% of the award)	
Figure for nil vesting	£190.0m
Target for 50% vesting	£210.0m
Target for 100% vesting	£230.0m
Figure achieved	£273.9m

EXECUTIVE DIRECTORS' POTENTIAL OVERALL REMUNERATION PROFILE

- Basic salary
- Maximum bonus
- LTIP granted



DIRECTORS' REMUNERATION REPORT CONTINUED

Components of directors' remuneration continued

Outstanding LTIP awards continued

The 2010 and the 2011 LTIP awards will only vest to the extent that the relevant performance targets are met over the three financial years ending in April 2013 and April 2014 respectively. As with the 2009 award, a maximum of 60% of each award will vest if an adjusted free cash flow performance condition has been met and the remaining 40% of the award will vest if an earnings per share performance condition has been met. The target range for the aggregate adjusted free cash flow company for the relevant three financial years, which is calculated on a straight-line basis from 0% to 100%, is set out below.

	2010 award 3 years to April 2013	2011 award 3 years to April 2014
Target level		
Nil vesting	£230.4m	£250.0m
50% vesting	£250.4m	£270.0m
100% vesting	£270.4m	£290.0m

The earnings per share performance conditions set a range for the EPS for the financial year ending in April 2013 (for the 2010 LTIP) or April 2014 (for the 2011 LTIP) which the remuneration committee considered to be sufficiently challenging in the market conditions.

The remuneration committee is advised on a regular basis as to how actual performance is tracking against the relevant targets. In relation to the 2010 and 2011 LTIP awards, based on the very good recent performance of the business and assuming that the business units continue to meet their stretching strategic plan targets, it is anticipated that the business will meet the upper quartile of the free cash flow target and the upper quartile of the earnings per share target.

Details as to the extent to which the targets have actually been met and the awards have vested will be provided at the end of each three year performance period.

Pension and life assurance

The pension arrangements for the executive directors are on a defined contribution basis, with the company making a contribution at the rate of 25% for Rooney Anand and 20% for Matthew Fearn. Directors are given an option to have pension contributions above the £50,000 annual limit or above the total lifetime limit imposed by the government paid to them in cash. No element of remuneration other than annual pay is treated as pensionable. Both executive directors participate in a group death-in-service insurance scheme, with death benefits in excess of the HMRC maximum being provided through additional insurance. The cost of this insurance is disclosed as a non-cash benefit in the emoluments table below.

Benefits in kind

The range of taxable benefits available to executive directors is listed on page 45.

Employee share schemes

In common with all other employees, the executive directors are also entitled to participate in the company's sharesave plan. Further details are given later in this report.

Remuneration from other company directorships

Since September 2007 Rooney Anand has served as a non-executive director of Drive Assist Holdings Limited, a company unconnected with the group. He is entitled to receive and retain for his personal benefit £53k per annum from that company by way of director's fees.

Remuneration for non-executive directors

The fees paid to the chairman and the other non-executive directors are determined by the board as a whole. They are agreed after taking external advice and making market comparisons, and relate to the services of the directors in connection with the company's business. The non-executive directors do not have service agreements and cannot participate in the pension scheme, the bonus scheme or the share option schemes.

The following table sets out the current non-executive directors' fees:

Role	2012/13 fee
Chairman	£170,000
Basic fee	£43,000
Additional fees for chairing the audit or remuneration committee	£7,000

Service agreements

Newly appointed executive directors are offered a service agreement with a notice period of 1 year. In the event of the employment of an executive director being terminated, the committee would pay due regard to best practice and take account of the individual's duty to mitigate their loss.

Rooney Anand, whose contract with the company commenced on 6 August 2001, is subject to a 1 year notice period from the company. His contract does not contain any additional terms relating to compensation for termination of employment. The terms of his appointment as chief executive were agreed and set out in a letter dated 24 December 2004.

Matthew Fearn's contract may be terminated by the company on giving 1 year's notice, without any additional terms relating to compensation for termination of employment.

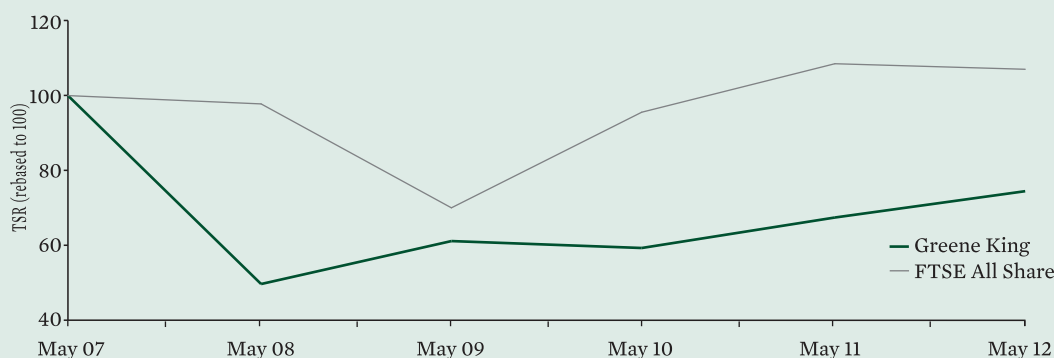
Non-executive directors are appointed pursuant to letters of appointment for three-year periods. The table below sets out the start and expiry date of their respective appointments.

Director	Date of appointment	Present expiry date
Tim Bridge	2 May 05	1 May 14
John Brady	24 Jun 05	23 Jun 14
Ian Durant	16 Mar 07	15 Mar 13
Norman Murray	1 Jan 04	31 Dec 12
Mike Coupe	26 Jul 11	25 Jul 14

The appointments of all these non-executive directors can be terminated by the company at any time on three months' written notice, notwithstanding the present expiry dates above.

PERFORMANCE OF GREENE KING

A graph showing the total shareholder return of Greene King relative to the FTSE All-Share Index over the last five years is shown below. We have chosen this comparator group as it is the most appropriate market index of which the company is a member.



AUDITED INFORMATION

Directors' emoluments

	Base salary 2012 £'000	Annual fees 2012 £'000	Basic annual bonus 2012 £'000	Non-cash benefits 2012 £'000	Other cash benefits 2012 £'000	Cash in lieu of pension contribution 2012 £'000	Total 2012 £'000	Total 2011 £'000
Tim Bridge *	—	165	—	31	—	—	196	195
Rooney Anand	516	—	477	4	16	108	1,121	1,038
John Brady *	—	43	—	—	—	—	43	41
Ian Bull ¹	57	—	—	1	2	—	60	662
Mike Coupe ^{2*}	—	33	—	—	—	—	33	—
Ian Durant *	—	49	—	—	—	—	49	46
Matthew Fearn ³	213	—	192	4	5	10	424	—
Norman Murray *	—	49	—	—	—	—	49	46
	786	339	669	40	23	118	1,975	2,028

* Non-executive.

¹ Ian Bull left on 1 July 2011.

² Mike Coupe joined on 26 July 2011.

³ Matthew Fearn joined on 1 September 2011.

No payments were made to any third parties in respect of any directors' services. Non-cash benefits principally include the provision of company cars, fuel for company cars, life assurance and private medical insurance. Other cash benefits include cash allowances paid in lieu of company cars.

Deferred share bonus scheme

In addition to the annual bonus figures above, £110k (2011: £253k) of bonus will be payable to Rooney Anand and £46k (2011: £nil) to Matthew Fearn under the terms of the economic profit deferred share bonus scheme introduced in 2010. Additional economic profit of £3.2m in excess of the strategic plan was achieved against a maximum target of £7.5m. This results in a payout of 42.7% of the economic profit element of the bonus scheme, equating to 21.4% of Rooney Anand's salary and 14.2% of Matthew Fearn's salary (the latter's award having been pro-rated as he joined part way through the year). The bonus will be deferred in the form of restricted shares, which will be acquired shortly after the preliminary announcement of the results. They will be entitled to any dividends paid on those shares, which will be released to them if they remain in employment for a period of 1 year from the date that the shares are acquired.

Directors' pensions

Amounts paid or payable to the self-invested personal pension schemes of the executive directors made by the company in respect of the period are shown in the table below.

	2012 £'000	2011 £'000
Rooney Anand	20	126
Ian Bull	12	65
Matthew Fearn	33	—

During the course of the year Rooney Anand reached the lifetime allowance for contributions to his pension fund and accordingly no further contributions will be made to his pension.

Tim Bridge is a pensioner member of the group's defined benefit scheme. His pension is equivalent to 1/45th of his final pensionable earnings for each year of service, with a pro rata payment for a part year, subject to HMRC limits. His final pensionable earnings were those received immediately prior to him ceasing to be chief executive.

Two former directors receive additional pension income from the company. John Bridge, who retired as a director on 31 December 1989, receives a pension of £31,000 pa in excess of his scheme entitlements and Bernard Tickner, who retired as a director on 27 August 1992, receives a pension of £25,000 pa in excess of his scheme entitlements. As required by law, both of these figures are stated net of their company-funded pension in payment at 31 March 1997.

DIRECTORS' REMUNERATION REPORT CONTINUED

Long-term incentive plan

A summary of the directors' interests in options granted under the long-term incentive plan (LTIP) is shown below.

	Date of grant	Type of award	Outstanding as at 1 May 2011	Granted during the period	Vested during the period	Lapsed during the period	Outstanding as at 29 April 2012	Vesting date	Performance period
Rooney Anand	8 Aug 08	restricted forfeitable shares	82,000	—	—	82,000	—	—	May 2008 – May 2011
	9 Dec 09	restricted forfeitable shares	153,000	—	—	—	153,000	9 Dec 12	May 2009 – May 2012
	12 Aug 10	restricted forfeitable shares	160,000	—	—	—	160,000	12 Aug 13	May 2010 – May 2013
	4 Aug 11	restricted forfeitable shares	—	147,000	—	—	147,000	4 Aug 14	May 2011 – May 2014

The market price of the shares on 4 August 2011, when the last awards were made, was 454.7p, although the number of shares comprising the award was determined by reference to the closing market price on 3 August 2011, namely 465.2p. For details of the performance conditions on the LTIP awards please see pages 43 to 44.

During the year the 2008 LTIP awards lapsed on the third anniversary of their grant as a result of the remuneration committee having determined that the performance conditions applicable to those awards had not been met. Total gains made by directors under the LTIP in the period ended 29 April 2012 therefore amounted to £nil (2011: £nil). In total, LTIP awards made for three years (2006, 2007 and 2008) all lapsed due to the performance conditions not having been met.

No changes were made during the year or since the year end to the date of this report, to the terms and conditions of any awards then outstanding. Save as set out above, no awards vested or lapsed during the year. There have been no other changes to the date of this report.

Executive share options

A summary of the directors' interests in options granted under the company's executive share option schemes is shown below.

	Date of grant	Option price (p)	Outstanding as at 1 May 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 29 April 2012	Exercise period
Tim Bridge	1 Aug 03	332	112,127	—	—	—	112,127	1 Aug 2006 – 31 July 2013
	6 Aug 04	408	99,669	—	—	—	99,669	6 Aug 2007 – 5 Aug 2014
Rooney Anand	6 Aug 04	408	54,817	—	—	—	54,817	6 Aug 2007 – 5 Aug 2014
	4 Aug 05	528	69,078	—	—	—	69,078	4 Aug 2008 – 3 Aug 2015
	8 Aug 08	449	102,160	—	—	102,160	—	—
Ian Bull*	11 Jan 06	598	24,916	—	—	24,916	—	—
	8 Aug 08	449	67,276	—	—	67,276	—	—

All relevant figures adjusted for 2-for-1 share split in September 2005 and the rights issue in May 2009.

* Ian Bull left on 1 July 2011 at which time his options lapsed.

No changes were made during the year to the terms and conditions of any options then outstanding (2011: no changes). There have been no options exercised and no other changes since the year end to the date of this report.

Sharesave scheme

The company has operated an HMRC approved sharesave scheme for a number of years. Options are granted over the company's ordinary shares at an option price which, at board discretion, is at a discount of up to 20% of the closing price at the time of granting. The company has historically granted all such options at a 20% discount.

The interests of directors in options granted under the sharesave scheme were as follows:

	Outstanding as at 1 May 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 29 April 2012	Option price (p)	Exercise period
Rooney Anand	—	—	—	—	—	—	—
Matthew Fearn	—	2,325	—	—	2,325	387	1 April – 30 September 2015

All options outstanding as at 29 April 2012 were granted at an option price below the year-end closing price.

Share incentive plan

The directors' beneficial interests in Greene King shares resulting from participation in the company's HMRC approved share incentive plan are reflected in their shareholding data in the directors' report.

Share price during the period

The closing price of the company's shares on 27 April 2012 (being the last business day before the financial period end) was 512.5p (2011: 489.6p). The closing price of the company's shares during the period ranged between 410p and 523.5p.

Approved by the board of directors on 27 June 2012.

Norman Murray

Chairman of the remuneration committee
27 June 2012

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of the company and group for the fifty-two weeks ended 29 April 2012.

Profits and dividends

The group's profit before taxation and exceptional items for the period amounted to £152.0m (2011: £140.0m). An interim dividend of 6.7p per share (2011: 6.3p) was paid on 27 January 2012. The directors recommend a final dividend of 18.1p per ordinary share (2011: 16.8p), making a total dividend for the year of 24.8p per share (2011: 23.1p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 10 September 2012 to shareholders on the register at the close of business on 10 August 2012.

Activities

Greene King plc is the holding company for a group whose principal activities are operating managed, tenanted and leased public houses, brewing beer, and wholesaling beers, wines, spirits and soft drinks.

Business review

Under the provisions of the Companies Act 2006, the company is required to produce a business review containing a fair review of the business of the company and a description of the principal risks and uncertainties facing the company. Shareholders are referred to the chief executive's review, the operational review, the financial review, the KPIs, the risks and uncertainties section and the corporate social responsibility report for the required information. They are intended to provide a balanced and comprehensive analysis of the development and performance of the business of the group during the financial year and the position of the group at the end of the year.

Directors

Details of the current directors are given on page 34. All of the directors held office throughout the period apart from Matthew Fearn, finance director, who was appointed on 1 September 2011 and

Mike Coupe, non-executive director, who was appointed on 26 July 2011. In addition Ian Bull held office until 1 July 2011.

Under article 85 of the company's articles of association no directors are due to retire by rotation this year. However, Rooney Anand, Ian Durant and Norman Murray are offering themselves for re-election at the forthcoming AGM. For an explanation of the board's approach to the annual re-election of directors, please refer to the AGM notice of meeting.

Details of the directors' service agreements, remuneration, and interests in share options and awards are set out in the directors' remuneration report. There have been no changes in their interests between 29 April 2012 and the date of this report.

Interests in contracts

No director had a material interest in any contract, other than an employment contract, that was significant in relation to the group's business at any time during the period.

Substantial shareholdings

The company has been notified of the following interests in 3% or more of the issued share capital of the company.

	29 April 2012	26 June 2012
Standard Life Investments Ltd	6.36%	6.36%
Capital Research & Management Company	5.19%	5.19%
AXA S.A.	4.99%	4.99%
Legal & General Group plc	3.98%	Below 3%

Share capital

Details of the authorised and issued share capital of the company, which comprises a single class of shares, ordinary shares of 12.5p, are set out in note 26 to the accounts. The rights attaching to the shares are set out in the articles of association. There are no special control rights in relation to the company's shares and the company is not aware of any agreements between holders of securities that

may result in restrictions on the transfer of securities or on voting rights.

A total of 542,138 ordinary shares, with an aggregate nominal value of £67,767 were allotted, for cash, during the period in connection with the company's sharesave and executive option schemes. In addition a further 117,867 shares were acquired by the company to satisfy awards under the company's deferred share option scheme.

The trustees of the company's employee benefit trust (EBT), Kleinwort Benson (Guernsey) Trustees Limited, transferred 21,090 ordinary shares to employees to satisfy the vesting of LTIP awards or to recognise their long service. The company makes regular use of the EBT to satisfy the exercise of share options and will make market purchases of the company's shares from time to time to ensure that it has sufficient shares to enable it to do so.

Voting rights

In a general meeting of the company, on a show of hands, every member who is present in person or by proxy and entitled to vote shall have one vote. On a poll every member who is present in person or by proxy shall have one vote for every share of which they are the holder. The AGM notice gives full details of deadlines for exercising voting rights in respect of resolutions to be considered at the meeting.

Under the Free4All Employee Profit Share Scheme, participants are the beneficial owners of the shares but not the registered owners. The registered owner is the trustee, Killik & Co Trustees Ltd. The trustee will invite participants to direct it on the exercise of any voting rights attaching to the shares held under the scheme by the trustee on the participants' behalf. The trustee will only be entitled to vote on a show of hands if all directions received from participants are identical. The trustee is under no obligation to call for a poll. In the case of a poll, the trustee will follow the directions of the participants.

No voting rights will be exercised in respect of any own shares.

DIRECTORS' INTERESTS IN SHARES

The beneficial interests of each of the directors and their immediate families in the ordinary share capital of the company are shown below:

	1 May 2011 (or date of appointment if later)	29 April 2012
Rooney Anand	176,106	199,753
John Brady	10,000	10,000
Tim Bridge	1,340,991	1,340,991
Mike Coupe	—	2,000
Ian Durant	22,320	22,320
Matthew Fearn	1,449	6,162
Norman Murray	36,700	36,700

At 29 April 2012, Tim Bridge had a non-beneficial interest in 88,700 (2011: 89,768) shares, in addition to the holding shown above.

There have been no changes in the interests of the directors between 29 April 2012 and the date of this report.

Transfer of shares

There are no restrictions on the transfer of shares in the company other than those which may from time to time be applicable under existing laws and regulations (for example under the Market Abuse Directive).

In addition, pursuant to the Listing Rules of the Financial Services Authority, directors of the company and persons discharging managerial responsibility are required to obtain prior approval from the company to deal in the company's securities, and are prohibited from dealing during closed periods.

Change of control

All of the company's share incentive plans contain provisions relating to a change of control and full details of these plans are provided in the directors' remuneration report. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

The group's banking facility agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control. Certain of the company's trading contracts also contain similar provisions.

There are two employees who, on a change of control of the company resulting in the termination of their employment, would be entitled to compensation for loss of office. However, in the context of the company as a whole, these agreements are de minimis.

Articles of association

The company's articles of association may only be amended by special resolution at general meetings of shareholders.

Appointment and replacement of directors

The number of directors on the board shall be no less than five nor more than twelve. Directors may be appointed by the company by ordinary resolution or by the board of directors. A director appointed by the board of directors holds office until the next following AGM, and is then eligible for election by the shareholders.

The articles provide that at each AGM all those directors who were elected, or last re-elected, at the AGM held in the third calendar year before the current year shall retire from office and may stand for re-election.

The company may by ordinary resolution, of which special notice has been given, remove any director from office.

Any director automatically ceases to be a director if (i) they give the company a written notice of resignation, (ii) they give the company a written offer to resign and the directors decide to accept this offer, (iii) all of the other directors remove them from office by notice in writing served upon them, (iv) they are or have been suffering from mental ill health and have a court order for their detention or the appointment

of a guardian made in respect of them, (v) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally, (vi) they are prohibited from being a director by law or (vii) they are absent from board meetings for six months without leave and the other directors resolve that their office should be vacated.

Powers of the directors

The business of the company is managed by the directors who may exercise all the powers of the company, subject to its articles of association, any relevant legislation and any directions given by the company by passing a special resolution at a general meeting. In particular, the directors may exercise all the powers of the company to borrow money, issue shares, appoint and remove directors and recommend and declare dividends.

Communications with shareholders

Shareholders who are interested in signing up to e-communications should refer to the shareholders information page for further information on how to register via www.greeneking-shares.com.

Charitable donations

Donations by the company for charitable purposes made during the period amounted to £29,021 (2011: £25,777). The group makes no political donations.

Payments to suppliers

The group understands the benefits to be derived from maintaining good relationships with its suppliers and where possible enters into agreements over payment terms. Where such terms have not been agreed it is the group policy to settle invoices 60 days following the end of month of invoicing. This policy is dependent on suppliers providing accurate, timely and sufficiently detailed invoices. Payment in respect of 62 days' average purchases from trade creditors of the group was outstanding at the end of the period (2011: 70 days).

Directors' and officers' indemnity insurance

The group has taken out insurance to indemnify, against third party proceedings, the directors of the company 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.

Financial instruments

The group's policy on the use of financial instruments is set out in note 24.

Post balance sheet events

Details of events occurring after the year end are set out in note 32.

Directors' statement as to disclosure of information to auditor's

The directors who were members of the board at the time of approving the directors' report

are listed on page 34. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor are unaware; and
- each director has 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 are aware of that information.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the chief executive's review. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition, note 24 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit and liquidity risk.

The directors are of the opinion that the group's forecast and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within its current borrowing facilities and comply with its financing covenants.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office and a resolution to re-appoint the firm as the company's auditor will be proposed at the AGM.

Annual general meeting

The AGM will be held at twelve noon on Tuesday 4 September 2012 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk. The notice of the AGM is set out in the separate circular to shareholders.

The directors consider that all of the resolutions set out in the notice of AGM are in the best interests of the company and its shareholders as a whole. The directors will be voting in favour of them and unanimously recommend that shareholders vote in favour of each of them.

By order of the board

Lindsay Keswick
Company secretary
27 June 2012

DIRECTORS' RESPONSIBILITIES STATEMENTS

Statement of directors' responsibilities in respect of the group financial statements

The directors are responsible for preparing the annual report and the group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under company law the directors must not approve the group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the group for that period. In preparing those group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- state that the group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgments and estimates that are reasonable and prudent.

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

Statement of directors' responsibilities in respect of the parent company financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

Directors' responsibility statement

The directors confirm, to the best of their knowledge:

- that these financial statements prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and undertakings included in the consolidation taken as a whole; and
- that the directors' report and the business review includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors of Greene King plc are listed on page 34.

T J W Bridge
Director
27 June 2012

R Anand
Director

GROUP ACCOUNTS

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GREENE KING PLC

We have audited the group financial statements of Greene King plc for the 52 weeks ended 29 April 2012 which comprise the group income statement, group statement of comprehensive income, group balance sheet, group cash flow statement, group statement of changes in equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 29 April 2012 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 36 to 40 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 49, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Greene King plc for the 52 weeks ended 29 April 2012 and on the information in the directors' remuneration report that is described as having been audited.

Bob Forsyth (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
27 June 2012

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GROUP INCOME STATEMENT

FOR THE 52 WEEKS ENDED 29 APRIL 2012

	Note	2012			2011		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2,3	1,140.4	—	1,140.4	1,042.7	—	1,042.7
Operating costs	4	(904.2)	(25.1)	(929.3)	(820.7)	(26.8)	(847.5)
Profit on disposal of property, plant and equipment	5	—	0.2	0.2	—	3.6	3.6
Operating profit	2,4	236.2	(24.9)	211.3	222.0	(23.2)	198.8
Finance income	7	1.0	—	1.0	3.5	—	3.5
Finance costs	7	(87.1)	(2.0)	(89.1)	(84.9)	—	(84.9)
Other net finance income/(expense)	7	1.9	—	1.9	(0.6)	—	(0.6)
Profit before tax		152.0	(26.9)	125.1	140.0	(23.2)	116.8
Tax	10	(38.0)	15.3	(22.7)	(36.4)	26.4	(10.0)
Profit attributable to equity holders of parent		114.0	(11.6)	102.4	103.6	3.2	106.8

	Note	2012		2011	
		Before exceptional items	Total	Before exceptional items	Total
Earnings per share					
– basic	12		47.6p		49.7p
– adjusted basic	12	53.0p		48.2p	
– diluted	12		47.5p		49.6p
– adjusted diluted	12	52.9p		48.1p	
Dividends per share (paid and proposed in respect of the period)	11	24.8p		23.1p	

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 29 APRIL 2012

	Note	2012 £m	2011 £m
Profit for the period		102.4	106.8
Other comprehensive income			
Cash flow hedges:			
Losses taken to equity	24	(84.5)	(7.5)
Tax on cash flow hedges	10	18.1	(0.1)
		(66.4)	(7.6)
Actuarial (losses)/gains on defined benefit pension schemes	9	(33.1)	19.2
Tax on actuarial losses/(gains)	10	6.9	(6.7)
		(26.2)	12.5
Other comprehensive (expense)/income for the period, net of tax		(92.6)	4.9
Total comprehensive income for the period, net of tax		9.8	111.7

GROUP BALANCE SHEET

AS AT 29 APRIL 2012

	Note	As at 29 April 2012 £m	As at 1 May 2011 £m
Non-current assets			
Property, plant and equipment	14	2,191.3	2,094.9
Goodwill	13	729.3	705.8
Financial assets	15	32.8	35.8
Deferred tax assets	10	70.6	48.7
Prepayments		7.3	7.2
Trade and other receivables	19	0.1	0.1
		3,031.4	2,892.5
Current assets			
Inventories	18	29.4	24.7
Financial assets	15	6.2	4.6
Trade and other receivables	19	68.6	69.6
Prepayments		9.4	11.5
Cash and cash equivalents	20	36.8	59.6
		150.4	170.0
Property, plant and equipment held for sale	21	6.2	3.7
		156.6	173.7
Current liabilities			
Borrowings	23	(30.7)	(41.2)
Derivative financial instruments	24	(9.7)	(4.9)
Trade and other payables	22	(230.2)	(228.0)
Income tax payable		(53.2)	(49.6)
Provisions	25	(1.2)	(0.7)
		(325.0)	(324.4)
Non-current liabilities			
Borrowings	23	(1,499.3)	(1,428.6)
Derivative financial instruments	24	(191.1)	(111.4)
Deferred tax liabilities	10	(150.7)	(163.1)
Post-employment liabilities	9	(68.8)	(51.4)
Provisions	25	(7.8)	(6.4)
		(1,917.7)	(1,760.9)
Total net assets		945.3	980.9
Issued capital and reserves			
Share capital	26	27.2	27.1
Share premium		251.3	249.8
Capital redemption reserve		3.3	3.3
Hedging reserve		(150.4)	(84.0)
Own shares		(9.6)	(9.0)
Retained earnings		823.5	793.7
Total equity		945.3	980.9
Net debt	29	1,493.2	1,410.2

Signed on behalf of the board on 27 June 2012.

T J W Bridge
Director

R Anand
Director

GROUP CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 29 APRIL 2012

	Note	2012 £m	2011 £m
Operating activities			
Operating profit		211.3	198.8
Operating exceptional items		24.9	23.2
Depreciation		55.8	54.6
EBITDA*	2	292.0	276.6
Working capital and non-cash movements	28	(10.0)	2.5
Interest received		1.0	3.5
Interest paid		(86.4)	(87.4)
Tax paid		(31.1)	(32.5)
Net cashflow from operating activities		165.5	162.7
Investing activities			
Purchase of property, plant and equipment		(126.8)	(96.2)
Purchase of other investments		—	(0.1)
Business combinations (net of cash acquired)	17	(70.8)	(60.5)
Advances of trade loans		(4.4)	(7.4)
Repayment of trade loans		6.6	8.9
Sales of property, plant and equipment		29.9	27.8
Net cashflow from investing activities		(165.5)	(127.5)
Financing activities			
Equity dividends paid	11	(50.6)	(47.1)
Issue of shares		1.6	2.3
Purchase of own shares		(0.6)	(2.6)
Financing costs		(4.1)	(0.3)
Repayment of acquired debt	17	(27.3)	(47.7)
Repayment of borrowings	29	(30.2)	(31.3)
Advance of borrowings	29	96.6	110.0
Net cashflow from financing activities		(14.6)	(16.7)
Net (decrease)/increase in cash and cash equivalents		(14.6)	18.5
Opening cash and cash equivalents	20	46.4	27.9
Closing cash and cash equivalents	20	31.8	46.4

* EBITDA represents earnings before interest, tax, depreciation, and exceptional items.

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 29 APRIL 2012

	Note	Share capital (note 26) £m	Share premium (note 27) £m	Capital redemption (note 27) £m	Hedging reserve (note 27) £m	Own shares (note 27) £m	Retained earnings (note 27) £m	Total £m
At 2 May 2010		27.1	247.6	3.3	(76.4)	(6.6)	717.9	912.9
Profit for the period		—	—	—	—	—	106.8	106.8
Other comprehensive income:								
Actuarial gains on defined benefit pension schemes (net of tax)		—	—	—	—	—	12.5	12.5
Net loss on cashflow hedges (net of tax)		—	—	—	(7.6)	—	—	(7.6)
Total comprehensive income		—	—	—	(7.6)	—	119.3	111.7
Issue of ordinary share capital	26	—	2.2	—	—	—	—	2.2
Release of shares		—	—	—	—	0.2	(0.1)	0.1
Repurchase of shares		—	—	—	—	(2.6)	—	(2.6)
Share-based payments	8	—	—	—	—	—	3.0	3.0
Tax on share-based payments	10	—	—	—	—	—	0.7	0.7
Equity dividends paid	11	—	—	—	—	—	(47.1)	(47.1)
At 1 May 2011		27.1	249.8	3.3	(84.0)	(9.0)	793.7	980.9
Profit for the period		—	—	—	—	—	102.4	102.4
Other comprehensive income:								
Actuarial losses on defined benefit pension schemes (net of tax)		—	—	—	—	—	(26.2)	(26.2)
Net loss on cashflow hedges (net of tax)		—	—	—	(66.4)	—	—	(66.4)
Total comprehensive income		—	—	—	(66.4)	—	76.2	9.8
Issue of ordinary share capital	26	0.1	1.5	—	—	—	—	1.6
Repurchase of shares		—	—	—	—	(0.6)	—	(0.6)
Share-based payments	8	—	—	—	—	—	3.9	3.9
Tax on share-based payments	10	—	—	—	—	—	0.3	0.3
Equity dividends paid	11	—	—	—	—	—	(50.6)	(50.6)
At 29 April 2012		27.2	251.3	3.3	(150.4)	(9.6)	823.5	945.3

NOTES TO THE ACCOUNTS

FOR THE 52 WEEKS ENDED 29 APRIL 2012

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 29 April 2012 were authorised for issue by the board of directors on 27 June 2012. Greene King plc is a public limited company incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Statement of compliance

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the 52 weeks ended 29 April 2012 (prior year 52 weeks ended 1 May 2011) and in accordance with the provisions of the Companies Act 2006.

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 are presented in pounds sterling, with values rounded to the nearest hundred thousand, except where otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Greene King plc, its subsidiaries and its related party, Greene King Finance plc. Greene King Finance plc is a special purpose entity set up to raise bond finance for the group, which is consolidated as a quasi-subsidiary.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company with adjustments made to their financial statements to bring their accounting policies in line with those used by the group.

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.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

The following standards, interpretations and amendments are effective for this financial year but have not had a significant impact on the reported financial performance or position of the group.

IAS 24 Related Party Disclosures (Revised)

The revised standard, effective for accounting periods beginning on or after 1 January 2011, clarifies the definition of a related party to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment provides guidance on assessing the recoverable amounts of a net pension asset. It permits the treatment of the prepayment of a minimum funding requirement as an asset.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value, unless this cannot be measured reliably, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in the income statement.

Improvements to International Financial Reporting Standards (issued May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in no changes to accounting policies but no impact on the financial position or performance of the group:

- **IFRS 7 Financial Instruments – Disclosures**

The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Financial instruments have been disclosed in note 24.

- **IAS 1 Presentation of Financial Statements**

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe in the statement of changes in equity or in the notes to the financial statements. The group provides this analysis in the statement of changes in equity.

Significant accounting policies

Property, plant and equipment

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

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

Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years, and short leasehold improvements are depreciated to their estimated residual values over the shorter of the remaining term of the lease or useful life of the asset. Residual value is reviewed at least at each financial year end and 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.

1 Accounting policies continued

Significant accounting policies continued

Property, plant and equipment continued

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Profit or loss on de-recognition 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 de-recognition.

Business combinations and goodwill

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

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

Any contingent consideration to be transferred to the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or a liability will be recognised in accordance with IAS 39 either in the income statement or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

Impairment

Property, plant and equipment

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

An assessment is made at each reporting date as to whether there is an indication of impairment. If an indication exists, the 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 to sell and value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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

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

Details of the impairment losses recognised in respect of property, plant and equipment are provided in note 14.

Goodwill

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

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

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

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

Goodwill amortised prior to the conversion to IFRS on 3 May 2004 has not been reinstated and the net book value of goodwill at that date has been carried forward as the carrying value. Prior to May 1998, goodwill was written off to reserves. Such goodwill has not been reinstated and is not included in determining profit or loss on disposal.

NOTES TO THE ACCOUNTS CONTINUED

1 Accounting policies continued

Significant accounting policies continued

Financial instruments

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument and are de-recognised 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.

Financial assets

Financial assets are classified as either financial assets at fair value through the income statement, loans and receivables, held-to-maturity investments or available-for-sale financial assets. The group determines the classification of its financial assets at initial recognition and, where appropriate, re-evaluates this designation at each financial year end.

The group makes trade loans to publicans who purchase the group's beer. Trade loans are non-derivative and are not quoted in an active market and have therefore been designated as 'Loans and receivables', carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

The group assesses at each balance sheet date whether any individual trade loan is impaired. If there is evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the expected future receipts, (excluding future credit losses that have not been incurred), discounted at the loan's original effective interest rate. The loss is recognised in operating profit.

Trade receivables

Trade receivables are recorded at their original invoiced amount less an allowance for any doubtful amounts when collection of the full amount is no longer considered probable.

Inventories

Inventories are valued at the lower of cost and net realisable value. Raw materials are valued at average cost. Finished goods and work in progress comprise materials, labour and attributable production overheads where applicable, and are valued at average cost.

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 outstanding bank overdrafts.

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 are 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 to sell and is no longer depreciated or amortised.

Interest-bearing loans and borrowings

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

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.

Derivative financial instruments and hedge accounting

The group uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate loans, notes and bonds.

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 determined by reference to market values for similar instruments. If a derivative does not qualify for hedge accounting the gain or loss arising on the movement in fair value is recognised in the income statement.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the group's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The group also documents how it will assess the effectiveness of the hedge and carries out assessments on a regular basis to determine whether it has been, and is likely to continue to be, highly effective.

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

Cash flow hedge accounting

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

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

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

Trade payables

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

1 Accounting policies continued

Significant accounting policies continued

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 and other post-employment benefits

Defined benefit pension schemes

The group operates a number of defined benefit pension schemes which require contributions to be made into separately administered funds. The cost of providing benefits under the schemes is determined separately for each plan using the projected unit credit actuarial method on an annual basis.

The current service cost is charged to operating profit. Any actuarial gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur.

Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested.

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

The interest cost on scheme liabilities and the expected return on scheme assets are shown as a net amount in the group income statement.

The defined benefit asset or liability recognised on the balance sheet comprises the present value of the schemes' obligations less the fair value of scheme assets. Defined benefit assets are restricted to the extent that they are considered recoverable.

Defined contribution pension schemes

The cost of the group's defined contribution pension schemes amounts to the value of contributions made. Contributions are charged to the income statement as they become payable.

Post-employment healthcare benefit

The group also provided certain additional post-employment healthcare benefits to employees which are unfunded. The cost of providing these benefits is determined on an estimated accruals basis.

Share-based payments

Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted are measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the vesting conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

No expense is recognised for awards that do not ultimately vest provided vesting is not conditional on market or non-vesting conditions. The dilutive effect of outstanding options is reflected as additional share dilution in calculating earnings per share figures.

In accordance with the exemption allowed under IFRS 1 for first time adopters, no expense is recorded in respect of grants made under the above schemes prior to 7 November 2002 which had not vested by the date of transition to IFRS. However later modifications of such equity instruments are measured using IFRS 2.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The group has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on transactions in treasury shares.

Revenue

Generally, revenue represents external sales (excluding taxes) of goods and services, net of discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes or duty relating to brewing and packaging of certain products. Revenue principally consists of drink, food and accommodation sales, which are recognised at the point at which goods or services are provided, rental income, which is recognised on a straight-line basis over the lease term and machine income, where net takings are recognised as earned.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Lease payments are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

Lease premiums paid on entering into or acquiring operating leases represent prepaid lease payments and are held on the balance sheet as current (the portion relating to the next financial period) or non-current prepayments. These are amortised on a straight-line basis over the lease term.

NOTES TO THE ACCOUNTS CONTINUED

1 Accounting policies continued

Significant accounting policies continued

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 directly in equity is recognised in equity and not in the income statement.

Deferred tax

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

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

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

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

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

Deferred tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Exceptional items

Exceptional items are defined as items of income or expense which, because of their nature, size or expected frequency, merit separate presentation to allow a better understanding of the financial performance in the period.

New standards and interpretations not applied

As at 29 April 2012 there are a number of standards and interpretations issued by the IASB and IFRIC with an effective date after the date of these financial statements and which have not been early adopted by the group. These are expected to be applied as follows:

Amendment to IAS 1 Presentation of Financial Statements

The amended standard, effective for accounting periods beginning on or after 1 July 2012, requires that items included within other comprehensive income are grouped on the basis of whether they are potentially reclassifiable to the group income statement subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IAS 19 Employee Benefits (Revised)

The revisions eliminate the corridor approach and requires immediate recognition of all actuarial gains and losses in other comprehensive income, immediate recognition of all past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. The amendments are effective for accounting periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures of transfer of financial assets

This amendment, effective for accounting periods beginning on or after 1 July 2011, requires additional quantitative and qualitative disclosures relating to transfers of financial assets.

IFRS 7 Financial Instruments: Disclosures (Amendment) and IAS 32 Financial Instruments: Presentation (Amendment)

The amendment to IAS 32, which is effective for accounting periods beginning on or after 1 January 2014, clarifies some of the requirements for offsetting financial assets and financial liabilities on the group balance sheet. The amendment to IFRS 7, effective for accounting periods beginning on or after 1 January 2013, will affect disclosure only and has no impact on the group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

The standard is the first phase in the IASB's work to replace IAS 39 and applies to the classification and measurement of financial instruments as defined in IAS 39. This standard, effective for accounting periods beginning on or after 1 January 2015, establishes two primary measurement categories for financial assets: i) amortised cost and ii) fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. In relation to liabilities the change in the fair value of a liability that relate to credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless such presentation would create or enlarge the accounting mismatch in profit or loss. In subsequent phases, the IASB will address, hedge accounting and derecognition. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

The new standard, which is effective for accounting periods beginning on or after 1 January 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. It also provides additional guidance to assist in the determination of control where this is difficult to assess.

1 Accounting policies continued

New standards and interpretations not applied continued

IFRS 11 Joint Arrangements

The new standard, which is effective for accounting periods beginning on or after 1 January 2013, has reduced the types of joint arrangement to two: joint operations and joint ventures. When classifying the type of joint arrangement more focus is given to ensure that it reflects the obligations of the arrangements rather than its legal form.

IFRS 12 Disclosure of Interests in Other Entities

The new standard, which is effective for accounting periods beginning on or after 1 January 2013, sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11. The standard includes disclosure requirements for all forms of interest in other legal entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 Fair Value Measurement

The new standard, effective for accounting periods beginning on or after 1 January 2013, provides a precise definition of fair value and gives guidance on the measurement and enhanced disclosure of fair value where its use is required or permitted by other IFRSs.

IAS 27 Separate Financial Statements (Revised)

The amended standard is effective for accounting periods beginning on or after 1 January 2013 and includes provisions on separate financial statements that are left after the control provision of IAS 27 have been included in the new IFRS 10.

IAS 28 Associates and Joint Ventures (Amendment)

Following the issue of IFRS 11 the amendment, effective for accounting period beginning on or after 1 January 2013, includes the requirement for joint ventures, as well as associates, to be equity accounted.

Significant accounting judgments and estimates

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 group 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. The estimates and assumptions considered to be significant are detailed below:

Taxation

Judgment is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is possible that a liability will arise. The group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

Share-based payments

Judgment is required when calculating the fair value of awards made under the group's share-based payment plans. Note 8 describes the key assumptions and valuation model inputs used in the determination of these values. In addition estimates are made of the number of awards that will ultimately vest, judgment is required in relation to the probability of meeting non-market based performance conditions and the continuing participation of employees in the plans.

Pension liabilities

The present values of pension liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 9. Any change in these assumptions will impact on the carrying amount of pension liabilities. Note 9 describes the key assumptions used in the accounting for retirement benefit obligations.

Impairment of goodwill

The group determines whether goodwill is impaired on at least an annual basis. Details of the tests and carrying value of the assets are shown in note 13. This requires an estimation of the value-in-use of the cash generating units to which the goodwill is allocated. Value-in-use calculations require assumptions to be made regarding the expected future cash flows from the cash generating unit and choice of a suitable discount rate in order to calculate the present value of those cash flows. If the actual cash flows are lower than estimated, future impairments may be necessary.

Impairment of property, plant and equipment

The group determines whether property, plant and equipment is impaired where there are indicators of impairment. This requires an estimation of the value-in-use at a site level. Value-in-use calculations require assumptions to be made regarding the expected future cash flows from the cash generating unit and choice of a suitable discount rate in order to calculate the present value of those cash flows.

Note 14 describes the assumptions used in the impairment testing of property, plant and equipment together with an analysis of the sensitivity to changes in key assumptions.

Residual values

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. Useful lives are reassessed annually which may lead to an increase or reduction in depreciation accordingly.

Business combinations

The group identifies separate assets and liabilities upon acquisition and recognises those assets at their fair value. The assessment of fair value, particularly for property, plant and equipment acquired, is undertaken with reference to current market conditions.

Note 17 describes the business combinations in the current year and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

Property provisions

The group provides for its onerous obligations under operating leases where the property is closed or vacant and for properties where rental expense is in excess of income. The estimated timings and amounts of cash flows are determined using the experience of internal and external property experts. However, changes to the expected method of exiting from the obligation could lead to changes in the level of provision recorded.

NOTES TO THE ACCOUNTS CONTINUED

2 Segment information

The group has determined the following three reportable segments that are largely organised and managed separately according to the nature of products and services provided, brands, distribution channels and profile of customers:

- Retail: Managed houses and restaurants;
- Pub Partners: Tenanted and leased houses; and
- Brewing & Brands: Brewing beer, marketing and selling.

These are also considered to be the group's operating segments and are based on the information presented to the chief executive who is considered to be the chief operating decision maker.

Transfer prices between operating segments are set on an arm's length basis.

2012	Retail £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	803.9	162.7	173.8	—	1,140.4
Operating costs	(654.3)	(90.5)	(140.8)	(18.6)	(904.2)
Segment operating profit	149.6	72.2	33.0	(18.6)	236.2
Exceptional items					(24.9)
Net finance costs					(86.2)
Income tax expense					(22.7)
					102.4
Balance sheet					
Segment assets	1,823.5	841.0	374.2	41.9	3,080.6
Unallocated assets*					107.4
	1,823.5	841.0	374.2	41.9	3,188.0
Segment liabilities	(75.6)	(13.3)	(64.5)	(85.8)	(239.2)
Unallocated liabilities*					(2,003.5)
	(75.6)	(13.3)	(64.5)	(85.8)	(2,242.7)
Net assets	1,747.9	827.7	309.7	(43.9)	945.3
Other segment information					
Capital expenditure – tangible assets	96.4	21.6	4.4	1.0	123.4
Capital expenditure – business combinations	83.1	—	—	—	83.1
Goodwill acquired	23.5	—	—	—	23.5
Depreciation	42.1	8.0	5.4	0.3	55.8
EBITDA**	191.7	80.2	38.4	(18.3)	292.0

* Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, and derivatives.

** EBITDA represents earnings before interest, tax, depreciation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation charge for the period.

2 Segment information continued

2011	Retail £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	710.7	166.4	165.6	—	1,042.7
Operating costs	(578.7)	(91.9)	(132.5)	(17.6)	(820.7)
Segment operating profit	132.0	74.5	33.1	(17.6)	222.0
Exceptional items					(23.2)
Net finance costs					(82.0)
Income tax expense					(10.0)
Net profit for the period					106.8
Balance sheet					
Segment assets	1,663.5	877.7	378.1	38.6	2,957.9
Unallocated assets*					108.3
	1,663.5	877.7	378.1	38.6	3,066.2
Segment liabilities	(84.3)	(15.7)	(65.5)	(69.6)	(235.1)
Unallocated liabilities*					(1,850.2)
	(84.3)	(15.7)	(65.5)	(69.6)	(2,085.3)
Net assets	1,579.2	862.0	312.6	(31.0)	980.9
Other segment information					
Capital expenditure – tangible assets	79.5	12.8	5.6	1.0	98.9
Capital expenditure – business combinations	95.2	—	—	—	95.2
Goodwill acquired	26.1	—	—	—	26.1
Depreciation	41.0	8.1	5.2	0.3	54.6
EBITDA**	173.0	82.6	38.3	(17.3)	276.6

* Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, and derivatives.

** EBITDA represents earnings before interest, tax, depreciation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation charge for the period.

Management reporting and controlling systems

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on segment operating profit or loss referred to as trading profit in our management and reporting systems. Included within the corporate column in the table above are functions managed by a central division.

No information about geographical regions has been provided as the group's activities are predominantly domestic.

3 Revenue

Revenue is analysed as follows:

	2012 £m	2011 £m
Goods	1,044.7	947.9
Services	95.7	94.8
	1,140.4	1,042.7

4 Other income and expenses

Operating profit is stated after charging/(crediting):

	2012			2011		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Changes in inventory of finished goods and work in progress	65.8	—	65.8	61.8	—	61.8
Cost of products sold recognised as an expense	385.7	—	385.7	340.3	—	340.3
Employment costs (note 6)	281.5	—	281.5	244.9	(5.5)	239.4
Depreciation of property, plant and equipment	55.8	—	55.8	54.6	—	54.6
Operating lease rentals						
– minimum lease rentals	15.6	—	15.6	15.7	—	15.7
Other operating charges	99.8	25.1	124.9	103.4	32.3	135.7
Net profit on disposal of property, plant and equipment	—	(0.2)	(0.2)	—	(3.6)	(3.6)
	904.2	24.9	929.1	820.7	23.2	843.9

NOTES TO THE ACCOUNTS CONTINUED

4 Other income and expenses continued

Fees paid to the auditor during the period consisted of:

	2012 £m	2011 £m
Audit of the group financial statements	0.2	0.2
Other fees to auditor		
– auditing of the accounts of subsidiaries	0.1	0.1
Included in other operating charges	0.3	0.3

5 Exceptional items

	2012 £m	2011 £m
Included in operating profit		
Financial systems integration and divisional restructuring	1.6	1.5
Acquisition and other related costs	5.8	1.4
Pension and post-employment liabilities credit	(4.4)	(5.5)
Impairment of property, plant and equipment (note 14)	22.1	29.4
Net profit on disposal of property, plant and equipment	(0.2)	(3.6)
	24.9	23.2
Included in financing costs		
Interest on tax adjustment in respect of prior periods	2.0	–
Total exceptional items before tax	26.9	23.2
Tax impact of exceptional items	(5.1)	(6.1)
Tax credit on indexation of properties	(4.3)	(1.4)
Tax credit in respect of rate change	(12.2)	(12.9)
Adjustment in respect of prior periods	6.3	(6.0)
Total exceptional tax	(15.3)	(26.4)
Total exceptional items after tax	11.6	(3.2)

Exceptional operating costs

Exceptional divisional restructuring and financial systems integration costs are items of one-off expenditure incurred in connection with the restructuring of certain trading divisions within the group and the review of group-wide financial systems.

Acquisition costs are items of one-off expenditure incurred in connection with acquisition of businesses in the year. These costs include legal and professional fees incurred by the group and stamp duty which in accordance with IFRS 3 (Revised) can no longer be included within the consideration for the acquisition and amount to £3.3m (2011: £1.1m). In addition, as detailed in note 17, acquisition costs include a charge of £2.5m (2011: £0.3m) in respect of amounts payable, two years post acquisition and subject to the future profitability of the businesses, to the former owners of Cloverleaf Restaurants and Realpubs, respectively, who have remained employees of the group.

The credit of £4.4m in respect of post-employment liabilities is as a result of the curtailment of discretionary benefits provided to retired members of the main defined benefit pension scheme. The £5.5m credit in the prior year resulted following curtailment to discretionary pension payments paid to members of the defined benefit pension scheme retiring early.

The net profit on disposal of property, plant and equipment of £0.2m (2011: £3.6m) comprises a total profit on disposal of £7.6m (2011: £8.3m) and a total loss on disposal of £7.4m (2011: £4.7m).

Exceptional tax

The tax credit on indexation of properties represents the tax impact of movements in RPI during the period on the tax base cost of properties.

The Provisional Collection of Taxes Act 1968 reduced the rate of corporation tax from 26% to 24% from 1 April 2012. The effect of the new rate is to reduce the deferred tax provision by a net £8.8m, comprising a credit to the group income statement of £12.2m, a debit to group statement of comprehensive income of £3.2m and a debit of £0.2m to the group statement of changes in equity.

The adjustment in respect of prior periods is in respect of £1.6m deferred taxation on revaluation and rolled over gains on land and buildings, and £4.7m reversal of tax relief previously taken on intra group transactions. The £2.0m finance costs relate to the adjustment of prior period tax.

6 Employment costs

	2012 £m	2011 £m
Wages and salaries	254.1	218.3
Other share-based payments (note 8)	3.9	3.0
Total wages and salaries	258.0	221.3
Social security costs	17.4	17.4
Other pension costs (note 9)		
– defined benefit	4.2	(0.9)
– defined contribution	1.9	1.6
	281.5	239.4

The total expense of share-based payments relates to equity-settled schemes.

The average number of employees during the period was as follows:

	2012	2011
Retail	20,704	18,969
Pub Partners	153	92
Brewing & Brands	829	878
Corporate	398	279
	22,084	20,218

The figures above include 11,019 (2011: 11,278) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on page 45.

7 Finance (costs)/income

	2012			2011		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Bank loans and overdrafts	(8.4)	–	(8.4)	(5.4)	–	(5.4)
Other loans	(78.7)	–	(78.7)	(79.5)	–	(79.5)
Interest on tax adjustment in respect of prior period	–	(2.0)	(2.0)	–	–	–
Total finance costs	(87.1)	(2.0)	(89.1)	(84.9)	–	(84.9)
Unwinding of discount element of provisions	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Net finance expense from pensions	2.3	–	2.3	(0.2)	–	(0.2)
Other net finance income/(expense)	1.9	–	1.9	(0.6)	–	(0.6)
Bank interest receivable	1.0	–	1.0	3.5	–	3.5
Total finance income	1.0	–	1.0	3.5	–	3.5
Net finance costs	(84.2)	(2.0)	(86.2)	(82.0)	–	(82.0)

8 Share-based payment plans

The group operates three types of share-based payment arrangements: a senior management long-term incentive plan (LTIP), a deferred share bonus scheme for senior executives and a general employee share option plan (SAYE). In prior periods executive share option plans (ESOS) were also operated.

The general terms of each plan are detailed in the directors' remuneration report on pages 45 to 47. All are equity-settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £4.4m (2011: £3.5m). A corresponding credit of £3.9m (2011: £3.0m) has been recognised in equity.

NOTES TO THE ACCOUNTS CONTINUED

8 Share-based payment plans continued

The fair value of equity-settled options and LTIP contingently issued shares are estimated using a Black-Scholes model. The fair value of the grants and model inputs used to calculate the fair values of grants during the period were as follows:

2012	LTIP	SAYE
Weighted average share price	455p	522p
Exercise price	—	387p
Expected dividend yield	4.9%	4.9%
Risk-free rate of return	1.4%	0.6%
Volatility	42.9%	33.2%
Expected life (years)	3.0	3.3
Weighted average fair value of grants in the year	393p	133p

2011	LTIP	SAYE
Weighted average share price	413p	474p
Exercise price	—	368p
Expected dividend yield	4.5%	4.5%
Risk-free rate of return	1.3%	1.9%
Volatility	49.0%	47.1%
Expected life (years)	3.0	3.3
Weighted average fair value of grants in the year	354p	158p

Risk-free rate of return is the yield on zero coupon UK government bonds with the same life as the expected option life. Expected volatility is based on historical volatility of the company's share price which assumes that the past trend in share price movement is indicative of future trends. Expected life of options has been taken as the mid-point of the relevant exercise period. This is not necessarily indicative of future exercise patterns.

No other feature of the equity instruments granted was incorporated into the fair value measurement.

Movement in outstanding options and rights during the period is as follows:

	Number of options		Weighted average exercise price	
	2012 m	2011 m	2012 p	2011 p
ESOS				
Outstanding at the beginning of the period	2.6*	4.5*	451	680
Forfeited	(1.5)	(1.4)	452	827
Exercised	(0.1)	(0.5)	381	322
Outstanding at the end of the period	1.0*	2.6*	451	451
Exercisable at the end of the period	1.0	1.1	451	453

* Balance at the beginning of the period includes nil (2011: 0.3m) shares under options granted pre- 7 November 2002 and nil (2011: nil) at the end of period. The options have not been modified and therefore are not accounted for in accordance with IFRS 2.

	Number of options		Weighted average exercise price	
	2012 m	2011 m	2012 p	2011 p
SAYE				
Outstanding at the beginning of the period	2.0	2.1	335	347
Granted	0.8	0.5	387	368
Forfeited	(0.3)	(0.5)	375	403
Exercised	(0.5)	(0.1)	282	400
Outstanding at the end of the period	2.0	2.0	363	335
Exercisable at the end of the period	0.4	0.2	324	487

	Number of shares	
	2012 m	2011 m
LTIP		
Outstanding at the beginning of the period	2.3	2.1
Granted	1.1	1.3
Forfeited	(0.5)	(1.1)
Vested	—	—
Outstanding at the end of the period	2.9	2.3
Exercisable at the end of the period	—	—

The options and shares granted under the LTIP are at nil cost therefore the weighted average exercise price for rights outstanding at the beginning and end of the period, granted, forfeited and exercised during the period is £nil (2011: £nil).

8 Share-based payment plans continued

ESOS, SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 483p in 2012 and 441p in 2011.

The rights outstanding at 29 April 2012 under the LTIP had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.4 years (2011: 1.7 years).

The outstanding options for the ESOS scheme had an exercise price between 296p and 528p (2011: 296p – 872p) and for the SAYE scheme between 274p and 694p (2010: 274p and 694p).

The weighted average remaining contractual life was 2.6 years for the ESOS (2011: 5.7 years) and 3.0 years for the SAYE scheme (2011: 2.7 years).

Deferred share bonus scheme

Selected senior executives participate in a deferred share bonus scheme. Awards made under this scheme are based on a percentage of salary and are paid in shares. Awards are made to eligible employees on the achievement of corporate targets and vest once required service periods are completed. During the year 0.1m shares were purchased to fulfil awards made in 2010/11 under this scheme.

9 Pensions

The group maintains a defined contribution scheme, which is open to all new employees, and three defined benefit schemes.

The group also has a past service liability in relation to post-employment medical benefits offered to employees to cover any medical costs after employment. The benefit is no longer given to new employees.

Defined contribution pension scheme

Member funds for the defined contribution scheme are held and administered by the Prudential Assurance Company. The total cost recognised in operating profit for the period was £1.9m (2011: £1.6m).

Defined benefit pension schemes and post-employment benefits

The group maintains the following defined benefit schemes which are all closed to new entrants and have had full actuarial valuations in the last three years: Greene King Pension Scheme (closed 2 May 1997, last valued as at 5 April 2009), Belhaven Pension Scheme (closed 31 October 2005, last valued as at 4 May 2011), and the Hardys & Hansons Pension Scheme (closed 1 July 2003, last valued as at 30 April 2009).

Member funds for the defined benefit schemes 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 retirement and their length of service.

The group has opted to recognise all actuarial gains and losses immediately via the statement of comprehensive income.

The total cost recognised in the income statement was:

	Pension schemes		Post-employment benefits	
	2012 £m	2011 £m	2012 £m	2011 £m
Current service cost	(4.2)	(4.6)	—	—
Curtailments	—	5.5	4.4	—
Total recognised in operating profit	(4.2)	0.9	4.4	—
Expected return on pension scheme assets	17.6	15.7	—	—
Interest on scheme liabilities	(15.0)	(15.6)	(0.3)	(0.3)
Total finance income/(cost) recognised	2.6	0.1	(0.3)	(0.3)

During the year there was a curtailment to discretionary post-employment benefits provided to retired members of the defined benefit pension scheme which resulted in an exceptional credit to the income statement of £4.4m (see note 5). The credit in the prior year of £5.5m resulted following a curtailment to discretionary pension payments paid to members of the defined benefit pension scheme who retired early.

The total charge recognised in the statement of comprehensive income was:

	Pension schemes		Post-employment benefits	
	2012 £m	2011 £m	2012 £m	2011 £m
Actual return on scheme assets	(1.9)	26.1	—	—
Less: expected return on scheme assets	(17.6)	(15.7)	—	—
Experience gains and losses on scheme assets	(19.5)	10.4	—	—
Experience gains arising on scheme liabilities	2.4	0.7	—	—
(Losses)/gains arising on scheme liabilities due to changes in actuarial assumptions	(16.0)	8.1	—	—
Actuarial (loss)/gain recognised through equity	(33.1)	19.2	—	—

In July 2010 the government changed the statutory rate of inflation to which pension increases are linked from RPI to CPI. The effect of this change on the group's pension schemes in the prior year was to reduce the total liability by £3.7m. This adjustment was reflected within the actuarial gain on scheme liabilities arising from changes in actuarial assumptions.

NOTES TO THE ACCOUNTS CONTINUED

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

The total contributions to the defined benefit pension schemes in the following period are expected to be £12.9m (2011: £13.3m) for the group.

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 29 April 2012 using the following principal actuarial assumptions:

	2012	2011
Discount rate	4.7%	5.4%
Expected rates of salary increases	4.0%	4.3%
Expected pension payment increases	2.9%	3.2%
Rate of inflation (RPI)	3.0%	3.3%
Rate of inflation (CPI)	2.3%	2.8%
Healthcare cost increase	9.0%	9.0%

The mortality assumptions imply the following expectations of years of life from age 65:

Man currently aged 40	23.6	23.0
Woman currently aged 40	26.2	25.7
Man currently aged 65	21.2	21.1
Woman currently aged 65	24.0	23.9

Mortality assumptions are based on standard tables adjusted for scheme experience and with an allowance for future improvement in life expectancy. Overall expected rate of return on assets is established by applying brokers' forecasts to each category of scheme asset.

The table below shows the investment allocation of pension assets against the related liabilities of the pension schemes and other post-employment benefits:

	Pension plans				Post-employment benefits	
	Long-term rate of return expected		Value		2012	2011
	2012	2011	2012	2011		
%	%	£m	£m	£m	£m	
Equities	7.1	8.2	176.6	180.7	—	—
With profits	4.6	5.4	53.9	2.3	—	—
Bonds	4.2	5.2	4.2	47.9	—	—
Property	7.1	8.2	0.3	0.3	—	—
Cash	0.5	0.5	2.3	3.6	—	—
Fair value of assets			237.3	234.8	—	—
Present value of scheme liabilities						
Funded plans			(304.6)	(280.5)	—	—
Unfunded plans			—	—	(1.5)	(5.7)
Non-current liability recognised			(67.3)	(45.7)	(1.5)	(5.7)

The movements in the pension schemes' net liability and post-employment benefits liability during the period are as follows:

	Pension assets		Pension liabilities		Net pension liability	
	2012	2011	2012	2011	2012	2011
	£m	£m	£m	£m	£m	£m
At beginning of period	234.8	205.6	(280.5)	(284.3)	(45.7)	(78.7)
Current service cost	—	—	(4.2)	(4.6)	(4.2)	(4.6)
Interest cost on benefit obligations	—	—	(15.0)	(15.6)	(15.0)	(15.6)
Expected return on plan assets	17.6	15.7	—	—	17.6	15.7
Contributions paid – employers	13.1	12.8	—	—	13.1	12.8
Contributions paid – employees	0.8	0.9	(0.8)	(0.9)	—	—
Settlements and curtailments (note 5)	—	—	—	5.5	—	5.5
Benefits paid	(9.5)	(10.6)	9.5	10.6	—	—
Actuarial (loss)/gain	(19.5)	10.4	(13.6)	8.8	(33.1)	19.2
At end of period	237.3	234.8	(304.6)	(280.5)	(67.3)	(45.7)

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

	Post-employment benefits liability	
	2012 £m	2011 £m
At beginning of period	(5.7)	(5.6)
Interest cost on benefit obligations	(0.3)	(0.3)
Settlements and curtailments (note 5)	4.4	—
Benefits paid	0.1	0.2
At end of period	(1.5)	(5.7)

History of experience adjustments for the current and previous four periods is as follows:

Pension schemes:	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit obligation	(304.6)	(280.5)	(284.3)	(251.3)	(267.3)
Plan assets	237.3	234.8	205.6	159.7	198.9
Deficit	(67.3)	(45.7)	(78.7)	(91.6)	(68.4)
Experience adjustments on scheme liabilities	2.4	0.7	4.1	2.6	(1.6)
Percentage of scheme liabilities	(0.8%)	(0.2%)	(1.4%)	(1.0%)	0.6%
Experience adjustments on scheme assets	(19.5)	10.4	37.9	(53.3)	(18.3)
Percentage of scheme assets	(8.2%)	4.4%	18.4%	(33.4%)	(9.2%)

Post-employment benefits:	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Benefit obligation	(1.5)	(5.7)	(5.6)	(5.5)	(5.4)
Experience adjustments on benefit obligation	—	—	—	—	—

The cumulative amount of actuarial gains and losses recognised since 3 May 2004 in the statement of comprehensive income is a £27.1m loss (2011: £6.0m gain). The amount prior to 3 May 2004 is not determinable as valuations were performed under different accounting and actuarial bases.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	(Increase)/decrease in liability	
	2012 £m	2011 £m
0.25% points increase in discount rate	13.1	11.6
0.25% points increase in inflation assumption	(13.1)	(11.2)
Additional one year increase to life expectancy	(8.4)	(6.3)

10 Taxation

Consolidated income statement	2012			2011		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Income tax						
Corporation tax before exceptional items	38.1	—	38.1	38.0	—	38.0
Recoverable on exceptional items	—	(0.9)	(0.9)	—	(0.7)	(0.7)
Current income tax	38.1	(0.9)	37.2	38.0	(0.7)	37.3
Adjustment in respect of prior periods	(1.8)	(0.5)	(2.3)	—	—	—
	36.3	(1.4)	34.9	38.0	(0.7)	37.3
Deferred tax						
Origination and reversal of temporary differences	1.7	(8.5)	(6.8)	(1.6)	(6.8)	(8.4)
Adjustment in respect of prior periods	—	6.8	6.8	—	(6.0)	(6.0)
Tax credit in respect of rate change	—	(12.2)	(12.2)	—	(12.9)	(12.9)
	1.7	(13.9)	(12.2)	(1.6)	(25.7)	(27.3)
Tax charge in the income statement	38.0	(15.3)	22.7	36.4	(26.4)	10.0

NOTES TO THE ACCOUNTS CONTINUED

10 Taxation continued

Group statement of comprehensive income	2012 £m	2011 £m
Deferred tax		
(Loss)/gain on actuarial valuation of pension liability	(7.9)	5.0
Net (loss) on revaluation on cash flow hedges	(20.3)	(2.0)
Tax charge in respect of rate change	3.2	3.8
	(25.0)	6.8

Group statement of changes in equity	2012 £m	2011 £m
Deferred tax		
Share-based payment – future taxable benefit	(0.3)	(0.7)
Tax charge in respect of rate change	0.2	–
Deferred tax reported in equity	(0.1)	(0.7)
Income tax		
Share-based payments – current taxable benefit	(0.2)	–
Total tax reported in equity	(0.3)	(0.7)

Reconciliation of income tax expense for period

The effective rate of taxation is lower than the full rate of corporation tax. The differences are explained below:

	2012 £m	2011 £m
Profit before tax	125.1	116.8
Profit before tax multiplied by standard rate corporation tax 25.8% (2011: 27.8%)	32.3	32.5
Effects of:		
Expenses not deductible for tax purposes	2.4	1.0
Exceptional deferred tax credit on indexation of properties	(4.3)	(1.4)
Exceptional tax credit in respect of rate change	(12.2)	(12.9)
Tax credit on intra group transactions	–	(3.2)
Adjustment in respect of prior periods – income tax	(2.3)	–
Adjustment in respect of prior periods – deferred tax charge/(credit)	6.8	(6.0)
Income tax expense reported in the income statement	22.7	10.0

Deferred tax

The deferred tax included in the balance sheet is as follows:

	2012 £m	2011 £m
Deferred tax liability		
Accelerated capital allowances	47.1	51.4
Rolled over gains and property revaluation	103.6	111.7
	150.7	163.1
Deferred tax asset		
Pensions and post-employment medical benefits	(16.4)	(13.3)
Other accruals and deferred income	(2.7)	(2.9)
Derivatives	(47.1)	(29.0)
Share-based payment	(2.4)	(1.9)
Tax losses carried forward	(2.0)	(1.6)
	(70.6)	(48.7)
Net deferred tax liability	80.1	114.4

10 Taxation continued

The deferred tax included in the income statement is as follows:

	2012			2011		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Deferred tax in the income statement						
Accelerated capital allowances	(1.1)	(3.9)	(5.0)	(2.9)	(4.1)	(7.0)
Rolled over gains and property revaluations	—	(11.4)	(11.4)	—	(23.2)	(23.2)
Pensions and post-employment medical benefit	2.7	1.1	3.8	2.2	1.4	3.6
Share-based payments	(0.4)	—	(0.4)	(0.9)	—	(0.9)
Tax losses carried forward	0.5	0.1	0.6	—	—	—
Other temporary differences	—	0.2	0.2	—	0.2	0.2
Deferred tax expense	1.7	(13.9)	(12.2)	(1.6)	(25.7)	(27.3)

The movements on deferred tax assets and liabilities during the period are shown below:

	Accelerated capital allowances £m	Rolled over gains and property revaluation £m	Total £m
Deferred tax liabilities			
At 2 May 2010	57.3	126.5	183.8
Credit to the income statement	(7.0)	(23.2)	(30.2)
Acquired	1.1	8.4	9.5
At 1 May 2011	51.4	111.7	163.1
Credit to the income statement	(5.0)	(11.4)	(16.4)
Acquired	0.7	3.3	4.0
At 29 April 2012	47.1	103.6	150.7

	Pensions and post- employment medical benefits £m	Other accruals and deferred income £m	Derivatives £m	Share-based payments £m	Tax losses carried forward £m	Total £m
Deferred tax assets						
At 2 May 2010	(23.6)	(3.1)	(29.1)	(0.3)	—	(56.1)
Charge/(credit) to equity/comprehensive income	6.7	—	0.1	(0.7)	—	6.1
Charge/(credit) to the income statement	3.6	0.2	—	(0.9)	—	2.9
Acquired	—	—	—	—	(1.6)	(1.6)
At 1 May 2011	(13.3)	(2.9)	(29.0)	(1.9)	(1.6)	(48.7)
Credit to equity/comprehensive income	(6.9)	—	(18.1)	(0.1)	—	(25.1)
Charge/(credit) to the income statement	3.8	0.2	—	(0.4)	0.6	4.2
Acquired	—	—	—	—	(1.0)	(1.0)
At 29 April 2012	(16.4)	(2.7)	(47.1)	(2.4)	(2.0)	(70.6)

There are no income tax consequences attaching to the payment of dividends by Greene King plc to its shareholders.

Factors that may affect future tax charges

In addition to the reduction in the rate of corporation tax from 26% to 24% during the period it is proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. These further reductions had not been substantively enacted at the balance sheet date and consequently are not included in these financial statements. The effect of these proposals would be to reduce the deferred tax liability by a further £6.7m.

NOTES TO THE ACCOUNTS CONTINUED

11 Dividends paid and proposed

	2012 £m	2011 £m
Declared and paid in the period		
Interim dividend for 2012 – 6.7p (2011: 6.3p)	14.4	13.6
Final dividend for 2011 – 16.8p (2010: 15.6p)	36.2	33.5
	50.6	47.1
Proposed for approval at AGM		
Final dividend for 2012 – 18.1p (2011: 16.8p)	39.0	36.2
Total proposed dividend for 2012 – 24.8p (2011: 23.1p)	53.4	49.8

Dividends on own shares have been waived.

12 Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £102.4m (2011: £106.8m) by the weighted average number of shares in issue during the period (excluding own shares held) of 215.0m (2011: 214.8m).

Diluted earnings per share has been calculated on a similar basis taking account of 0.6m (2011: 0.6m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 215.6m (2011: 215.4m). Share options granted over 0.5m shares (2011: 0.6m) have not been included in the diluted earnings per share calculation because they are anti-dilutive at the year end. The performance conditions for share options granted over 2.9m (2011: 1.9m) shares have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the period end has not been included in the diluted earnings per share calculation.

Adjusted earnings per share excludes the effect of exceptional items and is presented to show the underlying performance of the group on both a basic and dilutive basis.

Adjusted earnings per share

	Earnings		Basic earnings per share		Diluted earnings per share	
	2012 £m	2011 £m	2012 p	2011 p	2012 p	2011 p
Profit attributable to equity holders	102.4	106.8	47.6	49.7	47.5	49.6
Exceptional items	11.6	(3.2)	5.4	(1.5)	5.4	(1.5)
Profit attributable to equity holders before exceptional items	114.0	103.6	53.0	48.2	52.9	48.1

Treasury shares and shares held by the EBT are excluded from the calculation of weighted average number of shares in issue.

13 Goodwill

	£m
Cost	
At 2 May 2010	679.7
Acquired through business combinations (note 17)	26.1
At 1 May 2011	705.8
Acquired through business combinations (note 17)	23.5
At 29 April 2012	729.3

All goodwill was purchased as part of business combinations. As from 3 May 2004, the date of transition to IFRS, goodwill is no longer amortised but is subject to annual impairment testing.

Goodwill has been allocated to operating segments, the lowest group of cash generating units in the group at which goodwill is monitored internally, based on the extent that the benefits of acquisitions flow to that segment.

The carrying amount of goodwill has been allocated £354.0m (2011: £330.5m) to Retail, £160.8m (2011: £160.8m) to Pub Partners, and £214.5m (2011: £214.5m) to Brewing & Brands.

The recoverable amount of each segment was determined on a value-in-use basis, using cash flow projections based on one year budgets approved by the board, and in all cases exceeded the carrying amount. The key assumptions used in the value-in-use calculations are the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Cash flows are discounted at 9.0% (2011: 9.0%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. A growth rate of 2.0% (2011: 2.0%) has been used to extrapolate cash flows. The growth rate is considered a conservative rate and is below the long-term average growth rate for the industry.

Sensitivity to changes in assumptions

The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in discount of 1% point, a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation none of these changes would have resulted in an impairment of goodwill in the period.

14 Property, plant and equipment

	Licensed estate		Other		Total £m
	Land and buildings £m	Plant and equipment £m	Land and buildings £m	Plant and equipment £m	
Cost					
Balances at 2 May 2010	1,814.3	482.8	63.9	108.1	2,469.1
Additions during period	55.6	37.0	0.3	6.0	98.9
Acquisitions (note 17)	88.9	6.3	—	—	95.2
Transfer to property, plant and equipment held for sale	(3.9)	(0.8)	—	—	(4.7)
Disposals during period	(19.1)	(6.0)	(4.1)	(0.2)	(29.4)
Balances at 1 May 2011	1,935.8	519.3	60.1	113.9	2,629.1
Additions during period	70.8	47.1	0.2	5.3	123.4
Acquisitions (note 17)	83.1	—	—	—	83.1
Transfer to property, plant and equipment held for sale	(7.0)	(1.3)	—	—	(8.3)
Disposals during period	(24.0)	(8.0)	(0.1)	(1.7)	(33.8)
Balances at 29 April 2012	2,058.7	557.1	60.2	117.5	2,793.5
Depreciation and impairment					
Balances at 2 May 2010	86.6	298.8	8.4	62.6	456.4
Written back on disposals	(0.9)	(3.7)	(0.5)	(0.1)	(5.2)
Transfer to property, plant and equipment held for sale	(0.6)	(0.4)	—	—	(1.0)
Provided during the year	0.3	48.8	0.4	5.1	54.6
Impairment (see below)	29.4	—	—	—	29.4
Balances at 1 May 2011	114.8	343.5	8.3	67.6	534.2
Written back on disposals	(1.5)	(5.3)	—	(1.0)	(7.8)
Transfer to property, plant and equipment held for sale	(1.5)	(0.6)	—	—	(2.1)
Provided during the year	0.3	49.8	0.4	5.3	55.8
Impairment (see below)	22.1	—	—	—	22.1
Balances at 29 April 2012	134.2	387.4	8.7	71.9	602.2
Net book value					
At 29 April 2012	1,924.5	169.7	51.5	45.6	2,191.3
At 1 May 2011	1,821.0	175.8	51.8	46.3	2,094.9
At 2 May 2010	1,727.7	184.0	55.5	45.5	2,012.7

The licensed estate relates to properties, and assets held within those properties, licensed to trade (ie managed, tenanted and leased houses).

Other assets relate to property, plant and equipment associated with unlicensed properties (ie brewing, distribution, and central assets).

The net book value of land and buildings comprises:

	2012 £m	2011 £m
Freehold properties	1,880.8	1,776.5
Leasehold properties >50 years unexpired term	59.5	71.1
Leasehold properties <50 years unexpired term	35.7	25.2
	1,976.0	1,872.8

Valuation

The licensed estate properties were valued by the group's own professionally qualified chartered surveyors, as at 20 December 2003, on the basis of existing use value, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards. A representative sample of properties was also valued by external valuers, Gerald Eve Chartered Surveyors and Property Consultants, who confirmed that the values were consistent with their appraisal. Frozen revaluation has been taken as deemed cost on the transition to IFRS, therefore no historic cost analysis is provided.

Up to 1999 the brewery and depots were valued at depreciated replacement cost and other properties at open market value. These valuations have been retained but they have not been updated. Subsequent additions have been included at cost or, in the case of acquisitions, at fair value.

NOTES TO THE ACCOUNTS CONTINUED

14 Property, plant and equipment continued

Charges over assets

Included in land and buildings are properties with a net book value of £1,433.9m (2011: £1,429.6m) over which there is a first charge in favour of the securitised debt holders as detailed in note 23.

Future capital expenditure

	2012 £m	2011 £m
Contracted for	9.9	2.4

Impairment of property plant and equipment

During the year £22.1m of impairment losses (2011: £29.4m) were recognised in the income statement as exceptional costs. These are analysed between the group's principal reporting segments as shown below:

	2012 £m	2011 £m
Retail	2.5	8.9
Pub Partners	19.6	20.5
	22.1	29.4

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 is the higher of the CGU's fair value less costs to sell and its value-in-use.

The group estimates value-in-use using a discounted cash flow model. The key assumptions used are the discount rate applied to cash flow projections of 9% (2011: 9%) and the projected cash flows extrapolated using an average growth rate of 2% (2011: 2%) which is below the long-term average growth rate for the industry. Other commercial assumptions relating to individual CGUs have been made based on historic trends adjusted for management's estimates of medium-term trading prospects.

The impairment recognised in the Retail and Pub Partners estates are primarily the result of the reduced trading performance of a relatively small number of pubs due to a combination of site specific trading circumstances and the general weakening of the UK consumer environment seen in the year.

Sensitivity to changes in assumptions

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

Increased impairment resulting from a 10% reduction in fair value:

	2012 £m	2011 £m
Retail	0.4	1.9
Pub Partners	3.6	4.2
	4.0	6.1

Increased impairment resulting from a 1% increase in discount rate:

	2012 £m	2011 £m
Retail	0.8	1.7
Pub Partners	3.3	2.9
	4.1	4.6

Increased impairment resulting from a 1% reduction in growth rate:

	2012 £m	2011 £m
Retail	0.8	1.7
Pub Partners	3.3	2.9
	4.1	4.6

15 Financial assets

	2012 £m	2011 £m
Trade loans (net of provision)	6.2	4.6
Total current	6.2	4.6
Trade loans (net of provision)	30.4	34.2
Investments	2.4	1.6
Total non-current	32.8	35.8

Trade loans are net of provisions of £4.6m (2011: £4.6m). During the year £0.1m (2011: £0.3m) of the provision was utilised and £0.1m (2011: £0.3m) of new provision created. All trade loans, net of any provision recognised, are considered to be neither past due nor impaired.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £24.4m (2011: £26.8m) and variable rate trade loans amounted to £16.8m (2011: £16.6m). Included in fixed rate loans are £6.4m of loans with settlement related to purchase levels (2011: £6.6m). The write down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the settlement.

The fixed rate trade loans had a weighted average interest rate of 3.79% (2011: 2.65%) and a weighted average period of 6.73 years (2011 – 6.77 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans

	2012 £m	2011 £m
Balance at beginning of period	38.8	40.3
Advances	4.4	7.4
Repayments	(6.6)	(8.9)
Provisions	—	—
Balance at end of period	36.6	38.8

16 Subsidiary undertakings

The main subsidiary undertakings are:

Subsidiary undertakings	Principal activity	Held by	Holding	Proportion of voting rights
Greene King Brewing and Retailing Limited	Brewing and retailing	Subsidiary	Ordinary shares	100%
Greene King Retailing Parent Limited	Holding company	Parent	Ordinary shares	100%
Greene King Pubs Limited	Holding company	Parent	Ordinary shares	100%
Greene King Investments Limited	Holding company	Parent	Ordinary shares	100%
Greene King Retailing Limited	Pub retailing	Subsidiary	Ordinary shares	100%
Greene King Services Limited	Employment	Subsidiary	Ordinary shares	100%
Greene King Retail Services Limited	Employment	Subsidiary	Ordinary shares	100%
Greene King Properties Limited	Property	Subsidiary	Ordinary shares	100%
Hardys & Hansons Limited	Employment	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited	Employment	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited	Employment	Subsidiary	Ordinary shares	100%
Cloverleaf Restaurants Limited	Employment	Subsidiary	Ordinary shares	100%
Loch Fyne Restaurants Limited	Retailing	Subsidiary	Ordinary shares	100%
The Capital Pub Company Limited	Holding company	Parent	Ordinary shares	100%
Belhaven Group Properties Limited	Property	Subsidiary	Ordinary shares	100%

NOTES TO THE ACCOUNTS CONTINUED

17 Business combinations

On 19 July 2011 an agreement was reached on the terms of a recommended offer for the entire issued share capital of The Capital Pub Company. The offer was declared unconditional on 22 August 2011 with the group assuming control of The Capital Pub Company from 3 September 2011.

On 5 September 2011 the group announced its intention to compulsorily acquire all outstanding shares in The Capital Pub Company, with all purchases completed by 24 October 2012.

	The Capital Pub Company £m
Fair value of assets acquired	
Property, plant and equipment	83.1
Investments	0.7
Inventories	0.4
Trade receivables	0.1
Other receivables/prepayments	3.3
Cash and cash equivalents	1.4
Trade payables	(2.2)
Other payables/accruals	(3.7)
Deferred tax	(3.0)
Derivatives	(4.1)
Debt acquired	(27.3)
Fair value of net assets acquired	48.7
Goodwill	23.5
Consideration	72.2

The net cash flow impact of the acquisition is:

	The Capital Pub Company £m
Cash consideration	72.2
Cash acquired	(1.4)
	70.8
Repayment of acquired debt	27.3
	98.1

The consideration together with the net debt acquired of £25.9m and subsequent receipt of share option proceeds of £2.1m totals £96.0m and includes £2.7m relating to an additional pub acquired after the announcement of the offer on 19 July 2011.

Goodwill has arisen primarily due to expected operating synergies and the difference between property portfolio value and value-in-use.

The fair value of properties acquired was established following a review of properties that was carried out by qualified surveyors employed by the group. Properties have been revalued at their existing use value. The values of other current assets and liabilities have been adjusted to amounts to be realised or paid respectively.

Since 3 September 2011 The Capital Pub Company has contributed revenue of £20.6m and operating profits of £4.2m.

If the acquisition had taken place at the beginning of the period the group's consolidated operating profit for the 52 week period to 29 April 2012 would have increased by £2.3m and consolidated revenue by £10.9m.

17 Business combinations continued

During the prior period the group acquired 100% of Cloverleaf Restaurants on 28 January 2011 and 100% of the Realpubs group on 27 April 2011. The group also acquired a package of four pubs from Punch Taverns for £5.3m on 8 July 2010.

	Pub package £m	Cloverleaf £m	Realpubs £m	Total £m
Fair value of assets acquired				
Property, plant and equipment	5.3	49.0	40.9	95.2
Inventories	—	0.2	0.2	0.4
Other receivables/prepayments	—	0.2	0.3	0.5
Cash and cash equivalents	—	1.0	3.7	4.7
Trade payables	—	(1.9)	(0.9)	(2.8)
Other payables/accruals	—	(0.9)	(1.3)	(2.2)
Current tax	—	—	(0.4)	(0.4)
Deferred tax	—	(4.9)	(3.1)	(8.0)
Derivatives	—	—	(0.6)	(0.6)
Debt acquired	—	(22.2)	(25.5)	(47.7)
Fair value of net assets acquired	5.3	20.5	13.3	39.1
Goodwill	—	12.0	14.1	26.1
Consideration	5.3	32.5	27.4	65.2

The net cash flow impact of the acquisitions are expected to be:

	Pub package £m	Cloverleaf £m	Realpubs £m	Total £m
Cash consideration	(5.3)	(32.5)	(27.4)	(65.2)
Cash acquired	—	1.0	3.7	4.7
	(5.3)	(31.5)	(23.7)	(60.5)
Repayment of acquired debt	—	(22.2)	(25.5)	(47.7)
Other future cash payments (see below)	—	(2.0)	(3.0)	(5.0)
	(5.3)	(55.7)	(52.2)	(113.2)

Goodwill has arisen primarily due to expected operating synergies, the difference between property portfolio value and fair value-in-use and the proven ability of the management of Cloverleaf and Realpubs to develop businesses in their respective markets.

The fair value of properties acquired was established following a review that was carried out by qualified surveyors employed by the group. Properties have been revalued at their existing use value.

Under the terms of the acquisition agreements for the Cloverleaf and Realpubs acquisitions a total of £5.0m will be payable in cash to certain former owners who remain as employees of the Greene King group two years from the date of completion based on the estimated future profitability of the businesses. The cost of these payments will be recognised in the income statement as an exceptional item on a straight-line basis over this period. The charge recognised in the current year is £2.5m (2011: £0.3m).

18 Inventories

	2012 £m	2011 £m
Raw materials and work in progress	4.2	3.7
Finished goods and goods for resale	22.9	18.6
Consumable stores	2.3	2.4
	29.4	24.7

19 Trade and other receivables

	2012 £m	2011 £m
Other receivables	0.1	0.1
Total non-current	0.1	0.1
Trade receivables	57.8	60.6
Other receivables	10.8	9.0
Total current	68.6	69.6

Trade and other receivables are non-interest bearing.

NOTES TO THE ACCOUNTS CONTINUED

19 Trade and other receivables continued

The ageing analysis of trade receivables is as follows:

	2012 £m	2011 £m
Neither past due nor impaired	52.9	55.2
Past due but not impaired		
– less than 30 days	3.1	2.4
– 30–60 days	0.5	2.2
– greater than 60 days	1.3	0.8
	57.8	60.6

Trade receivables are shown net of a provision of £4.9m (2011: £5.9m).

20 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	33.5	50.2
Short term deposits	3.3	9.4
Cash and cash equivalents for balance sheet	36.8	59.6
Bank overdrafts	(5.0)	(13.2)
Cash and cash equivalents for cash flow	31.8	46.4

Included in the balances above is £16.0m (2011: £40.7m) held within securitised bank accounts which are only available for use by the securitisation entities within the group. The securitisation entities comprise Greene King Retailing Parent Limited and its subsidiaries.

Interest receivable on cash and short term deposits is linked to base rate and is received either monthly or in line with the term of the deposit.

21 Property, plant and equipment held for sale

	2012 £m	2011 £m
Property, plant and equipment held for sale	6.2	3.7

At the current period end, property plant and equipment held for sale represents £6.2m (2011: £3.7m) of pubs that are being actively marketed for sale with expected completion dates within one year. The value of property plant and equipment held for sale represents the expected net disposal proceeds and is the value after a current year impairment charge of £1.3m (2011: £0.6m) included as an exceptional item.

22 Trade and other payables: current

	2012 £m	2011 £m
Trade payables	93.5	97.7
Other payables		
– other taxation and social security costs	47.0	44.5
– accruals and deferred income	76.9	73.7
– interest payable	12.8	12.1
	230.2	228.0

Trade payables and other payables are non-interest bearing. Interest payable is mainly settled monthly, quarterly or semi-annually throughout the year, in accordance with the terms of the related financial instrument.

23 Borrowings

	Repayment date	2012			2011		
		Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	5.0	—	5.0	13.2	—	13.2
Bank loans – floating rate	2016	—	206.6	206.6	—	110.0	110.0
Securitised debt	2005 to 2036	25.7	1,292.7	1,318.4	24.3	1,318.6	1,342.9
Loan notes	2009 to 2011	—	—	—	3.7	—	3.7
		30.7	1,499.3	1,530.0	41.2	1,428.6	1,469.8

Bank overdrafts

Overdrafts are utilised for the day to day management of cash. The group has facilities of £25.0m (2011: £25.0m) available with interest linked to base rate.

23 Borrowings continued

Bank loans – unsecured

During the prior period the group agreed a 5-year revolving credit facility, signed on 1 April 2011, of £400m, of which £206.6m (2011: £110.0m) was drawn down at the year end. Any amounts drawn down bear interest at a margin above LIBOR, with commitment payments on the undrawn portions. Interest is payable at each renewal date which vary in maturity. Although any individual draw-downs are repayable within twelve months of the balance sheet date, the group expects to renew this funding. Immediate renewal is available under the £400m facility until April 2016. Final repayment of the total drawn-down balance is due as one payment on the agreement repayment date.

Securitised debt

The group has issued various tranches of bonds totalling £1,500.0m, in connection with the securitisation of 2,035 of the group's pubs held in Greene King Retailing Limited at the date of the most recent tap. The bonds are secured over the properties and their future income streams and were issued by Greene King Finance plc.

The group's securitised debt consists of the following tranches:

Tranche	Nominal value (£m)	Carrying value (£m)***		Interest	Effective interest rate** (%)	Principal repayment period	Expected average life*
		2012	2011				
A1	150.0	148.5	148.5	Floating	6.11%	2031	8.3 years
A2	253.6	250.5	261.2	Fixed	5.32%	2031	13.3 years
A3	115.9	114.9	124.6	Floating	5.95%	2021	5.2 years
A4	258.9	257.3	257.2	Fixed	5.11%	2034	16.4 years
A5	269.9	268.6	273.1	Floating	7.65%	2033	13.3 years
B1	120.9	119.7	119.6	Fixed/floating	6.50%	2034	21.2 years
B2	99.9	99.2	99.2	Floating	6.86%	2036	23.3 years
AB1	60.0	59.7	59.5	Floating	10.37%	2036	23.0 years
	1,329.0	1,318.4	1,342.9				

* This assumes notes are held until final maturity.

** Includes the effect of interest rate swaps and future step-ups.

*** Carrying value is net of related deferred finance fees.

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

Payment of interest is made on quarterly dates for all classes of bond. All of the floating rate bonds are fully hedged using interest rate swaps.

The Class A1, A2, A3, A4 and A5 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class AB1 and Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The Class AB1 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds.

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

Loan notes – unsecured

The loan notes issued during 2006 in connection with the Hardys & Hansons acquisition matured in September 2011.

24 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 bank loans and overdraft, securitised bonds, loan notes, cash and short term deposits. Other financial instruments arise directly from the operations of the group, such as trade receivables, payables, and trade loans.

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 cash flow risk, interest rate risk, credit risk and liquidity risk. The policy for managing each of these risks is set out overleaf.

NOTES TO THE ACCOUNTS CONTINUED

24 Financial instruments continued

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 operates a policy that no less than 95% of the overall interest exposure should be hedged. The group enters into interest rate swaps to manage the exposure. The swaps are designated as cash flow hedges at the date of contract included within the accounts, and tested for effectiveness every six months.

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 29 April 2012 and 1 May 2011. The analysis relates only to balances at these dates and is not representative of the year as a whole. The following assumptions were made:

- balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move;
- gains and losses are recognised within equity or the income statement in line with the accounting policies of the group; and
- cash flow hedges were assumed to be effective or ineffective on the same basis as those as at the year end. An explanation for the split between those hedges that were effective at the year end and those that were ineffective is detailed within the cash flow hedging note.

Based on the group's net position at the year end, a 1% increase or decrease in interest rates would change the group's profit before tax by approximately £0.1m (2011: £0.3m) and the group's equity by £101.9m (2011: £87.7m).

Liquidity risk

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

The standard payment terms that the company has with its suppliers is 60 days following month end (2011: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than one month. Short-term flexibility is achieved through the use of short-term borrowing on the money markets.

The table below summarises the maturity profile of the group's financial liabilities at 29 April 2012 and 1 May 2011 based on contractual undiscounted payments including interest.

	Within 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Period ended 29 April 2012					
Interest-bearing loans and borrowings:					
– capital	32.8	29.4	308.8	1,172.8	1,543.8
– interest	84.6	83.0	228.2	776.2	1,172.0
	117.4	112.4	537.0	1,949.0	2,715.8
Derivative financial instruments	9.7	9.6	27.1	154.4	200.8
Trade payables and accruals	170.4	–	–	–	170.4
Provisions in respect of financial liabilities	1.2	0.6	1.9	10.1	13.8
	298.7	122.6	556.0	2,113.5	3,100.8
Period ended 1 May 2011					
Interest-bearing loans and borrowings:					
– capital	43.2	27.8	203.4	1,207.9	1,482.3
– interest	82.6	80.7	231.9	845.5	1,240.7
	125.8	108.5	435.3	2,053.4	2,723.0
Derivative financial instruments	4.9	4.9	14.7	91.8	116.3
Trade payables and accruals	171.4	–	–	–	171.4
Provisions in respect of financial liabilities	0.7	1.1	3.7	4.1	9.6
	302.8	114.5	453.7	2,149.3	3,020.3

Credit risk

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.

Other financial assets includes trade loans and cash. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the group is the carrying amount of these instruments.

There is no requirement for collateral and there are no significant concentrations of credit risk within the group.

24 Financial instruments continued

Cash flow hedging

At 29 April 2012 the group held 4 (2011: 1) interest rate swap contracts for a nominal value of £140m (2011: £40m), designated as a hedge of the cash flow interest rate risk of the £206.6m (2011: £110m) draw-down from the variable credit facility in the year. The interest rate swaps are held on the balance sheet as a fair value liability of £2.4m (2011: £0.3m). The cash flows occur quarterly with the group receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 1.645% (2011: 2.618%). The contract maturity dates are between December 2013 and May 2016.

At 29 April 2012 the group held 5 (2011: 5) interest rate swap contracts for a nominal value of £695.7m (2011: £719.6m), entered into as part of the securitisation and subsequent securitisation taps. A fair value net liability of £198.4m (2011: £116.0m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £695.7m (2011: £719.6m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 5.106% (2011: 4.834%). The contract maturity dates are December 2034 and March 2036. The bonds and interest rate swaps have the same critical terms.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective.

The percentage of debt that was fixed as at the year end was 97.4% (2011: 98.0%) in line with the group's policy of fixing at least 95% of all debt.

Interest rate risk

The following tables set out the group's exposure to interest rate risk and the maturity profile for each class of interest-bearing financial asset and financial liability.

29 April 2012	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Securitised debt	2.8	3.3	3.8	4.4	5.1	608.1	627.5
Financial asset	(4.2)	(2.9)	(2.5)	(2.2)	(2.0)	(10.8)	(24.6)
Variable rate							
Securitised debt	22.9	25.7	26.8	28.0	29.2	558.3	690.9
Loan notes	—	—	—	—	—	—	—
Bank loans	—	—	—	206.6	—	—	206.6
Overdraft	5.0	—	—	—	—	—	5.0
Financial asset	(2.0)	(2.0)	(1.9)	(1.7)	(1.7)	(7.3)	(16.6)
Cash and short term deposits	(36.8)	—	—	—	—	—	(36.8)
Interest rate swap liabilities	9.7	9.6	9.5	8.8	8.8	154.4	200.8

1 May 2011	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Securitised debt	10.4	2.8	3.3	3.8	4.4	613.3	638.0
Financial asset	(4.2)	(3.1)	(2.8)	(2.5)	(2.3)	(11.9)	(26.8)
Variable rate							
Securitised debt	13.9	23.0	25.7	26.8	28.0	587.5	704.9
Loan notes	3.7	—	—	—	—	—	3.7
Bank loans	—	—	—	—	110.0	—	110.0
Overdraft	13.2	—	—	—	—	—	13.2
Financial asset	(2.0)	(1.9)	(1.8)	(1.7)	(1.7)	(7.5)	(16.6)
Cash and short term deposits	(59.6)	—	—	—	—	—	(59.6)
Interest rate swap liabilities	4.9	4.9	4.9	4.9	4.9	91.8	116.3

The interest on variable rate financial instruments is repriced at intervals of less than one year. The interest on fixed rate financial instruments is fixed until the maturity of the instrument. Investments, trade and other receivables, and trade and other payables are not included above as they are non-interest bearing and are not subject to interest rate risk.

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of all of the group's financial instruments.

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:

Cash and cash equivalents (comprising cash at bank and in hand and short-term deposits) – approximates to the carrying amount stated in the accounts.

Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments.

Long-term loans – based on quoted market prices in the case of the securitised debt; approximates to the carrying amount in the case of the floating rate bank loans and other variable rate borrowings.

NOTES TO THE ACCOUNTS CONTINUED

24 Financial instruments continued

Fair values continued

Interest rate swaps – fair values and effective interest rates of derivatives and other borrowings have been based on quotations from counterparties and represent estimates of the amount the group would expect to pay or receive on termination of the agreements.

	Fair value 2012 £m	Carrying value 2012 £m	Fair value 2011 £m	Carrying value 2011 £m
Financial liabilities				
Overdraft	5.0	5.0	13.2	13.2
Interest-bearing loans and borrowings				
– securitised debt	1,116.5	1,318.4	1,169.1	1,342.9
– floating rate bank loans	206.6	206.6	110.0	110.0
– other variable rate borrowings	–	–	3.7	3.7
Interest rate swaps	200.8	200.8	116.3	116.3
Financial assets				
Cash	(36.8)	(36.8)	(59.6)	(59.6)
Financial assets	(39.0)	(39.0)	(40.4)	(40.4)

Carrying values are stated net of any deferred finance fees which amounted to £14.0m (2011: £12.4m).

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 7 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 or 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.

At 29 April 2012

Fair value measurement at the end of the reporting period using:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Interest rate swaps	200.8	–	200.8	–

At 1 May 2011

Fair value measurement at the end of the reporting period using:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Interest rate swaps	116.3	–	116.3	–

During the periods ending 29 April 2012 and 1 May 2011 there were no transfers between levels 1, 2, or 3 fair value measurements.

Capital risk management

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

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

The group monitors capital using interest cover and several other measures including fixed charged cover, the ratio of net debt to EBITDA and free cash flow debt service coverage. Interest cover is calculated by dividing operating profit before exceptional items by net finance costs before exceptional items (note 7). For the period to 29 April 2012 interest cover was 2.7x (2011: 2.7x).

25 Provisions

	Property leases £m
As at 2 May 2010	—
Reclassification from trade and other payables	7.8
Unwinding of discount element of provisions	0.4
Utilised during the period	(1.1)
At 1 May 2011	7.1
Reclassification from trade and other payables	1.2
Unwinding of discount element of provisions	0.4
Provided for during the period	1.8
Utilised during the period	(1.5)
At 29 April 2012	9.0

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

	29 April 2012 £m	1 May 2011 £m
Current	1.2	0.7
Non-current	7.8	6.4
	9.0	7.1

The provision for property leases has been set up to cover operating costs of vacant or loss making premises. The provision covers the expected shortfall between operating income and rents payable. Payments are expected to be ongoing on these properties for an average of 15 years.

26 Share capital

	2012		2011	
	Number of issued shares m	Share capital £m	Number of issued shares m	Share capital £m
Called up, allotted and fully paid				
At beginning of period	217.0	27.1	216.4	27.1
Issue of share capital – share options exercised	0.5	0.1	0.6	—
At end of period	217.5	27.2	217.0	27.1

Details of options granted and outstanding are included in note 8.

27 Reserves

Share premium account

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

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.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the group's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 1. Amounts recycled to income are included within finance costs in the income statement.

NOTES TO THE ACCOUNTS CONTINUED

27 Reserves continued

Own shares

Own shares relates to shares held in treasury, held by the employee benefit trust or purchased to fulfil awards made under the deferred share bonus scheme. At 29 April 2012 1.0m shares (2011: 1.0m) were held in treasury, 1.1m shares (2011: 1.1m) were held by the employee benefit trust and 0.1m (2011: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 29 April 2012 of the treasury shares was £5.0m (2011: £4.8m), of the shares held by the employee benefit trust was £5.6m (2011: £5.4m) and of the shares held for the deferred share bonus scheme was £0.6m (2011: £nil).

The employee benefit trust is independently managed and has purchased shares in order to satisfy outstanding employee share options and potential awards under the long term incentive plan.

At the year end 0.8m (2011: 0.8m) treasury shares and 0.2m (2011: 0.5m) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £nil (2011: £0.1m) from own shares to retained earnings has been made to reflect transfers to satisfy awards under the long-term incentive plan and options exercised under the executive share option plan and reflects the weighted average cost of own shares.

During the period 0.1m shares were repurchased at a cost of £0.6m to fulfil awards made under the deferred share bonus scheme and no shares were repurchased by the employee benefit trust (2011: 0.6m). No (2011: nil) shares were transferred to satisfy awards under the long-term incentive plan and options exercised under the executive share option scheme.

Goodwill

The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m.

28 Working capital and non-cash movements

	2012 £m	2011 £m
Increase in inventories	(4.3)	(2.8)
Decrease/(increase) in trade and other receivables	6.4	(6.6)
(Decrease)/increase in trade and other payables	(3.8)	18.6
Future consideration on acquisition	—	(5.0)
Reclassification of provisions	1.2	6.7
Increase in provisions	0.3	—
Share-based payment expense	3.9	3.0
Difference between defined benefit pension contributions paid and amounts charged	(9.0)	(8.4)
Exceptional items	(4.7)	(3.0)
Working capital and non-cash movements	(10.0)	2.5

29 Analysis of and movements in net debt

	2012 £m	2011 £m
Cash in hand, at bank	33.5	50.2
Short term deposits*	3.3	9.4
Overdrafts	(5.0)	(13.2)
Current portion of borrowings	(25.7)	(28.0)
Non-current portion of borrowings	(1,499.3)	(1,428.6)
Closing net debt	(1,493.2)	(1,410.2)

* Included in cash on the balance sheet.

	2012 £m	2011 £m
Movement in net debt		
Net (decrease)/increase in cash and cash equivalents	(14.6)	18.5
Proceeds – advances of loans	(96.6)	(110.0)
Repayment of principal – securitised debt	26.3	24.9
Repayment of principal – loans and loan notes	3.9	6.4
Decrease in net debt arising from cash flows	(81.0)	(60.2)
Other non-cash movements	(2.0)	(1.9)
Decrease in net debt	(83.0)	(62.1)
Opening net debt	(1,410.2)	(1,348.1)
Closing net debt	(1,493.2)	(1,410.2)

30 Financial commitments

The group has entered into commercial leases on certain properties and items of plant and machinery. The terms of the leases vary but typically on inception a property lease will be for a period of up to 30 years and plant and machinery will be for less than five years. Most property leases have an upwards-only rent review based on open market rents at the time of the review.

Future minimum rentals payable under non-cancellable operating leases:

	2012 £m	2011 £m
Within one year	13.5	11.4
Between one and five years	46.1	38.9
After five years	148.5	142.6
	208.1	192.9

The group leases its licensed estate and other non-licensed 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 three years include provision for rent reviews on either a three year or five year basis.

Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Within one year	39.3	43.8
Between one and five years	73.7	85.7
After five years	72.3	85.5
	185.3	215.0

31 Related party transactions

No transactions have been entered into with related parties during the period.

Greene King Finance plc is a special purpose entity set up to raise bond finance for the group, and as such is deemed a related party. The results of the entity have been consolidated.

Compensation of directors and other key management personnel of the group

	2012 £m	2011 £m
Short term employee benefits (including national insurance contributions)	4.1	3.9
Post-employment pension and medical benefits	0.5	0.5
Share-based payments	1.2	0.6
	5.8	5.0

Directors' interests in an employee share incentive plan

Details of the options held by executive members of the board of directors are included in the remuneration report. No options have been granted to the non-executive members of the board of directors under this scheme.

32 Post balance sheet events

Final dividend

A final dividend of 18.1p per share (2011: 16.8p) amounting to a dividend of £39.0m (2011: £36.1m) was proposed by the directors at their meeting on 27 June 2012. These financial statements do not reflect the dividend payable.

33 Contingent liabilities

The group has provided guarantees totalling £4.0m at 29 April 2012 (2011: £4.4m) in respect of free trade customers' bank borrowings.

In a previous period the group received a refund of £7m from HMRC in respect of VAT on gaming machines following a ruling that the application of VAT to certain gaming machines contravened the European Union's principle of fiscal neutrality. HMRC has appealed against the ruling and the case was referred back to the UK's Upper Tribunal for hearing on 14 June 2012. If HMRC's appeal is upheld the refund of £7m and associated interest of £1m would become repayable.

COMPANY ACCOUNTS

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INDEPENDENT AUDITOR'S REPORT (COMPANY)

TO THE MEMBERS OF GREENE KING PLC

We have audited the parent company financial statements of Greene King plc for the 52 weeks ended 29 April 2012 which comprise the parent company balance sheet and the related notes 34 to 44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 29 April 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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 and the part of the directors' remuneration report to be audited 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.

Other matter

We have reported separately on the group financial statements of Greene King plc for the 52 weeks ended 29 April 2012.

Bob Forsyth (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
27 June 2012

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

COMPANY BALANCE SHEET

AS AT 29 APRIL 2012

Registered number: 24511

	Note	As at 29 April 2012 £m	As at 1 May 2011 £m
Fixed assets			
Investments	38	2,549.0	2,472.9
Current assets			
Debtors		—	0.8
Deferred tax	39	—	0.1
Cash		2.8	6.9
Creditors: due within one year			
Derivative financial instruments	41	(0.9)	(0.1)
Income tax payable		(1.0)	(7.8)
Other creditors	40	(1,716.8)	(1,698.8)
Net current liabilities		(1,715.9)	(1,698.9)
Total assets less current liabilities		833.1	774.0
Creditors: due after more than one year			
Medium and long term debt	41	(206.6)	(110.0)
Derivative financial instruments	41	(1.5)	(0.2)
Net assets		625.0	663.8
Capital and reserves			
Called-up share capital	42	27.2	27.1
Share premium account	43	251.3	249.8
Revaluation reserve	43	2.5	2.5
Hedging reserve	43	(2.4)	(0.2)
Other reserve	43	93.9	93.9
Own shares	43	(9.6)	(9.0)
Profit and loss account	43	262.1	299.7
Shareholders' funds		625.0	663.8

Signed on behalf of the board on 27 June 2012.

T J W Bridge
Director

R Anand
Director

NOTES TO THE COMPANY ACCOUNTS

34 Accounting policies

Basis of accounting and presentation

The accounts are prepared on a going concern basis, in accordance with the Companies Act 2006 and applicable accounting and financial reporting standards in the United Kingdom (UK GAAP). They are prepared under the historical cost convention with the exception of derivatives, where the company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate borrowings.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year.

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.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments

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

The company is exempt, in accordance with FRS 29.2D, from producing disclosure required by the standard as the group accounts contain disclosure that complies with FRS 29 (IFRS 7).

Interest-bearing loans and borrowings

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

Derivative financial instruments and hedge accounting

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate borrowings.

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 determined by reference to market values for similar instruments. If a derivative does not qualify for hedge accounting the gain or loss arising on the movement in fair value is recognised in the profit and loss account.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the company's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The company also documents how it will assess the effectiveness of the hedge and carries out assessments on a regular basis to determine whether it has been, and is likely to continue to be, highly effective.

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

For these cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects profit or loss.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are then transferred to the profit and loss account as above. If the related transaction is not expected to occur, the amount is taken to profit and loss.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

34 Accounting policies continued

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The company has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on transactions in treasury shares.

Share-based payments

Certain employees and directors of subsidiary companies receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an increase in the company's investments in its subsidiaries with a corresponding increase in equity spread over the period in which the performance conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an investment reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest.

In accordance with the exemption within FRS 20 no amount is recorded in respect of grants made under the above schemes prior to 7 November 2002 which had not vested by the date of implementation of FRS 20.

Related party transactions

In accordance with FRS 8 Related Party Disclosures the company is not required to disclose transactions with its wholly-owned subsidiaries.

35 Profit for the period

No profit or loss account is presented for the company as permitted by s408 of the Companies Act 2006. The profit after tax for the period is £9.1m (2011: £20.3m).

36 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £15,760 (2011: £15,375).

37 Directors' remuneration and employee costs

Details of directors' remuneration is contained in the directors' remuneration report on pages 45 to 47. The company has no employees other than directors and the directors are not remunerated through this company. Details of share options issued by the company are given in note 8 to the group accounts.

The directors do not believe that it is practicable to apportion these amounts between their services as directors of the company and their services as directors of other group companies.

38 Investments

	Investments in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost and net book value at 1 May 2011	1,494.7	978.2	2,472.9
Share-based payment awards to employees of subsidiaries	3.9	—	3.9
Investment in subsidiaries	72.2	—	72.2
Cost and net book value at 29 April 2012	1,570.8	978.2	2,549.0

During the period the company acquired The Capital Pub Company Limited for consideration of £72.2m.

38 Investments continued

Principal subsidiaries	Principal activity	Held by	Holding
Greene King Brewing and Retailing Limited	Brewing and retailing	Subsidiary	100%
Greene King Retailing Parent Limited	Holding company	Parent	100%
Greene King Pubs Limited	Holding company	Parent	100%
Greene King Investments Limited	Holding company	Parent	100%
Greene King Retailing Limited	Pub retailing	Subsidiary	100%
Greene King Services Limited	Employment	Subsidiary	100%
Greene King Retail Services Limited	Employment	Subsidiary	100%
Greene King Properties Limited	Property	Subsidiary	100%
Hardys & Hansons Limited	Employment	Subsidiary	100%
Belhaven Brewery Company Limited	Employment	Subsidiary	100%
Belhaven Pubs Limited	Employment	Subsidiary	100%
Cloverleaf Restaurants Limited	Employment	Subsidiary	100%
Loch Fyne Restaurants Limited	Retailing	Subsidiary	100%
The Capital Pub Company Limited	Holding company	Parent	100%
Belhaven Group Properties Limited	Property	Subsidiary	100%

The country of incorporation for all companies is the United Kingdom.

39 Deferred tax

	2012 £m	2011 £m
Deferred tax asset at 1 May 2011	0.1	—
Tax on net loss on revaluation of cash flow hedges charged through equity	(0.1)	0.1
Deferred tax asset at 29 April 2012	—	0.1

40 Other creditors

	2012 £m	2011 £m
Accruals and deferred income	2.0	2.8
Amounts owed to subsidiaries	1,714.8	1,696.0
	1,716.8	1,698.8

41 Borrowings

	2012			2011		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Bank loans - floating rate	—	(206.6)	(206.6)	—	(110.0)	(110.0)

At 29 April 2012, the company held 4 (2011: 1) interest rate swap contracts to hedge cash flow interest rate risk related to floating rate debt. The swaps had nominal value of £140m (2011: £40m) and are held on the balance sheet as a net fair value liability of £2.4m (2011: £0.3m). The details of terms and interest rates are included as part of the group's portfolio in note 24.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

41 Borrowings continued

Bank loans due after one year are repayable as follows:

	2012 £m	2011 £m
Due between one and two years	—	—
Due between two and five years	(206.6)	(110.0)
Due after more than five years	—	—
	(206.6)	(110.0)

Although the draw-down is repayable within twelve months of the balance sheet date, immediate renewal is available until April 2016 (2011: April 2016) for the facility.

42 Allotted and issued share capital

	2012 £m	2011 £m
Allotted, called-up and fully paid		
Ordinary shares of 12.5p each		
217.5m shares (2011: 217.0m)	27.2	27.1

Further information on share capital is given in note 26 of the group accounts.

43 Reconciliation of shareholders' funds

	Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Other reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 2 May 2010	27.1	247.6	2.5	—	93.9	(6.6)	323.6	688.1
Cash flow hedges – loss taken to equity	—	—	—	(0.3)	—	—	—	(0.3)
Tax on cash flow hedges	—	—	—	0.1	—	—	—	0.1
Issue of share capital	—	2.2	—	—	—	—	—	2.2
Release of shares (note 27)	—	—	—	—	—	0.2	(0.1)	0.1
Repurchase of shares	—	—	—	—	—	(2.6)	—	(2.6)
Share-based payment credit in respect of subsidiaries	—	—	—	—	—	—	3.0	3.0
Profit for the period	—	—	—	—	—	—	20.3	20.3
Dividends	—	—	—	—	—	—	(47.1)	(47.1)
At 1 May 2011	27.1	249.8	2.5	(0.2)	93.9	(9.0)	299.7	663.8
Cash flow hedges – loss taken to equity	—	—	—	(2.1)	—	—	—	(2.1)
Tax on cash flow hedges	—	—	—	(0.1)	—	—	—	(0.1)
Issue of share capital	0.1	1.5	—	—	—	—	—	1.6
Repurchase of shares	—	—	—	—	—	(0.6)	—	(0.6)
Share-based payment credit in respect of subsidiaries	—	—	—	—	—	—	3.9	3.9
Profit for the period	—	—	—	—	—	—	9.1	9.1
Dividends	—	—	—	—	—	—	(50.6)	(50.6)
At 29 April 2012	27.2	251.3	2.5	(2.4)	93.9	(9.6)	262.1	625.0

43 Reconciliation of shareholders' funds continued

Share premium account

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

Other reserve

The other reserve consists of £3.3m (2011: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2011: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the company's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 34.

Own shares

Own shares relates to shares held in treasury and by the employee benefit trust. Movement in own shares is described in note 27 to the group accounts.

44 Contingent liabilities

In a previous period the company received a refund of £6.1m from HMRC in respect of VAT on gaming machines following a ruling that the application of VAT to certain gaming machines contravened the European Union's principle of fiscal neutrality. HMRC has appealed against the ruling and the case was referred back to the UK's Upper Tribunal for hearing on 14 June 2012. If HMRC's appeal is upheld the refund of £6.1m and associated interest of £0.9m would become repayable.

GROUP FINANCIAL RECORD

	2012 (52 weeks) £m	2011 (52 weeks) £m	2010 (52 weeks) £m	2009 (52 weeks) £m	2008 (53 weeks) £m
Income statement					
Revenue	1,140.4	1,042.7	984.1	954.6	960.5
Operating profit before exceptionals	236.2	222.0	211.3	216.2	236.2
Profit before taxation and exceptionals	152.0	140.0	123.0	118.5	142.0
Profit before taxation	125.1	116.8	101.9	54.3	147.9
Basic earnings per share ¹	47.6p	49.7p	37.8p	29.5p	89.9p
Adjusted basic earnings per share ¹	53.0p	48.2p	43.4p	53.4p	59.4p
Adjusted dividend per share ¹	24.8p	23.1p	21.5p	21.0p	20.9p
Adjusted operating profit/revenue	20.7%	21.3%	21.5%	22.6%	24.6%
Adjusted tax expense/profit before tax	25.0%	26.0%	25.5%	25.0%	28.0%
Adjusted interest cover (times)	2.7	2.7	2.4	2.2	2.5
Adjusted dividend cover (times)	2.1	2.1	2.0	2.5	2.8

1 All relevant years adjusted for the bonus element of the 2009 rights issue.

	£m	£m	£m	£m	£m
Balance sheet					
Property, plant and equipment	2,191.3	2,094.9	2,012.7	1,997.3	2,057.9
Goodwill	729.3	705.8	679.7	673.8	673.8
Financial assets	39.0	40.4	41.8	40.3	34.8
Property, plant and equipment held for sale	6.2	3.7	—	—	—
Working capital	(168.6)	(164.5)	(152.5)	(143.5)	(150.2)
Derivatives	(200.8)	(116.3)	(108.8)	(144.5)	(5.5)
Provisions	(157.9)	(172.9)	(211.9)	(221.4)	(256.6)
Net debt	(1,493.2)	(1,410.2)	(1,348.1)	(1,558.6)	(1,605.5)
Net assets	945.3	980.9	912.9	643.4	748.7
Gearing	158%	144%	148%	242%	214%

	£m	£m	£m	£m	£m
Cash flow and investment					
EBITDA before exceptionals	292.0	276.6	264.4	267.3	283.3
Cash inflow from operations	282.0	279.2	276.3	260.9	276.0
Interest, tax and dividends	(167.1)	(163.5)	(157.6)	(154.3)	(145.7)
Capital expenditure	(126.8)	(96.2)	(76.0)	(95.5)	(98.3)
Proceeds from sales of property, plant and equipment	29.9	27.8	27.2	44.2	41.4
Trade loans and investments	2.2	1.5	(1.2)	(6.0)	(0.4)
Acquisitions	(70.8)	(60.5)	(61.6)	—	(82.6)
Other	(32.4)	(50.4)	203.4	(2.4)	(160.4)
(Increase)/decrease in debt	(83.0)	(62.1)	210.5	46.9	(170.0)

Adjusted earnings per share, operating profit, taxation, interest cover and dividend cover exclude the effect of exceptional items.

SHAREHOLDER INFORMATION

Financial calendar

Ex-dividend date	8 August 2012
Record date for final dividend	10 August 2012
AGM	4 September 2012
Payment of final dividend	10 September 2012
Announcement of interim results	December 2012
Payment of interim dividend	January 2013
Preliminary announcement of the 2012/13 results	July 2013

Registrars

Capita Registrars

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Telephone: 0871 664 0300*

Fax: 01484 601512

E-mail: ssd@capitaregistrars.com

Website: www.capitaregistrars.com

* Calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday.

E-communications

Greene King plc has teamed up with Climate Care to help combat climate change by providing shareholders with the opportunity to receive communications from the company electronically. The company will donate £1 to Climate Care for every shareholder that registers. Climate Care funds projects that reduce greenhouse gases – the main cause of climate change.

To register, visit www.greeneking-shares.com and either log in or click on “Register new user” and follow the instructions.

By registering your e-mail address you will receive e-mails with a web link to information posted on the company’s website, including the report and accounts, notice of meetings and other information communicated to shareholders.

Indirect investors’ information rights

Beneficial owners of shares held on their behalf by a different registered holder now have certain information rights regarding Greene King. They have the right to ask their registered holder to nominate them to receive all non-personalised information distributed to shareholders, in accordance with the provisions of section 146 of the Companies Act 2006.

Should you wish to be nominated to receive information from Greene King directly, please contact your registered holder, who will need to notify our registrars, Capita Registrars, accordingly. Please note that, once nominated, beneficial owners of shares must continue to direct all communications regarding those shares to the registered holder of those shares rather than to the registrars or to Greene King directly.

Company secretary and registered office

Lindsay Keswick
Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT

Telephone: 01284 763 222

Fax: 01284 706 502

Website: www.greeneking.co.uk

Share dealing services

Stocktrade

Telephone: 0845 601 0995

Redmayne Bentley

Moseley’s Farm Offices, Fornham All Saints, Bury St Edmunds
Suffolk IP28 6JY

Telephone: 01284 723 761

Capita Share Dealing Services

Telephone: 0871 664 0454*

Website: www.capitadeal.com

* Calls cost 10p per minute plus network extras; lines are open 8.00am to 4.30pm, Monday to Friday.

Killik & Co

Telephone: 020 7337 0716

Email: nominee@killik.com

Capital gains tax

For the purpose of computing capital gains tax, the market value of the ordinary shares on 31 March 1982, after adjustment for the capitalisation issues in 1980 and 1982 was 72.5625 pence. After take-up of the rights issue in July 1996, the March 1982 value becomes 129.6875 pence. With the take-up of the rights issue in May 2009, the March 1982 value becomes 182.3046875 pence.

CORPORATE ADVISERS

Financial advisers

Lazard & Co. Limited

50 Stratton Street, London W1J 8LL

Stockbrokers

Deutsche Bank AG London

Winchester House, 1 Great Winchester Street, London EC2N 3EQ

Auditor

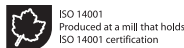
Ernst & Young LLP

One Cambridge Business Park, Cambridge CB4 0WZ

Solicitors

Linklaters

One Silk Street, London EC2Y 8HQ



Greene King’s commitment to environmental issues is reflected in this annual report which has been printed on Revive 75 White Silk, a recycled paper stock which contains 75% recovered fibre and 25% virgin wood fibre. This document was printed by Pureprint Group using *pureprint*, their environmental print technology, which minimises the impact of printing on the environment. Vegetable based inks have been used and 99% of dry waste is diverted from landfill. The printer is a CarbonNeutral® company. Both the printer and the paper mill are registered to ISO 14001.



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GREENE KING
BURY ST EDMUNDS

Greene King plc
Registered in England No. 24511

Registered Office
Westgate Brewery
Bury St Edmunds
Suffolk
IP33 1QT

Telephone: 01284 763222
www.greeneking.co.uk