



GREENE KING
BURY ST EDMUNDS



Time well spent

ANNUAL REPORT 2013
Greene King plc



We are the country's leading pub retailer and brewer, with an industry-leading range of pubs, restaurants and hotels and beer brands, and a long tradition dating back over 200 years.

We aim to be the best pubs and beer business in the UK by delivering outstanding value, exceptional service and unbeatable quality to our customers.

We have had another successful year, achieving record results, generating strong returns for our shareholders and making further strategic progress.

 **CHAIRMAN'S STATEMENT**
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 **CHIEF EXECUTIVE'S REVIEW**
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At a glance

We are the leading pub retailer and brewer in the UK, focused on delivering the best value, service and quality to all our customers.



Our business

Greene King is the leading pub retailer and brewer in the UK.

2,000+

We run 2,250 managed and tenanted pubs, restaurants and hotels

200+

We have been brewing award-winning ales for more than 200 years

Greene King is made up of three main businesses:

- Our Retail business comprises the pubs, restaurants and hotels that we manage across the UK.
 - Our Pub Partners business offers people the opportunity to run their own pubs across the UK on a tenanted, leased or franchised basis.
 - Our Brewing & Brands business operates breweries in Bury St Edmunds and in Dunbar.
- We employ around 22,000 people across the UK, and we have 2,500 apprentices working at Greene King.

Our strategy

Our overall objective is to be considered the best pubs and beer business in the UK.

Our strategy to drive growth and returns to our shareholders has three main elements:

- Expand our biggest and fastest growing business, Retail, to 1,100 sites and at the same time increase the overall quality of the estate by increasing our exposure to long-term growth categories such as food, wine and coffee.
 - Reduce the size of our tenanted estate to 1,200 while taking more control over the licensee offer and introducing innovative agreements into the estate.
 - Deliver long-term market out-performance through industry-leading investment and innovation in our core ale brand portfolio.
- Operationally our strategy is to deliver outstanding value, exceptional service and unbeatable quality across all of our businesses.

 **MORE ABOUT OUR BUSINESS**
pages 6 and 7

 **MORE ABOUT OUR STRATEGY**
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Our brands

We have a number of well-known pub and restaurant brands and ales.

200+

There are now over 200 Hungry Horse pub restaurants across the country

No.1

We brew the UK's no. 1 premium ale and Scotland's leading ale brand

Our range of pub, restaurant and ale brands includes the following:

- Popular national pub restaurant and restaurant brands such as Hungry Horse and Loch Fyne Restaurants.
 - A range of historic coaching inns, elegant country houses and old timbered buildings which form part of our Old English Inns hotels.
 - Well-known ale brands such as Greene King IPA, Old Speckled Hen and Abbot Ale, as well as Belhaven Best in Scotland.
- We also operate unbranded local pubs, ranging from sport led local pubs to those that offer a more premium pub dining experience.

 **OPERATIONAL REVIEW**
pages 14 to 24



Our markets

We compete in the drinking out, eating out and staying out markets in the UK.

In each market, we have again outperformed the overall market over the last 12 months:

- Food sales growth of 9.7% against the market up 1.6%.
 - Drink sales growth of 6.7% against the market up 1.3%.
 - Our accommodation business delivered RevPAR growth of 2.0% against the market down 0.5%.
- This has been achieved in another difficult trading environment, with consumer confidence low and volatile and limited or no real household disposable income growth.
- And although the government scrapped the beer duty escalator in the budget, the industry remains a heavily regulated one with the latest government consultation on the proposed statutory code for tenanted pub companies potentially bringing significant changes to the industry.

 **MORE ABOUT OUR MARKETS**
pages 8 and 9

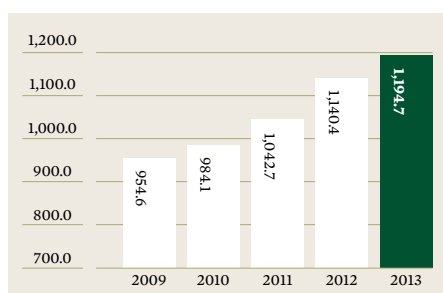
Our performance highlights

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

Strong growth and record results

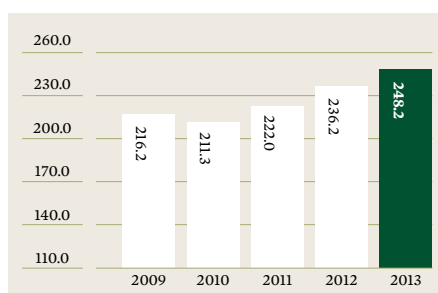
REVENUE
(£m)

£1,194.7m +4.8%



OPERATING PROFIT BEFORE EXCEPTIONALS
(£m)

£248.2m +5.1%



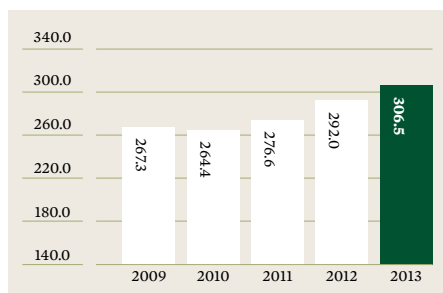
PROFIT BEFORE TAX AND EXCEPTIONALS
(£m)

£162.0m +6.6%



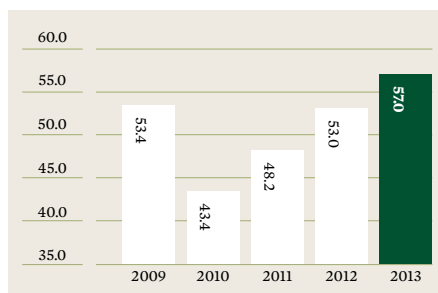
EBITDA**
(£m)

£306.5m +5.0%



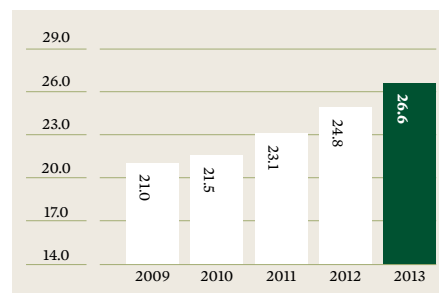
ADJUSTED BASIC EARNINGS PER SHARE†
(P)

57.0p +7.5%



ADJUSTED DIVIDEND PER SHARE†
(P)

26.6p +7.3%



- Retail like-for-like sales up 2.3%; total Retail sales up 7.4%.
- Retail operating profit up 12.1%; margin increased 80 basis points to 19.4%.
- Average EBITDA per pub up 4.2% in Pub Partners; core like-for-like EBITDA up 0.1%.
- Brewing & Brands core own-brewed volume up 1.0%; revenue up 2.1%.
- Strong cash flow; earnings & dividend growth.
- Further improvement in ROCE, up 40 basis points to 8.9%.

 **FINANCIAL REVIEW**
pages 25 to 27

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

** 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.

† Adjusted to reflect the bonus element of the 2009 rights issue.

Chairman's statement

ANOTHER SUCCESSFUL YEAR

“On the back of our strong growth, we are recommending a final dividend of 19.45p per share, up 7.5%.”



Results

We have achieved another set of record results, despite the difficult weather conditions in the second half of the year. Revenue was £1,194.7m, up 4.8%, and operating profit before exceptionals was £248.2m, up 5.1%. Profit before tax and exceptional items was £162.0m, up 6.6%, while adjusted earnings per share was 57.0p, up 7.5%.

Dividend

On the back of these record results and strong growth, the board has recommended a final dividend of 19.45p per share, up 7.5% on last year. This takes the total dividend for the year to 26.6p per share, up 7.3%. The final dividend is expected to be paid on 9 September 2013 to those shareholders on the register at the close of business on 9 August 2013.

Acquisitions

In the year, we have made further progress with the expansion of our Retail business. We spent £35.3m on 24 new pubs and have exchanged or completed on a further 30 sites for development.

Disposals

We also remain focused on disposing of sites that we consider no longer have a long-term sustainable future within our estate.

These mainly come from Pub Partners, from which we disposed of 103 sites in the year. In total, the disposed properties raised proceeds of £28.0m.

Board

At the end of December, we bade farewell to Norman Murray, who served on our board as a non-executive director for nine years, and acted as chairman of both the audit and the remuneration committees during that time. I would like to express my sincere thanks to him for the substantial contribution he made to the board and wish him well for the future.

In October, we welcomed Lynne Weedall to our board as a non-executive director and member of the remuneration committee. She has subsequently become chairman of that committee. She is the HR and strategy director at Carphone Warehouse and we expect her business background to be a great asset to us.

Governance

The board continues to set itself high standards of corporate governance, supported by its nomination, remuneration and audit committees. The corporate governance section in this report shows details of our compliance with the UK Corporate Governance Code and our directors' remuneration report incorporates

a number of additional disclosures consistent with the government's proposed new regulations on remuneration reporting. These regulations will apply to the company next year.

People

Our consistent growth and success could not have been achieved without the hard work and efforts of our 22,000 employees across the business. They combine to make Greene King the company that it is and deliver the greatest source of competitive advantage for our shareholders, particularly in such a demanding trading environment.

I would like to extend my heartfelt thanks to every one of our team for their personal and collective contribution. Looking ahead, we do not expect short-term conditions to improve but I am confident that the team at Greene King will continue to drive the business forward and deliver further success.

Tim Bridge
Chairman
26 June 2013

Our business

We have 2,250 pubs, restaurants and hotels and we brew the country's leading cask ale brands. We operate through three main business units.



Retail

Our Retail business is split into two divisions: Destination Pubs and Restaurants, with 500 sites, comprising our industry-leading retail brands such as Hungry Horse, Old English Inns, Eating Inns, Loch Fyne Restaurants and Farmhouse Inns; and Local Pubs, with 480 sites, comprising mainly branded and unbranded in local communities across the UK. At the year end we had:

199 HUNGRY HORSE
pub restaurants

108 OLD ENGLISH INNS
inns and hotels

28 EATING INN
pub restaurants

42 LOCH FYNE
restaurants

483 LOCAL PUBS
pubs and restaurants

Pub Partners

Our Pub Partners business offers entrepreneurs the opportunity to run our pubs in England, Wales and Scotland on a tenanted, leased or franchised basis. We aim to deliver industry-leading agreement innovation to ensure we can recruit and retain the best licensees.

978
tenanted pubs

Our tenanted model is based on a more hands-on approach to working with our licensees and works particularly well for first-time licensees or those who do not wish to take on the extra responsibility of a lease. Our new agreements provide incentives for tenants who build their business and improve customer loyalty.

253
leased pubs

Our leased model offers longer, assignable lease agreements with full repairing and insuring liability sitting with the lessee. These agreements attract the more entrepreneurial licensees who require more freedom to run their business as they would like.

38
*franchised/
franchise style pubs*

We have two agreements: 'Meet & Eat' is a food, drink, service and entertainment package for the value community segment, while 'Local Hero' is designed for wet-let community pubs and is based around an extended cask ale offering with local provenance.

 **OPERATIONAL REVIEW**
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 **OPERATIONAL REVIEW**
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Brewing & Brands

Our Brewing & Brands division operates two breweries, in Bury St Edmunds and in Dunbar. We brew, distribute, market and sell a wide range of award-winning crafted ales and have, for many years, been Britain's leading cask ale brewer, investing more in cask beer than any other brewer.

No.1 *premium ale in the UK*
OLD SPECKLED HEN

No.1 *premium cask ale in the UK*
ABBOT ALE

No.1 *ale in Scotland*
BELHAVEN BEST

We have a great range of best-quality permanent and seasonal ales available in the on-trade and we are the UK's leading bottled ale brewer with a 16.7% value market share.

 **OPERATIONAL REVIEW**
pages 22 to 24

OUR AIM
*To be Britain's best pubs
 and beer business*

Our business model relies on all three parts of our business contributing to our success.

Our smaller two businesses, Pub Partners and Brewing & Brands, are highly cash generative and therefore help fund our Retail growth and add to Retail's purchasing scale.



Together, these three businesses help us drive attractive shareholder returns and deliver earnings and dividend growth.

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

 **OUR STRATEGY**
pages 12 and 13

Our markets

We aim to grow our market share utilising our industry-leading brands, our high quality asset base and our talented teams.

Market overview

Introduction

The key markets in which we compete are the UK drinking out, eating out and staying out markets. In each market, we aim to grow our market share utilising our industry-leading brands, our high quality asset base and our talented teams. Over the last 12 months we have met those aims within Greene King Retail, our largest and fastest growing business. Beer volumes per pub in Pub Partners, our tenanted, leased and franchised division, have also 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

The UK Government has been giving out mixed messages regarding its approach to the UK pubs and beer industries. At the budget during the year, we saw the first cut in beer duty since the 1950s, alongside the scrapping of the beer duty escalator, which had been responsible for increasing duty by almost 40% since 2007. It is pleasing that the Government recognised that beer, primarily drunk in pubs, was not the cause of the rising incidence of alcohol-related illness in the UK, and that it needed more support. However, tax on beer, including duty and VAT, is still high, at around one third of the price of a pint, and therefore we are hopeful that the Government will continue to reduce beer duty going forward. At the same time, reform of Progressive Beer Duty is needed to rebalance the significant tax advantage that micro-breweries have over those that invest and grow and pay the full rate.

Government has changed its approach to the much investigated relationship between pub companies and licensees. Having previously recognised the strength of the tied model and the improvements, via self-regulation, that the industry was making, there was a complete about turn in opinion during the year. Government announced a consultation including a series of proposed measures

aimed at transferring over £100m of value from pub companies to licensees. We have made a detailed submission to the consultation, advocating the continuation of self-regulation, which has worked well for Greene King for over 200 years, instead of the introduction of a Statutory Code with an independent Adjudicator and all of the costs and red-tape associated with it.

Our support for a minimum unit price (MUP) for alcohol remains, despite the continued delay in Government's response to the consultation on its Alcohol Strategy. We believe MUP, alongside other measures such as improved alcohol education, can be a highly effective measure in reducing irresponsible retailing and consuming of alcohol, therefore helping to reduce the costs to society of rising alcohol-related illness and crime. We do not see the UK Government making a decision on MUP until the legal process in Scotland is resolved.

Economic

It has been another year of minimal growth within the UK economy. Real GDP has still not recovered to the peak levels experienced in 2007, before the credit crunch, and it is easily the longest and deepest economic slump since detailed records began. Most importantly to our business, real household income remains under pressure as cost inflation continues to run ahead of wage inflation, meaning our customers are not confident enough to return to the spending patterns of pre-2007. This suggests that our focus on delivering industry-leading value, service and quality continues to be the best approach, as we offer 'everyday treats' to our customers in our pubs across the UK.

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 steeper decline, averaging 2.4% 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 4.6% per annum since 2002, including a 4.7% decline in 2012, while the off-trade has increased by 0.2% per annum over the same period, although there was also a 4.6% decline in 2012.

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 2.9% since 2007 to stand at £54bn by the end of 2012. 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 1.6% in 2012, pub and bar food grew 1.9%*. We expect these trends to continue.

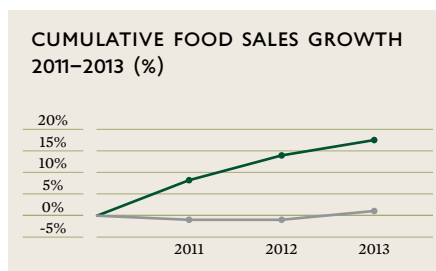
Finally, the UK staying out market has also benefited from the improved provision of budget and mid-market accommodation, satisfying the increased demand for business related overnight accommodation and, particularly in the recession, an increase in domestic holidays and short breaks. Revenue per available room (RevPAR) in the UK has risen 14.1%* since 2009 and grew 1.0%** in 2012. Although growth may be moderate in the near-term, we still expect long-term value growth in this market.

* Allegra Eating Out Report 2013.
** PWC.

Greene King performance

EATING OUT

Against an informal eating out market up 1.6% in value terms in 2012 (pub and bar food up 1.9%)¹, Greene King Retail delivered LFL food sales growth of 2.9% and total food growth of 9.7% in its financial year. In the last five years, Greene King Retail has grown its food sales by 75%.



• Market growth • GK Retail LFL sales

MARKET SIZE¹

£54bn

GREENE KING RETAIL SALES

£337m

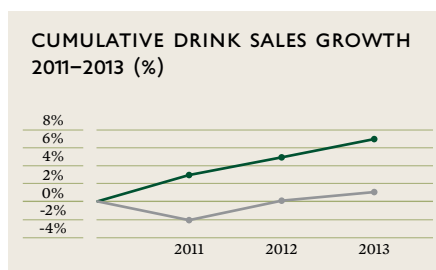
GREENE KING RETAIL MARKET SHARE

0.6%

DRINKING OUT

With the value of alcohol in the on-trade up 1.3% in 2012², Greene King Retail has delivered drink LFL sales growth of 1.8% and total drink sales growth of 6.7%.

Against the UK ale market down 3.9%³ in the 12 months to April 2013, Greene King's core brands saw volumes up 1.0% in the same period, while Pub Partners achieved average beer volume per pub in line with the previous year.



• Market growth • GK Retail LFL sales

MARKET SIZE²

£22bn

GREENE KING RETAIL SALES

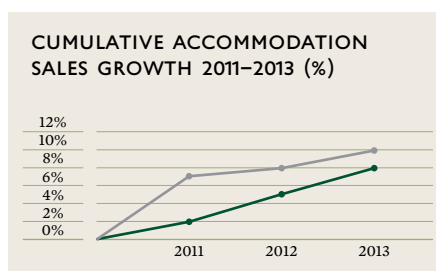
£480m

GREENE KING RETAIL MARKET SHARE

2.2%

STAYING OUT

In a UK provincial market that with RevPAR decline in 2012 of 0.5%⁴, Greene King Retail's accommodation business delivered RevPAR growth of 2.0% in the financial year to April 2013.



• Market growth • GK Retail LFL sales

MARKET SIZE⁵

£27bn

GREENE KING RETAIL SALES

£25m

GREENE KING RETAIL MARKET SHARE

0.9%

1 Allegra Eating Out Report 2013

2 CGA Brand Index

3 BBPA

4 PWC

5 Eurostat, PWC, Allegra, Company

Chief executive's review

ANOTHER STRONG YEAR

“The robustness of our business and our proven strategy ensured we delivered further strong growth and record results for our shareholders.”



Performance summary

It has been another strong year for Greene King, delivering record results for our shareholders. This was led by a successful trading performance from our largest and fastest growing business, Greene King Retail, achieving 12.1% operating profit growth:

- Group revenue was £1,194.7m, up 4.8%.
- Operating profit before exceptional items was up 5.1% at £248.2m.
- The operating margin was up ten basis points to 20.8%, despite the business mix change.
- Profit before tax and exceptional items was £162.0m, up 6.6%.
- Adjusted earnings per share grew 7.5% to 57.0p.
- The board has recommended a final dividend of 19.45p per share, up 7.5%.
- ROCE improved a further 40 basis points to 8.9%.

Even though we experienced a long, cold and wet winter, the robustness of our business and our proven strategy ensured we delivered further strong growth in revenue, up 4.8%, with Retail leading the way with growth of 7.4%.

We continue to focus on providing our customers with the best value, service and

quality across our three main markets of eating out, drinking out and staying out. This helped us deliver like-for-like (LFL) sales growth of 2.3% in Retail, split 4.3% growth in the first half and 0.6% growth in the second half (reflecting the more difficult trading conditions experienced after the New Year). This underlying growth was supported by another positive contribution from new sites. Retail now generates over 72% of group revenue.

Further productivity improvements in labour, tight cost control and acquisition synergy benefits drove strong margin growth in Retail, which more than offset the negative impact of our changing business mix on the group operating margin. Operating profit before exceptional items grew 5.1%.

Our strong performance delivered adjusted earnings per share growth of 7.5% and dividend growth of 7.3% for our shareholders in the third year of our retail expansion plan. The impact of estate changes, growing the size and quality of our retail estate and reducing the size, while improving the quality, of our tenanted and leased estate, has driven further improvements in our ROCE. In the year, ROCE rose 40 basis points (bps) to 8.9%, ahead of our cost of capital.

We made substantial financial progress in the year helping to further strengthen our balance sheet and financial resilience. After the year end, we refinanced our revolving credit facility, using an additional £60m to buy back our ABI bonds ahead of their step-up, and we completed the latest triennial pension review, leading to a lower annual cash funding requirement.

This was the first year of our three year partnership with Macmillan Cancer Support to raise £1m. It has been successful so far, raising £300,000 in the first year, including raising £100,000 for the ‘World’s Biggest Coffee Morning’.

Overview

Our strong performance and record results were delivered in another year of tough economic conditions, a generally difficult regulatory environment, highly competitive markets and constantly shifting consumer trends. We also had to deal with a year of unprecedented weather, particularly in some of our most important trading months. Both June and July were abnormally wet, while October and March were abnormally cold. While we hope for better weather in the new financial year, we do not expect to see material change in the economic or political environment.

Economic conditions through the year remained subdued. After five years, we have still not returned to the real GDP levels of 2007, before the economic slump began. Numerous key measures, such as house prices, consumer confidence and household earnings are sluggish, although there is a degree of resilience to the employment market.

From a regulatory perspective, there are three key issues facing the industry:

- 1. Beer Duty.** The scrapping of the beer duty escalator was a welcome move and we are hopeful of additional duty reform going forward.
- 2. Statutory Code.** We believe the proposal for a statutory code to govern the relationship between pub companies and licensees is unnecessary. We have fully participated in the consultation process and have argued for more time to be given to the current, legally-binding, self-regulatory code to prove its worth, particularly for brewery-tied tenanted operators like Greene King.
- 3. Minimum Unit Pricing.** We remain supporters of a minimum unit price (MUP) for alcohol. We believe it would help to reduce the costs to society of irresponsible retailing and consumption of alcohol, although we do not expect legislation on MUP in this parliament.

We primarily operate in three UK markets: informal eating out, worth £54bn*, drinking out, worth £22bn** and staying out, worth £27bn***. These are large, profitable and fragmented markets with long-term growth potential and opportunities for us to grow market share. Our focus on delivering industry leading value, service and quality, providing 'affordable treats' to customers, combined with accelerating offer innovation, gives us a significant competitive advantage. It ensures we optimise the opportunities within each market, particularly in accessible growth segments and occasions such as breakfasts and takeaways in eating out, the trend towards premiumisation in drinking out and pub accommodation within staying out.

We can also deliver competitive advantage through improved understanding of consumers and their evolving preferences. We anticipate trends such as health, convenience and customisation to grow in importance over the next few years and we are positioning our offers accordingly.

Improving customer information and insight is therefore crucial to delivering sustainable sector-leading growth and margins. As a result, we made further investment in our digital platform and customer insight, covering areas such as targeted voucher offers, maintaining a regular dialogue with customers through social media and facilitating online table reservations.

- * Allegra Eating Out Report 2013.
- ** CGA Brand Index.
- *** Eurostat, PWC, Allegra, Company.

Strategic progress

We are three years into our five-year strategy to improve growth and returns to shareholders through increasing our exposure to more attractive categories in our markets. We made further progress in all areas as we continue to invest in a successful future for Greene King:

- 1. Expanding Retail to 1,100 sites and improving estate quality.** We acquired or transferred in 38 sites to take the estate to 987 pubs, restaurants and hotels. Of the 38 sites, 15 were new Hungry Horse openings and 11 were Meet & Eat transfers. We opened our 200th Hungry Horse just after the year end. Since we began our strategy, the acquired sites have delivered an average site EBITDA ROI of 15.0%.
- 2. Reducing the Pub Partners estate, improving estate quality and increasing our offer influence.** In Pub Partners, we disposed of 103 non-core sites and transferred 14 sites to Retail. Average EBITDA per pub grew 4.2% and there were 38 franchise and franchise-style sites at the year end. There are 331 sites, or 26% of the Pub Partners estate, under central offer influence.
- 3. Maintain industry-leading brand investment to strengthen leadership position.** We again invested in our core ale brands to drive core own brewed volume (OBV) growth and UK ale market outperformance in Brewing & Brands. We relaunched TV advertising for Greene King IPA, Old Speckled Hen and Belhaven Best and our investment took a 45%* share of all ale media spend in the year.

- * Nielsen MAT to 31 March 2013.

Current trading and outlook

In the first eight weeks of the new financial year, we have delivered another strong trading performance, against tough comparatives with last year, which benefited from the Jubilee and Euro 2012. LFL sales in Retail were up 3.3%, helped by improved weather on both Bank Holiday weekends. Both food LFL sales and room LFL sales have been particularly strong. Average EBITDA in Pub Partners was up 5.1% and core OBV in Brewing & Brands was up 1.5%, taking further market share and continuing the momentum from the second half of the previous financial year.

Although we have made a strong start, the overall outlook remains subdued and we are not assuming a pick-up in the economy this year. However, our strategy is designed, and proven to be appropriate, for these conditions as we shift our business towards higher growth areas of our markets and constantly improve our customer offer. We are confident of maintaining this momentum and delivering further value to our shareholders.

Rooney Anand
Chief executive officer
26 June 2013

Our strategy

Building the best UK pubs and beer business

Retail

PRIORITIES

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.

KPIs



1. Number of sites
2. LFL sales
3. Average EBITDA per site
4. Food as a percentage of sales

Pub Partners

PRIORITIES

Our key priority is to reduce the size of the Pub Partners estate to a maximum of 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.

KPIs



1. Number of trading sites
2. Average EBITDA per site
3. Number of pubs where we influence the offer

Brewing & Brands

PRIORITIES

Our key priorities for our Brewing & Brands business during the year were to grow our core brand own brewed volume and market share through investment in our brands and to focus on growing our key growth markets of take home and North America.

KPIs



1. Core brand OBV
2. Market share
3. Sales in take home and North America

PERFORMANCE

1. 987 at year end, up from 954 at the start of the year
2. Up 2.3%
3. Up 6.9% to £218.6k
4. 40% of sales, up from 39% last year

PLANS FOR 2013/14

We intend to continue our estate expansion during the forthcoming year, adding around 50 sites to the estate through a combination of new builds, pub and hotel acquisitions, and transfers from Pub Partners. We aim to drive LFL sales growth across all our key sales categories leading to an improvement in EBITDA per site. We believe Retail can get to 45% food sales share over the next few years.



MORE

For a more detailed review of Retail, please turn to page 14.

PERFORMANCE

1. 1,269 at year end, down from 1,380 at the start of the year
2. Up 4.2% to £57.5k
3. 331 sites, equivalent to 26% of the trading estate

PLANS FOR 2013/14

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.



MORE

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

PERFORMANCE

1. +0.1% in the year vs ale market down 3.9%
2. + 0.1 % to 10.5%
3. + 8.2%

PLANS FOR 2013/14

We are aiming for another year of volume growth in our core brands and increased market share despite the market conditions, by continuing to invest in our core brands. We will aim to stabilise EBITDA and try to improve operational efficiencies to off-set input cost inflation and protect operating margins.



MORE

Turn to page 22 for more detail on Brewing & Brands.

Operational review

Retail



Our Retail division comprises 504 branded destination pubs and restaurants and 483 unbranded but segmented local pubs across Britain, appealing to a broad range of the population.

Our brands:



REVENUE

£863.6m +7.4%



72%

OF TOTAL REVENUE

Highlights of the year

- Like-for-like sales +2.3%
- Food sales +9.7%
- Operating profit +12.1%
- Sites acquired 38



Retail

INCREASING EXPOSURE TO GROWTH CATEGORIES

Much of our food-led growth comes from increasing our exposure to growth categories. This includes our increased focus on food, wine and coffee. During the year we launched our own coffee brand, Big Bean, which has been rolled out across our Hungry Horse estate, helping sales of hot drinks to grow 6.2%, and we expect this to grow further as we increase our breakfast trade.

Retail

INNOVATING TO MEET EATING OUT TRENDS

We continue to pursue a strategy of increasing our share of the £54bn eating-out market by innovating to meet eating out trends. We have introduced a wide range of sharing platters, particularly in our Locals estate, which are popular with 'after work' customers.



Retail

Greene King Retail delivered another successful year, combining strong growth with further strategic progress. LFL sales growth was 2.3%, outperforming the sector average growth of 0.5%*, as the industry was hit by challenging weather in the second half of our financial year. Over the last five years, Retail has delivered average annual LFL sales growth of 3.3%. Of the 2.3% LFL sales growth in the year, 0.4% was driven by volume improvements and 1.9% by price, mix and spend per head improvements. All major sales categories achieved growth with food LFL sales up 2.9%, drink LFL sales up 1.8% and room LFL sales up 3.1%. London performed well with Realpubs achieving 9.1% LFL sales growth.

Total revenue was £863.6m, up 7.4% on 3.5% more sites. As a result, the average weekly take grew 3.8% to £17.1k. Retail also achieved strong profit growth, with operating profit of £167.7m, up 12.1%. The operating margin was 19.4%, an improvement of 80bps, driven by strong operational gearing, improved labour productivity, the delivery of acquisition synergies, and despite the weaker second half sales environment.

* Coffer Peach Tracker.

There are a number of key factors driving the continued success in Retail:

1. Exceeding customer value, service & quality expectations

- Value.** The flight to value by UK consumers, as they seek out 'everyday treats', continued in the year. We maintained a healthy balance between offering further value to our customers and continuing to improve our retail margins. In Hungry Horse, we increased the share of all covers sold through offers, while we simplified and improved our centrepiece two for £8.49 offer to all day, every day. In Loch Fyne Restaurants (LFR), we introduced 'Loch Fyne Favourites' via a meal and drink offer at £9.95, while in Old English Inns (OEI), we launched a lunch deal highlighting a sandwich, crisps and a drink for £4.95. In our Scottish sites, we lowered the average coffee price and increased the average serve size, while in Local Pubs we introduced additional known value item pricing on lager and for early week occasions.
- Service.** We continued to roll out our tailored service enhancement programmes across the retail estate. Our 'Hungry for Feedback' guest satisfaction programme in Hungry Horse had over 70,000 customer responses in the year delivering a net

promoter score (NPS) of 59.6% and 40,000 positive individual employee comments. Our LFR 'Keeping it Reel' programme delivered a record NPS, halved customer complaints and doubled customer compliments, while guest satisfaction programmes were launched in Farmhouse Inns and Eating Inn.

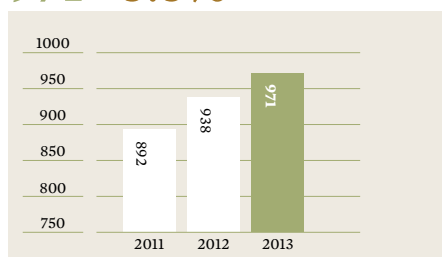
- Quality.** In Local Pubs, we launched our Flame Grill family dining concept in the mainstream community segment, where we improved the quality of our unique grill offer through increased kitchen investment and more fresh meat items. In Eating Inn and Belhaven, we increased the number of fresh, homemade dishes, while we introduced improved menu specifications and additional carvery training into Farmhouse Inns. Across the whole of the Destination Pubs estate, our guest satisfaction score for food quality improved 16%pts through the year.

No issues were found in our supply chain during the horsemeat scandal that affected the food industry in February and March. We have a robust supply chain with thorough quality control procedures, although we took this opportunity to further strengthen procedures to ensure we provide the highest quality ingredients and we remain clear of any future industry mislabelling issues.

KEY PERFORMANCE INDICATORS

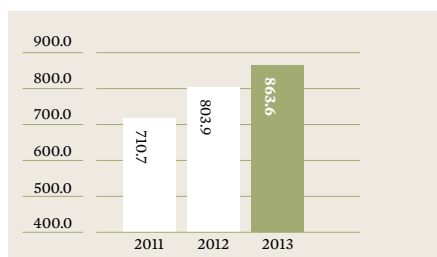
AVERAGE NUMBER OF TRADING SITES (NUMBER)

971 +3.5%



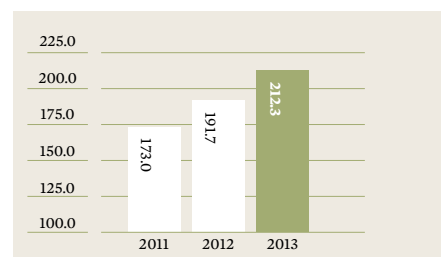
REVENUE (£M)

£863.6m +7.4%



EBITDA (£M)

£212.3m +10.7%



OPERATING PROFIT (£M)

£167.7m +12.1%



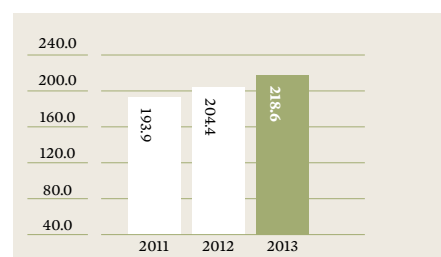
OPERATING PROFIT MARGIN (%)

19.4% +0.8%pts



AVERAGE EBITDA PER SITE (£K)

£218.6k +6.9%



Operational review continued

Retail

2. Broadening customer appeal through growth categories such as food, wine & coffee

We continue to pursue our strategy of increasing our share of the £54bn eating out market and increasing our share of sales driven by food and food occasions. On an organic basis, we primarily achieve this by broadening the appeal of our food offers to drive cover growth, alongside selected price and mix improvements to help offset annual cost inflation.

Against a market with value growth of 1.6%*, Retail food sales were up 9.7% to £336.9m. This took food's share of our total sales to 40%, up 80bps on the previous year. Food LFL sales were up 2.9% with cover growth of 0.4%.

Much of our food growth comes from innovating to meet eating out consumer trends. We have identified three key trends:

- **Customisation.** We developed 'fish your way' in LFR, 'burger your way' in Eating Inn, and 'build your own burger' in Flame Grill and Meet & Eat. In Eating Inn, there are 560 different combinations of burger for a customer to choose from.
- **Convenience.** Our Cakeaway offer in Hungry Horse generated sales of £750k in the first full year and in our Local high street sites, we improved the breakfast offer, launched a lunchtime deli deal, and introduced a wider range of sharing platters for 'after work' customers.
- **Health.** We introduced a 'live well' section on our Eating Inn menu for dishes under 700 calories and we stepped up the number of gluten free dishes in our menus.

Wine and coffee are also important long-term growth categories for Retail.

Wine sales grew 15.8% and are now up 62% in the last five years. On a per site basis, wine sales grew 11.8%. Our wines won 25 International Wine Challenge awards this year, including 19 sourced directly by our expert wine team. In Metropolitan, our premium Local Pubs estate, we introduced a dedicated wine specialist and developed our own premium, directly sourced, own-label brand, Piazzi.

Hot beverage sales, of which coffee is 75%, grew 6.2% and we expect further growth as we grow our breakfast trade. We launched our own coffee brand, Big Bean, which has been successfully rolled out across the Hungry Horse estate. Across the rest of the estate, 86% of our sites use illy as their coffee offer.

* Allegra Eating Out Report 2013.

3. Further aligning our estate to our customers through targeted acquisitions

We have targeted 1,100 sites by 2015 and we remain on track to achieve this. In the year, we increased our trading estate by a net 33 sites, having acquired or transferred in 38 sites and disposed of five non-core sites. This took the estate to 987 pubs, restaurants and hotels. Of those new sites, 12 were single-site acquisitions, 12 were new build openings, including our first Hungry Horse leasehold site, and 14 were transfers from Pub Partners, including 11 Meet & Eat sites. These transfers are supporting the expansion of the Meet & Eat brand within Retail. In addition, our pipeline for further expansion is healthy and we exchanged or completed on a further 30 sites.

4. Employing the best trained & motivated people in the sector

We have over 22,000 employees across the business. 94% work within Retail, taking part in 440m customer interactions each year. We therefore constantly look to improve the calibre of our teams to deliver the best value, service and quality in the sector. There are a number of ways this is achieved, including improving the working environment and building employee loyalty to Greene King as an employer brand through initiatives such as enhanced employee benefits, more effective communication and improved recruitment and training processes.

At the heart of our approach is our Discovery Apprentice scheme, which we began in January 2011. The introduction of apprenticeships has improved the culture within Retail, as team members can more easily see a career path in hospitality ahead of them. We continue to grow the scheme and deliver excellent results: at the year end, we had almost 2,500 apprentices in Retail, of which 1,300 were 'in learning' and 1,200 were fully trained. This equates to 12.3% of our Retail team, compared to 8.2% 12 months ago. Most importantly, 71% of our apprentices have successfully completed the programme, ahead of the national average of 62%.

This focus on, and success of, our apprenticeship scheme has positively influenced team turnover, down 8%pts, employee engagement, up 4%pts, and labour productivity, which was 2.3% better than last year.

Finally, we believe that our positive reputation as an employer is attracting more and more people to work for Greene King. For example, we average 12 applications for every job vacancy in our new build sites, equivalent to almost 800 applications per site.

5. Continued investment in our branded & segmented estate

In our retail estate, we operate branded sites or sites segmented by customer occasion and demographics. We re-segmented our Local Pubs estate into five segments: Metropolitan, Mainstream High Street, Flame Grill, Meet & Eat and Value Sport. The new segmentation further simplifies the operating structure in Local Pubs and brings our Flame Grill and Meet & Eat concepts to the fore. Excluding these concepts, our fully branded pubs, restaurants and hotels represent 40% of our retail estate, with our leading brand, Hungry Horse, at 199 trading sites at the year end. Just after the year end, we opened our 200th Hungry Horse, the Royal Horse in Leamington Spa, and we anticipate opening a further 25 in the new financial year. Also at the year end, there were 108 Old English Inns, 42 Loch Fyne Restaurants, 28 Eating Inns and 16 Farmhouse Inns, the former Cloverleaf estate.

We converted seven sites to the Realpubs or Capital Pub Company formats. On average, all the converted sites are delivering an EBITDA ROI of 33%, although we expect investment returns to moderate going forward.

In total, we spent £70.1m on repairing, maintaining and improving the quality of our existing retail estate, of which £31.7m was expansionary capital. This was invested in 140 sites, or 14.2% of the estate, and achieved an EBITDA ROI of 26%.

6. Increasing investment in our expanding digital platform

Investment in our digital platform has continued as we improve our customer understanding, directly target our tailored offers to the right demographics and occasions, and use direct feedback to improve the retail offer. Traffic on our websites grew 50% to 7.2m over the year with mobile traffic trebling to 31% of the total, up from 17% last year. We averaged 138,000 'hits' per week in total. Online table reservations grew 26% and generated £3.2m in sales. At the year end, we had 224,000 Facebook followers, up from 23,000 last year. Our combined databases grew by 76%, we sent out over 20m marketing emails, our loyalty card holders increased ten-fold and our guest satisfaction feedback forms totalled 167,000.

Pub Partners



Pub Partners is responsible for operating our 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.

Our main agreements:

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

REVENUE

£153.7m -5.5%



13%

OF TOTAL REVENUE

Highlights of the year

- Licensee retention 83%
- Franchise or franchise-style sites 38
- Sites with an element of offer influence 26%
- Average tenure four years eight months

SUPPORTING OUR LICENSEES

Our Business Development Managers are highly trained to support our licensee partners in a range of areas, including pre contract-signing advice, to ensure they have the right information to choose the right agreement for their circumstances. This BDM support is essential to help us attract the best licensees into our pubs. We also provide online marketing support and on-going training and advice in a number of areas.

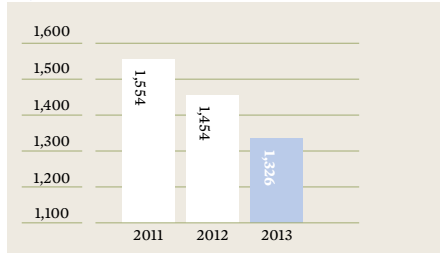


Pub Partners

KEY PERFORMANCE INDICATORS

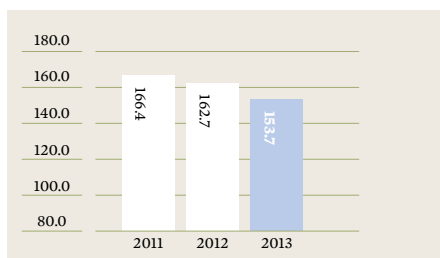
AVERAGE NUMBER OF TRADING SITES (NUMBER)

1,326 -8.8%



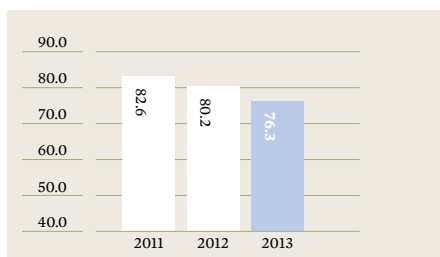
REVENUE (£M)

£153.7m -5.5%



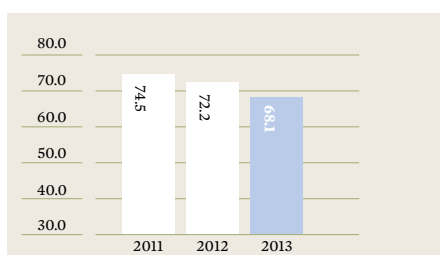
EBITDA (£M)

£76.3m -4.9%



OPERATING PROFIT (£M)

£68.1m -5.7%



The tenanted and leased model has become challenged over the last five years and our response has been to reduce the size of our estate and to enhance our influence over the customer offer to improve licensee and pub sustainability. Pub Partners plays an important role in Greene King, through generating significant cash for the group, adding material purchasing scale and providing attractive yields on smaller pub sites.

On 8.8% fewer pubs, Pub Partners achieved revenue of £153.7m, down 5.5%. Revenue per pub was up 3.6%, with beer volume per pub in line and rent per pub ahead. EBITDA was £76.3m, down 4.9%, although average EBITDA per pub was up 4.2%. LFL EBITDA in the core estate was up 0.1% and total LFL EBITDA was level with the previous year, highlighting the profit and cash stability of Pub Partners. Operating profit was £68.1m, down 5.7%, with the operating margin holding up at 44.3%, down just 10bps.

Pub Partners is focused on operating the right pubs, with the right people, on the right agreement with the right offer:

- Right pubs.** We progressed our plan to reduce the size of the estate. We sold 103 non-core sites and transferred 14 to Retail. This left 1,269 trading sites and 44 sites closed for disposal at the year end. We expect to dispose of around 125 sites during the new financial year.
- Right people.** The recruitment of high quality licensees to run our pubs remains the most important element of the Pub Partners model. We made a number of improvements to our recruitment process, including the regionalisation of our recruitment teams and the introduction of licensee profiling. As a result, the number of new licensees in their pub, after one year, reached 83%. We also stepped up our licensee training, including a new service programme. Licensees that attended the course saw an average 12.5%pts increase in their mystery guest service scores.

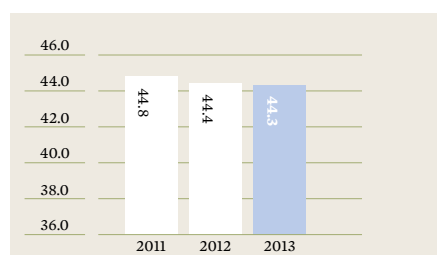
Having the best Business Development Managers (BDMs) is an important differentiator. During the year, 12 BDMs completed their diplomas in Multi-Unit Leadership at Birmingham City University and three have gone onto the Masters programme. We also began supporting our licensees to recruit apprentices into their businesses, saving them £1,500 per employee in labour costs. At the year end, there were 82 apprentices in the Pub Partners estate.

- Right agreements.** Our new suite of agreements, including Touchstone and Touchstone Plus tenancies, started to gain traction, with 108 new agreements in place at the year end. We also had 38 franchise or franchise-style agreements, with our innovative concept, Local Hero, growing strongly. There were 17 Local Hero sites at the year end delivering an average £3k sales uplift and an EBITDA ROI of 31%. We anticipate the Local Hero estate rising to around 30 sites over the new financial year.
- Right offer.** We do all we can to help our licensees deliver the right customer offer to maximise profits and align their interests with ours. At the year end, we had 830 sites, or 65% of the trading estate, on some form of free-of-tie (FOT) agreement, including 21 sites completely FOT. We had 331 sites, or 26% of the estate, under an element of central offer influence and we provided 800 sites with free advertising boards to improve their external offer communication. We launched a digital support tool called Footfall 123, which led to 85 sites initiating a loyalty card scheme, and our Sports Club and Head Brewers Cask Club each had over 300 members by the year end.

As a result of these initiatives, two additional key metrics improved during the year. Average licensee tenure increased by one month to four years and eight months, while our licensee NPS increased 11%pts to 34.3%, better than a number of Pub Partners' retail competitors.

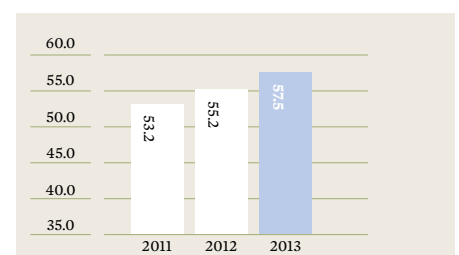
OPERATING PROFIT MARGIN (%)

44.3% -0.1%pts



AVERAGE EBITDA PER PUB (£K)

£57.5k +4.2%



Operational review continued

Brewing & Brands



Brewing & Brands sells and distributes to both the on- and the off-trade a wide range of award-winning craft ales which are brewed in one of our two breweries, in Bury St Edmunds and Dunbar.

Our core brands:



REVENUE

£177.4m +2.1%



15%

OF TOTAL REVENUE

Highlights of the year

- Core own brewed volume was up 1% against ale market by down 3.9%
- Invested 45% of the total ale media spend
- Successful innovation with Old Golden Hen and Belhaven Black
- We are the leading bottled ale brewer with value share of 16.7%

Brewing & Brands

Brewing & Brands is a strong business with market-leading ales, supported by industry-leading brand investment and a highly efficient brewing model, combining to deliver the highest ROCE within Greene King. While there are significant opportunities for long-term growth in parts of our business, there are structural headwinds negatively impacting elsewhere. These include supplier cost increases adversely affecting our free trade wholesaling business, particularly in Scotland, declining volume in the tenanted industry and a reduction in the number of Pub Partners' sites.

The year was split into two. The first half saw core own brewed volumes (OBV) down 0.9% and operating profit down 13.5%, while the second half recovery, led by our continued sector-leading brand investment and innovation, delivered 2.7% core OBV growth and operating profit down 4.8%.

Core OBV in Brewing & Brands was up 1.0%, outperforming a UK ale market down 3.9%*. Within this strong performance, Old Speckled Hen, the UK's no.1 premium ale brand, achieved volume growth of 6.9%, against a premium ale market up just 0.2%*. In addition, Greene King IPA achieved volume growth of 3.3%, against a standard ale market down 5.6%*. Our volume share of the UK ale market rose to 10.5%**.

Brewing & Brands further repositioned towards the long-term growth channels of take home and export. After a year of strong growth, the share of OBV through these channels was up 3.5%pts to 38.3%, driven by the success of our golden ales in take home, including Greene King IPA Gold and Old Golden Hen, and the introduction of our new smoothflow can for Greene King IPA.

Revenue was £177.4m, up 2.1%, helped by strong growth in bottled ale, as, since the year end, we became the UK's leading bottled ale brewer with a 16.7%*** value share. EBITDA fell 7.8% to £35.4m and operating profit fell 9.1% to £30.0m.

Our out-performance is driven by industry-leading investment and innovation in our core ale brand portfolio. During the year, Old Speckled Hen, Greene King IPA and Belhaven Best returned to television advertising as part of a combined £4.5m campaign, as we invested 45% of the total ale market media investment in the year. Our innovative brand extensions, such as Old Golden Hen and Belhaven Black, grew to around 7% of total OBV.

Our focus on delivering an attractive value proposition to our customers has again led to new account wins in free trade, including Saracens, Worcestershire Cricket Club, Sheffield United and Imperial College, and across leading national pub retailers.

We maintained our consistently high service and quality levels. Our internal service measure, covering the whole of our supply chain, rose to 97.6%, comfortably ahead of target. On quality, Greene King IPA Reserve and Greene King IPA Gold won Grand Gold and Gold awards respectively at the 2013 Monde Awards. We put 1,300 delegates through the BII cellar management course, we retained our Red Tractor status and achieved ISO9001 for the 20th year in succession. Finally, our visitor centre achieved a 2013 Certificate of Excellence from Trip Advisor, putting it in the top 10% of global visitor attractions for quality.

* BBPA.

** Nielsen Scantrack MAT to 27 April 2013

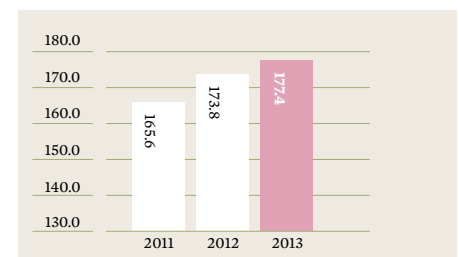
& CGA Brand Index MAT to 23 March 13.

*** Nielsen Scantrack data 12 week value share Mult Grocers.

KEY PERFORMANCE INDICATORS

REVENUE (£M)

£177.4m +2.1%



EBITDA (£M)

£35.4m -7.8%



OPERATING PROFIT (£M)

£30.0m -9.1%



OPERATING PROFIT MARGIN (%)

16.9% -2.1%pts





Brewing & Brands

INVESTMENT IN OUR CORE ALE BRANDS

We have maintained our industry-leading investment in our core ale brands during the year, with £4.5m spent on national TV advertising campaigns for Greene King IPA, Old Speckled Hen and Belhaven Best. For quality recognition, Greene King IPA Reserve and Greene King IPA Gold won Grand Gold and Gold awards respectively at the 2013 Monde Awards.

Financial review

STRONG PERFORMANCE

“Revenue grew by 4.8% driven by growth in our Retail business. Profit before tax and exceptionals was up 6.6%. Operating cash flows were strong and we increased our return on capital employed to 8.9%.”



Once again, the benefits of a consistent and clear strategy to deliver earnings and dividend growth continue to be seen in the performance of the group. The highlights are:

- Revenue up 4.8% to £1,194.7m.
- Profit before tax and exceptionals up 6.6%.
- Dividend per share up 7.3%.
- Reduction in net debt to EBITDA to 4.7x.
- ROCE up 40bps to 8.9%.
- New financing in place.

Results

Revenue grew by 4.8% to £1,194.7m. The biggest driver of this growth came from our retail estate, where revenue grew by 7.4% and average revenue per pub rose 3.8%. Our retail estate now accounts for over 72% of group revenue and will continue to grow its share as we progress towards our target of 1,100 retail sites. Total revenue in Pub Partners was down 5.5%, while average revenue per pub increased by 3.6%. Brewing & Brands grew revenue by 2.1%.

Operating profit before exceptionals was £248.2m, up 5.1%, with the group operating margin up 10bps to 20.8%, despite the changing business mix of the group. Control over costs and cash remains strong with the retail operating margin growing 80bps to 19.4%, despite significant cost inflation.

Net interest costs before exceptional items of £86.2m were only 2.4% higher than last year, as a result of strong cash flow management and despite a reduction in the IFRS pension interest credit of £1.2m.

Profit before tax and exceptionals was £162.0m, an increase of 6.6%. Adjusted earnings per share of 57.0p was up 7.5%, benefiting from the reduction in the effective tax rate. Statutory profit before tax was £114.8m, down 8.2%.

Tax

The effective rate of corporation tax (before exceptional items) was 24% compared to 25% in the previous year, resulting in a charge to operating profits (before exceptional items) of £38.9m. This is in line with the standard UK corporation tax rate and is expected to remain in line.

However, our full year contribution to HM Treasury was much higher with a total of £375m in total taxes paid or generated (including beer duty, VAT, PAYE etc.). This is equivalent to 31% of our turnover and is seven times the dividends we paid out to our shareholders.

The group's tax policy, which has been approved by the board, is aligned with the business strategy. It seeks to protect shareholder value by structuring operations in a tax efficient manner, while complying with all relevant tax laws and legislation, and fulfilling our obligations as a responsible UK tax payer.

Exceptional items

As set out in note five, we recorded a net exceptional charge of £24.8m, consisting of a £19.0m charge to operating profit before tax, a £28.2m charge to finance costs and an exceptional tax credit of £22.4m.

The key items in operating profit were a £8.4m credit as a consequence of closure of the defined benefit pension schemes to future accrual, offset by an impairment charge of £17.7m against the carrying value of a small number of our pubs, where specific market conditions have impacted trading, and £6.7m relating to disposals, which includes £4.5m of related goodwill.

An exceptional finance cost of £28.2m has been recognised in respect of the fair value of the interest rate swap no longer qualifying for hedge accounting, in anticipation of the post year-end repurchase of the ABI floating rate bond.

In addition to a tax credit of £9.0m in respect of the above items, the exceptional tax credit of £22.4m includes a deferred tax credit of £6.1m, arising from the reduction in the rate of corporation tax from 24% to 23%, effective from 1 April 2013, and a deferred tax credit of £7.5m, in respect of the licensed estate.

Cash flow

Operating cash flows were strong. We generated record free cash flow (FCF) of £63.1m, up from £38.5m in the previous year, and comfortably ahead of our scheduled debt repayments of £27.8m.

Financial review continued

Cash flow continued

EBITDA, before exceptional items, was £306.5m, up 5.0%, from 4% fewer pubs.

We disposed of 108 sites as part of our strategy to improve the quality of our estate with the cash proceeds totalling £28.0m.

As outlined below, we made good progress towards our target of growing our retail estate to 1,100 sites with a cash outflow on acquisitions and acquired sites totalling £46.3m, bringing the net cash inflow to £42.8m.

Capital expenditure

We again kept constant our level of investment in maintaining and developing our core estate, as well as investing to grow the size of our retail estate. The result is a well invested estate with total expenditure of £39.7m in the year.

Capital expenditure on the core estate, including maintenance capital, was £79.4m, compared to £81.3m in the previous year. A further £22.6m was invested in acquiring single sites, with £23.7m invested on these and previously acquired sites.

Looking forward, we have a strong pipeline of new retail sites and we are on track to open 30 new builds and single site acquisitions each year, as well as identifying further transfer opportunities from the tenanted estate.

Net debt and financing

Net debt at the year end was £1,450.4m, a reduction of £42.8m from the previous year end, with the key movements being positive FCF of £63.1m, disposal proceeds of £28.0m and the continued investment in growing our retail estate, through new sites, of £46.3m.

Our financing strategy is designed to ensure we can access sufficiently diversified funding sources, maintain sufficient stand-by liquidity and mitigate re-financing risk, while maintaining an effective total cost of borrowing.

The principal element of our funding structure is a portfolio of securitised bonds, totalling £1,292.7m, with final maturity dates ranging from 2021 to 2036. The weighted average maturity of these bonds is 14 years. During the year, the group made scheduled debt repayments of £27.8m.

The group also maintains a revolving credit facility, which was £180m drawn at the year end.

Since the financial year end, the group has renegotiated its revolving credit facility, increasing its size from £400m to £460m and extending its maturity from April 2016 to June 2018. At the same time, a group entity has purchased the £60m AB1 bond issued by the securitisation vehicle. The impact of this transaction will help to mitigate the scheduled increase in interest costs on the securitised debt due to start in June 2013, as well as providing further liquidity.

Our blended cost of debt was 5.9% with interest rate hedges in place for 99% of the year-end debt at a fixed rate. Going forward from June 2013, we expect a blended cost of debt of 6.1% after all of the securitised bond step-ups and the impact of the re-financing outlined above.

Our overall credit metrics remain strong. Fixed charge cover has improved to 2.7x from 2.6x and interest cover has also improved to 2.9x from 2.7x. Annualised net debt to EBITDA has reduced to 4.7x and will continue to improve as we maximise the annual EBITDA returns from the underlying business and our investments in new sites. Our securitised vehicle had a FCF debt service cover ratio of 1.5x at the year end, giving 29% headroom.

Return on capital employed

At the year end, our ROCE, on an annualised basis, was 8.9%, up from 8.5%. This growth is due to strong capital disciplines and improvements in the underlying profitability of the business, coupled with our stated strategy of investing trading cash flows and disposal proceeds into expanding our retail estate, where we are able to achieve returns significantly ahead of our cost of capital.

As we continue to invest and increase the number of new retail sites, particularly new builds opened each year, the full impact on ROCE will not be seen immediately as we invest capital ahead of the income stream. That said, the returns we are achieving on sites opened since 2009 remain very strong with a combined EBITDA ROI of 15.0%.

Dividend

The board has recommended a final dividend of 19.45 pence per share, up 7.5%. This will be paid on 9 September 2013 to shareholders on the register at the close of business on 9 August 2013.

The proposed final dividend brings the total dividend for the year to 26.6 pence per share, up 7.3%.

This is in line with the board's policy of maintaining a minimum dividend cover of two times underlying earnings, while continuing to invest for future growth, and maintains our long-term track record of annual dividend growth.

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. During the year, the group completed a consultation with the remaining active members of the defined benefit schemes, resulting in the schemes being closed to future accrual and members being invited to join the defined contribution scheme instead. A net gain of £8.4m has been recognised within exceptional items, comprising a £10.1m gain, in respect of past service accrual, no longer being linked to future salary growth, less £1.7m of implementation costs.

At the year end, there was an IAS 19 pension deficit of £63.8m, which compares to £67.3m at the previous year end. The movement is primarily driven by the exceptional gain following the closure of the scheme to future accrual.

Total cash contributions in the period were £10.1m for both past and current service.

The triennial valuation for our main pension scheme was completed in the year and the future annual deficit funding payments will reduce to £6.9m from a previous payment level of £10.5m.

Summary

The group has continued to make good progress across all of the key financial metrics during the year, with both earnings and dividend growth, underpinned by strong margins and credit metrics, reduced leverage and an improving ROCE.

Matthew Fearn

Finance director
26 June 2013

Key performance indicators

ADJUSTED EARNINGS PER SHARE (P)

57.0p



Summary

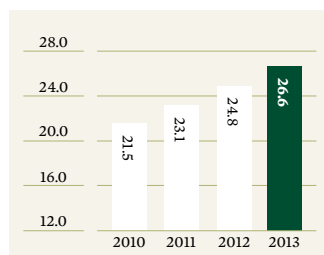
Strong growth coupled with improving trading profit margins and the impact of a reduction in the group's effective tax rate have delivered in earnings per share growth of 7.5% to 57.0p.

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)

26.6p



Summary

Following record results, strong growth and continued cash generation, the board recommend a final dividend payment of 19.45p per share, 7.5% ahead of last year. The total dividend per share for the year of 26.6p is 7.3% ahead of last year.

Definition

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

PBTE (£M)

£162.0m



Summary

Profit before tax and exceptionals increased by 6.6% to £162.0m. Operating profits increased by 5.1% with interest costs increasing by 2.4% compared to last year.

Definition

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

FREE CASH FLOW (£M)

£63.1m



Summary

Operating cash flows remain strong and we generated record free cash flow of £63.1m, up from £38.5m in the previous year, and comfortably ahead of our scheduled debt repayments of £27.8m.

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

2.7x



Summary

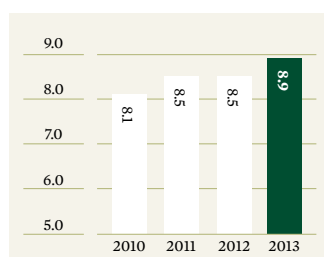
Our overall credit metrics remain strong with fixed charge cover improving to 2.7x from 2.6x last year.

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 (%)

8.9%



Summary

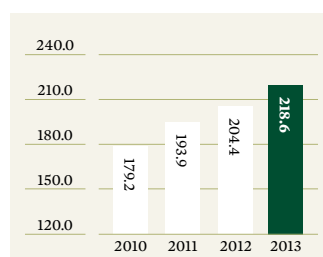
Strong capital disciplines and improvements in the underlying profitability of the business, coupled with our stated strategy of investing trading cash flows and disposal proceeds into expanding our retail estate have resulted in our return on capital employed increasing by 0.4%pts to 8.9%.

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.

EBITDA PER SITE: GREENE KING RETAIL (£K)

£218.6k



Summary

Strong revenue growth and improving margins combined with the impact of our strategy to improve the size and quality of our retail estate have led to Greene King Retail's EBITDA per site growing by 6.9%.

Definition

EBITDA (operating profit before depreciation and exceptionals) divided by the average number of trading pubs in the period.

EBITDA PER SITE: PUB PARTNERS (£K)

£57.5k



Summary

Our strategy to reduce the size of the Pub Partners estate, improve estate quality and increase our offer influence has seen EBITDA per site grow by 4.2%.

Definition

EBITDA (operating profit before depreciation and exceptionals) divided by the average number of trading pubs in the period.

Risks and uncertainties

Greene King has a formal risk management process which is designed to identify, assess and prioritise risks within the business, so that their impact on sustainable profitability is minimised and the group is able to deliver our business plans and strategic objectives, as well as to maximise shareholder returns.

The board retains ultimate responsibility for the company's risk management framework and reviews the group's principal risks on an annual basis. The board has delegated responsibility for assurance for the risk management process to the audit committee, which regularly reviews the risk management processes for each division and functional area. The implementation of risk management and internal control systems is the responsibility of the executive directors and other senior management.

Each division and functional area is responsible for maintaining, reviewing and regularly updating a risk register. Classification of risks takes into account the likelihood of their occurrence and the scale of potential impact (both financial and reputational) on the business. Each division and functional area is then responsible for drawing 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 the individual risk registers in detail,

monitors the risk mitigation plans and assists in the production of the group risk register.

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.

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	POTENTIAL IMPACT	MITIGATION	MONITORING/ASSURANCE
To achieve our Retail expansion plans we need to be able to acquire existing pubs, smaller pub businesses and brown or greenfield sites on which to build new pubs.	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.	We maintain a pipeline of sites available for purchase and a team of acquisition managers responsible for securing new sites on an on-going basis. Our in-house property development team is employed to help deliver new-build projects on time and on budget.	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 continuing operating pubs that are in long-term profit decline.	We have an on-going 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 drive core own-brand volume growth and UK ale market out-performance.	A failure to execute this strategy correctly could result in lower or stagnant sales growth in those brands, affecting profitability.	This year we have invested £7.3m in marketing relating to our beers, with national TV advertising campaigns for Greene King IPA, Old Speckled Hen and Belhaven Best.	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	POTENTIAL IMPACT	MITIGATION	MONITORING/ASSURANCE
<p>The wider economic situation within the UK affects consumer confidence, with a consequential impact on levels of consumer spending in our pubs and those of our tenants and lessees. We also face increasing competitor activity.</p>	<p>A prolonged recession or delay in economic recovery, or significant competitor activity, could reduce our revenue and lead to lower growth rates. More tenant defaults and business failures could also reduce revenue and increase costs in the form of tenant support or recruiting new licensees.</p>	<p>By focusing on value, service and quality we aim to continue to appeal to a broad range of consumers. We have a wide geographic spread of pubs including the more affluent areas of London and the South East, and a good range of customer offers. For our tenants and lessees we provide on-going training, operational and financial support alongside continued agreement innovation to ensure that more of our tenants are able to run profitable businesses.</p>	<p>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. Our Pub Partners division constantly monitors the vital signs of our licensee health, including debt levels and the numbers of tenancies at will.</p>
<p>Inflationary trends increase the costs of our key products, including food, drink and site services including utilities.</p>	<p>Higher costs could impact margins and lead to reduced profitability.</p>	<p>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.</p>	<p>All costs, including labour, are closely monitored by the executive teams to ensure that they remain in line with budget.</p>

Operational and people risks

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION	MONITORING/ASSURANCE
<p>An event or series of events (including poor service standards and food provenance issues) may occur which damages our brand in the eyes of our customers, particularly in the age of increasing use of social media.</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 (including with regard to food provenance) 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. We have introduced a new supplier assurance programme to enable us to give appropriate assurances to our customers as to the provenance of the food in our pubs.</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, howsoever caused, 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 and are also at risk of an event occurring which may prevent us from producing, packaging and distributing our own beers.</p>	<p>Supply disruption (whether of our own beers or any third party products) could impact customer satisfaction. Additionally a 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>Detailed risk management and mitigation plans exist in our internal production and distribution activities. 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>Risk mitigation and product recall plans are reviewed and tested regularly across the business and disaster recovery plans of suppliers are reviewed regularly. The financial stability of key suppliers that we regard as most at risk is monitored with the help of external advisers.</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>

Risks and uncertainties continued

Regulatory risks

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION	MONITORING/ASSURANCE
<p>The government is currently consulting on a statutory code to manage the relationship between pub companies and their tenants which could have significant implications for our Pub Partners division. There is also a risk of further legislative changes in relation to alcohol and licensing.</p>	<p>A new statutory code could increase costs for Pub Partners and reduce revenue. 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 have responded to the recent government consultation in relation to the proposed statutory code and will continue to engage actively with government to argue for more time to be given for the self-regulatory code to prove its worth. We also aim to ensure that government 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 an on-going basis by our public affairs team, 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 food safety or health and safety 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. Our health and safety policies have been reviewed by our primary authority partner, Reading Borough Council, which has rated our safety management systems as very good. Safety levels for new tenants have been improved, and 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>

Financial risks

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION	MONITORING/ASSURANCE
<p>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.</p>	<p>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 on-going creditworthiness.</p>	<p>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 29% headroom. Under our bank facility we had 135% headroom on the key net debt/EBITDA covenant.</p>	<p>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.</p>
<p>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.</p>	<p>Inadequate internal control systems increase the risk of fraud being perpetrated against us. Non-compliance with statutory obligations or a material mis-statement in the reported results of the company could damage our reputation.</p>	<p>Our systems of internal control, more details of which appear on page 45, 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.</p>	<p>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.</p>
<p>We maintain 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 and changes in investment yields.</p>	<p>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.</p>	<p>All the schemes are now closed to future accrual to reduce volatility.</p>	<p>There is regular monitoring of the schemes' investments and dialogue with the trustees on an on-going basis regarding funding requirements.</p>



Corporate social responsibility

SUPPORTING COMMUNITIES AND CHARITIES

We are proud to report that last year we donated over £416,000 for causes close to our hearts. We recognise the importance of the communities in which we operate, and we work in partnership with national charity Macmillan Cancer Support, and with Focus 12, an independent charity based near our head office in Bury St Edmunds. We also support local charities across the UK, which our employees most care about, by facilitating their giving in a variety of ways including product donations, payroll giving and volunteering.

Corporate social responsibility

As the leading UK pub retailer and brewer, it is vital that we operate a sustainable and responsible business. We take the maintenance and delivery of an effective social responsibility programme very seriously.

OUR CUSTOMERS

Pubs continue to play a vital role for customers, families and communities across the UK and provide safe, affordable hospitality, especially in this difficult financial environment.

Our commitment to delivering industry-leading value, service and quality to our customers is supported by our strong retail brands and innovation, which drives us to deliver the best experience possible for our customers.

Food authenticity – horsemeat scandal

We know how important it is that our customers can trust the food that they eat in our pubs, hotels and restaurants. As soon as we heard the news of mislabelling of meat products, in addition to the strict tests already carried out on our supply chain, we immediately began a series of additional DNA tests.

The horsemeat scandal highlighted the need for changes within the global food supply chain to enable customers to eat with confidence. All of our meat is from fully traceable sources and our customers can be assured that we take the quality of the food we serve very seriously. Greene King has always had robust measures in place to ensure that our suppliers and products meet our exacting standards and we were pleased to be in a position to reassure our customers that no horse meat was found in any of our dishes following a full programme of tests.

We will not become complacent and we are introducing additional measures to ensure the on-going integrity and quality of our products. We have engaged an international risk assessment specialist company to carry out a full risk assessment of our suppliers to determine integrity and traceability, including

checks all the way back to the raw ingredients of every dish. We are also implementing a new system for the management of our menu specifications.

Healthy eating

This year we have increased our range of healthier dishes in our Premium Local pubs. These include broad bean risotto, bulgar wheat salad, skinny burger, oven baked fishcakes, haricot bean dip, vitality salad and frozen yoghurt. In conjunction with this, we have also expanded our range of super food salads across our menus, incorporating ingredients such as pomegranate and avocado, which are key indicators for healthier food choices.

Our lower calorie menu sections have now been extended to our Old English Inns (OEI) and Eating Inn menus, offering an increased range of healthier dishes. With lunchtime being an important dining occasion, we have also introduced a gluten-free bread option into OEI, Eating Inn and our mainstream high street menus. This has been received well, with 2% of our mainstream high street customers choosing this as an option.

As part of our on-going commitment to reduce the levels of salt within our supply chain, we have made further progress in meeting the government's 2012 salt targets and are continuing to review our products in line with the current recommendations. This year we have already seen a 7% reduction in the levels of salt in back bacon across our estate.

Stay safe with Safe Start

Last 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,

Our focus

This year, our focus is on our impact on four key stakeholder areas: our customers, our communities, people and our environment. We continue to make good progress in our corporate social responsibility (CSR) goals and for next year we have set even more challenging targets. Details of our CSR policies and practices can be found in the social responsibility section of our website www.greeneking.co.uk.

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.

This is now an embedded behaviour across our leased and tenanted estate and continues to be an essential part of our letting procedure with 409 new tenants undertaking the online training and benefiting from the complete set of statutory checks during the year. The Belhaven estate was successfully integrated into the same process during the year.

Quality standards for our beers

Our Bury St Edmunds brewery site has been awarded the highest quality grade for the third 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 award confirms that our beer is produced to the highest quality and food safety standards.

We have introduced new quality measures to track quality in glass with cellar inspections, beer tasting for customers, as well as customer feedback surveys.

Responsible retailing

We strive to ensure that alcohol produced or sold by Greene King is consumed responsibly. Greene King has invested in, launched and maintains the website <http://enjoyresponsibly.co.uk/>. This was created to offer free and practical advice on all aspects of alcohol use, with guidance on health safety levels and even has practical advice on where to go for support for people who feel they have a problem with alcohol. The Enjoy Responsibly logo is on all our bottles and cans.

OUR CUSTOMERS continued

Responsible retailing continued

Our promotional materials carry clear and concise messages encouraging sensible drinking and all our bottles, cans and outer packaging specify the number of units of alcohol in them, the NHS guidelines and the drinking whilst pregnant advisory logo.

Greene King also supports the principles laid out in the Portman Code of Practice on responsible retailing of alcohol. All retail managers and our bar staff are trained upon recruitment and on-going to ensure they understand their role in promoting the responsible consumption of alcohol by our customers.

Tackling under-age sales

All of our directly managed premises operate 'challenge 21' or 'challenge 25' programmes and free of charge notices are available to all of our premises. Our premises are regularly audited both in-house and externally to ensure that notices are displayed in prominent positions advising customers that a 'challenge 21' or 'challenge 25' policy is in force.

Best Bar None and Pub Watch schemes

172 of our managed pubs belong to recognised Pub Watch schemes and a further 42 have or are currently signed up to Best Bar None award schemes, with an additional 32 awaiting schemes currently on hold to commence.

Last year, 18 of our pubs were accredited with Best Bar None status, some of whom were awarded best in specific categories. Teams at the Blue Anchor, Aintree and Rudds Arms, Middlesbrough were Best Pub Runners-up within their individual schemes. The Frog & Parrot and Museum, Sheffield both received a Distinction for their efforts. Baldwins, Great Barr won Best Suburban Bar and The Turf Tavern in Carlisle won the overall Best Pub award in their scheme.



Stephen Hammond MP (right), Department for Transport's minister for road safety with Greene King house manager, Kieron Murphy, at the Mason's Arms Pub, London W1 for the launch of the Designated Driver Campaign.

Limit awareness

We support the government's anti-drink drive Christmas campaigns. In 2011 and 2012, we also supported the Designated Driver Christmas Campaign in conjunction with Coca-Cola Enterprises Limited, throughout our managed pubs estate, where we offered free soft drinks at Christmas for designated drivers.

Minimum unit pricing for alcohol

In order to tackle the misuse of alcohol, which causes ill health and can lead to anti-social behaviour within communities, Greene King has long advocated the need for a minimum unit price (MUP) for alcohol, throughout the UK, as a targeted approach to tackle the easy availability of cheap alcohol in the off-trade. This, plus a range of associated measures, such as better alcohol-education for adults and children, and a ban on multi-buy deals, are essential for the future health and wellbeing of our society.

This year, Greene King established and led a coalition of similarly minded industry stakeholders who have called on the UK government to remain committed to its stated aim to introduce MUP.

Not only could such a step significantly improve public health, it would also reinforce the family experience, which our pubs and restaurants aim to create, quite apart from the broader societal benefits.

Public Health Responsibility Deal – progress on our pledges

Over the last year, our focus has centred on a number of priorities including pledges made in connection with the government's Public Health Responsibility Deal (PHRD). The PHRD taps into our potential to make a significant contribution by taking a collaborative approach to tackling the challenges caused by lifestyle choices. Details of our signed pledges and our progress is set out on the Department of Health, PHRD website: <https://responsibilitydeal.dh.gov.uk/>.

OUR COMMUNITIES

Local communities are fundamental to the UK's unique identity and, within such communities local pubs play a vital and central role. They are, quite literally, the hub of the community and the place where everyone comes together to relax and to discuss issues that affect that community.

Greene King recognises the value of that role within the social fabric of our society and how, for everyone, maintaining the presence of a pub in a community is essential. Beyond that core social role, but linked to it, Greene King has developed a programme to

support key organisations that address the inequalities in our society.

Pub is the Hub

This year, we extended our community support by providing £15,000 of central funding to 'Pub is the Hub'. This is a not-for-profit organisation offering independent, specialist advice on rural services diversification or community ownership of pubs, so they can continue to provide viable local services at the heart of the community.

Our funding supports Pub is the Hub's 'Community Services Fund', established in April 2013 to help UK pubs to diversify into new services provision for their own communities.

With its track record of rural project development and delivery over the last ten years, Pub is The Hub has worked with licensees to open 100 post offices, 125 shops, 30 computer training centres, provision for allotments, play areas, libraries, school meals, local cinemas, and in the region of 30 pubs being run by their own local community.

Corporate social responsibility continued

OUR COMMUNITIES continued

Macmillan Cancer Support

In May 2012, Greene King launched its first national charity partnership, committing to raise £1m, over three years, for Macmillan Cancer Support. Thanks to the enthusiasm and support of our employees and our customers across the business, we have already raised £300,000 in our first year.

This great cause has united our customers and employees and we have been overwhelmed by the enthusiasm for the partnership, the goodwill, and the contribution we are demonstrating within our local communities and we are confident we will attain our long-term objective.

By supporting Macmillan's World's Biggest Coffee Morning on Friday 28 September, not only did we raise over £100,000, we also saw a growth in sales and footfall over that period. This is a clear example of the mutual benefit both parties enjoy from our partnership... apart from the fun such initiatives bring to our communities.

Our colleagues have, unsurprisingly, proven themselves to be enthusiastic and creative. Examples of ideas from our teams include the offer to ale fans of a new and limited edition ale *Caritas* (Latin for charity), with 5p from every pint sold donated to Macmillan. We have been selling 'Not alone' wristbands; six of our gutsy employees ran in the London Marathon and there has been a plethora of other activities across the group as employees and customers have embraced the programme.

Lynda Thomas, director of fundraising, Macmillan Cancer Support, said: 'A huge thank you to all Greene King staff and customers for the wonderful support they have given Macmillan during the first year of our partnership. Raising £300,000 is a fantastic achievement, and will go a long way towards helping Macmillan support



Macmillan's World's Biggest Coffee Morning.

people affected by cancer, ensuring that no one has to face cancer alone. As the £1m target gets closer, I am looking forward to the next exciting and successful year working together.'

In our first year, we have laid the foundations for a truly successful partnership. With the money our teams have raised, we are helping Macmillan to provide practical, emotional, financial and medical support to people diagnosed with cancer, and their families.

Community outreach

As part of Loch Fyne Restaurants' community outreach initiative to build closer links with local communities, Loch Fyne in Guildford and in Loughton have been hosting class visits from local schools. Children are taught about the importance of health and hygiene, general fish facts and they also get the chance to have a go at cooking.

Focus 12

Greene King continues to support the work of the charity, Focus 12, based close to our head office and brewery in Bury St Edmunds, Suffolk. Focus 12 provides treatment for clients with drugs and alcohol dependency, as well as guidance and counselling for affected family members.

In May, the Greene King Charity ball raised over £20,000 for Focus 12, thereby enabling them to continue to support the local community and tackle the effects of alcohol and drug abuse.

Focus 12's chief executive, Chip Somers, said: 'We are always grateful for any fundraising but feel especially that Greene King has taken a brave stance in supporting a charity such as ours. The money raised will enable at least five people to go through the three-month programme which will hopefully change the lives of them and all their family members.'

Case study – raising funds for Macmillan

To mark the opening of our 200th Hungry Horse pub, The Royal Horse, Leamington Spa, in May, we challenged our Hungry Horse pubs to each raise a minimum of £200 for Macmillan Cancer Support, through a number of fundraising activities.



OUR PEOPLE

Our people are our lifeblood and our greatest asset. With over 22,000 employees, it is vital that we attract and retain the best people and developing and nurturing talent is essential to our continued success and the future growth of our business.

Employee engagement

We take very seriously the engagement and wellbeing of our employees. Last year we set ourselves a challenge to improve on our employee engagement, demonstrated by our annual attitude survey. We were pleased that not only did we see an improvement, from 71% to 75%, but we also achieved that score with a response rate of 85%, representing some 18,000 people and a 20% increase in responses on our last full survey.

We will use the data collected to improve the business and our working lives. The survey results identified specific areas

for improvement and we will be taking these forward.

Alcohol education

As part of our programme to support and educate our employees, we are working on a programme to develop and implement alcohol education for our 22,000 employees, to ensure a full understanding of how to enjoy alcohol responsibly and to offer advice on the dangers of over-consumption/binge drinking and the impact it has on our health and our lives. This education training will be rolled out in personal meetings with management and via on-line training tools. As part of the training, we will also reinforce Greene King's policy towards alcohol and responsible consumption.

Health and safety awards

Once again, we continued our good record of receiving awards for our health and safety

practices in our Brewing & Brands division:

- Greene King awarded Gold Medal for Occupational Health and Safety from RoSPA (Royal Society for the Prevention of Accidents) – ninth consecutive gold award.
- Achieved Silver award for MORR (Management of Road Risk).

Developing our talent

Greene King recognises the wider benefits of developing internal talent and career paths that support increased employee retention, employee engagement and provide long-term career opportunities.

Apprenticeships

As a leader in hospitality, employing over 22,000 people across the UK, it is important to us that we attract, train and retain the very best people.

Greene King signed up to the government's apprenticeship scheme in February 2011, leading with Level 2 NVQ qualifications that are available to all employees as part of a wider employee development framework. The aim is to support genuine career opportunities and learning from entry-level part-time members of staff to area management, and culminating in degree level learning with Birmingham City University.

To date, over 3,000 Greene King employees from across our business have joined the apprenticeship programme, with 1,587 completing their training. Our apprenticeships programme is providing job opportunities in local communities, and, where Greene King is acquiring, refurbishing or building new businesses, new jobs are also being created, as we work closely with Job Centre Plus to provide opportunities through pre-employment training for the long-term unemployed and youth unemployment.

Support for our tenants

Greene King has been helping people to run their own pubs for over 200 years. The level of support we provide for our tenants and lessees is central to attracting the best licensees for our pubs.

Our support is tailored to meet the individual needs of our licensees from industry-leading training for them and their staff, to online business support providing easy access from a wide range of marketing support, all of which is underpinned by our professionally qualified BDMs, who work to ensure every licensee is making the most of their business.

Licensee profiling

This year Pub Partners introduced a licensee profiling tool to assist us with our licensee recruitment, helping to ensure we recruit the right person for the right pub.

Case study – Apprenticeships

Greene King apprentices Alister Halbert, 17, (pictured right) and Kevin Davis, 38, from Loch Fyne, Shrewsbury helped the Deputy Prime Minister launch a new campaign to celebrate the productivity of apprentices during National Apprenticeship Week, at an evening event in London in March 2013.

Alister and Kevin were undergoing kitchen skills training and were chosen as two of four Greene King apprentices to make canapés for the event at Admiralty House in London, as the Deputy Prime Minister Nick Clegg officially launched the 'made by apprentices' campaign to showcase the talents of apprentices across the UK.

Talking about his experience, Alister, who has since transferred to a professional cookery apprenticeship, said: 'When I started my training with Greene King I never imagined it would take me so far. Bringing the skills I have learnt through



my apprenticeship to such a high profile event has shown me just how far the right training really can take you.'

Deputy Prime Minister, Nick Clegg, said: 'Apprentices not only make an invaluable contribution to their employer, but to the economy as a whole.'

Case study – Developing management talent

As part of our commitment to develop from within, 12 of our Business Development Managers (BDM), who studied for a post-graduate degree in Multi-Unit Leadership and Strategy at Birmingham City University, have graduated. With a focus on multi-site leadership and retail management, the programme takes a year to complete and was developed exclusively for Greene King.

Twenty-six managers have now completed this qualification, with four completing a Masters degree.



Corporate social responsibility continued

OUR ENVIRONMENT

We are committed to reducing the environmental impact of our business wherever we can, and focus, in particular, on energy and water consumption and on the amount of waste produced by the business.

Overall use of both gas and electricity increased during the year, driven primarily by the cold winter and especially cold spring, which meant that the heating was kept on in our pubs, restaurants and hotels for much longer than anticipated. Carbon emissions from vehicles also increased, although we have improved our record keeping in this area during the year and have more accurate data than we did last year. As a result, the ratio of CO₂ emissions to £100k of revenue in our Retail and Brewing & Brands divisions increased to 14.9 tonnes.

Work continued throughout the year to improve our energy efficiency. 34 sites had voltage optimisers installed, while 16 sites were fully fitted with LED lighting. We installed new cellar cooling systems in 30 sites, using outside air to cool ground level cellars, in a system designed by our own cellar service team. We also installed new boilers in 45 sites during the year and reduced the emissions from our boilers in the Bury St Edmunds brewery by over 10%.

Although water usage was up during the year, we now have water monitors installed in 15% of sites, doubling the number we had last year and giving data on the daily usage of water so we can detect higher than average usage and leakages much more quickly. We continue to work closely with water

companies to encourage them to help us in this area as more accurate records are vital to us.

We also worked hard to reduce waste across the business, and the amount of waste that was recycled increased by 25% during the year. We now have 220 pubs, restaurants and hotels that divert all of their waste away from landfill, while 74% of our sites are diverting at least 80% of their waste away from landfill. An additional 42% more cooking oil was recycled during the year, and in our brewing business, over 2,800 tonnes of spent yeast was sent to Marmite. As signatories to the voluntary Food Service and Hospitality Agreement, we have worked closely with WRAP on a number of initiatives to reduce food waste, optimise packaging and increase recycling rates.

Environmental data

Energy	Units	2011/12	2012/13	Difference	% change
Natural gas	MWh	197,333	229,706	32,373	16%
Other fossil fuels	MWh	24,920	28,409	3,489	14%
Electricity	MWh	178,174	186,155	7,981	4%
Energy for operations	MWh	400,427	444,270	43,843	11%
Vehicles	MWh	31,099	36,868	5,769	19%
Total energy (vehicles and operations)	MWh	431,526	481,138	49,612	11%
Total CO ₂ emissions	Tonnes	143,389	155,423	12,034	8%
Water consumption	Cubic metres	2,311,467	2,438,169	126,702	5%

Our priorities for 2013/14

Food assurance	In July 2013, we will appoint a technical and quality manager within our food buying team, to review our current reporting and measurement of quality and to make recommendations on areas for improvement and to monitor implementation.
Healthy eating	This year we will continue our focus on healthy eating and will work on developing more lower calorie and healthier options for our customers. We will also ensure all of our menus indicate lower calorie dishes. We are also planning to trial full calorie labelling on our Eating Inn core menus.
Salt targets	This year we will be looking at reducing salt on gammon, which will impact positively on our top ten dishes. With technical solutions currently being a focus point for manufacturers, we anticipate that salt levels will continue to improve.
Responsible retailing	We will extend our support in local communities for schemes to address issues around social and health harms, and will act together to improve joined up working between schemes operating in local areas. We are investigating the possibility of participating in a Suffolk-wide Best Bar None scheme next year.
Charitable support	We will continue to organise activities across the business to raise £1m for Macmillan Cancer Support by May 2015. We will also support our businesses in their local charitable fundraising activities for causes close to their hearts.
Community pubs support	We will continue to help UK pubs to diversify into new services provision for their own communities.
Improve employee engagement	When we next conduct our employee engagement survey we aim to achieve an improvement in employee engagement to achieve even more engagement across our teams.
Apprenticeships	We will link apprenticeships to the career ladder, drive catering-led apprenticeships, introduce pre-employment training (particularly in our new-build sites), further develop apprenticeships across the rest of our business, introduce innovative learning methods, and maintain a base of 10% of employees completing apprenticeships.
Health and safety	We will continue to strive to identify and reduce health and safety risks and to improve the safety of our premises.
Macmillan – a two-way partnership	A natural progression of our partnership with Macmillan Cancer Support is to embed their cancer awareness services among our employees and roll out a programme of cancer awareness throughout Greene King.
Alcohol education	While we have had an alcohol policy for some time, and we support treatment for employees who have dependency issues, in the coming year we will focus on implementing alcohol education and awareness, to help prevent issues occurring and to highlight the impact of over-indulgence in alcohol.
Reduce CO₂	We will aim to reduce CO ₂ emissions in our existing estate and specifically aim to improve the ratio of CO ₂ emissions to revenue in our Retail and Brewing & Brands divisions to around 14.4 tonnes. We will continue to install energy saving systems in our Retail estate and propose to move the main boilers in the Bury St Edmunds brewery from light fuel oil to gas.
Reduce water usage	Our focus this year will be on continuing to introduce more water monitors across the estate, with a view to having around 30% of the estate fitted with them by the end of this financial year.
Reduce waste	We will continue to aim for improvements in our waste recycling programme during the year, with a view to increasing the amount of waste not being sent to landfill, and for even more of our pubs, restaurants and hotels to divert all of their waste away from landfill.

Board of directors

Tim Bridge, DL (64)

Chairman

Appointed in 2005
(joined the board in 1977)

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.

N

**Rooney Anand (49)**

Chief executive

Appointed in 2005
(joined the board in 2001)

Rooney Anand joined the group as managing director of the brewing division 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.

**Matthew Fearn (48)**

Finance director

Appointed in 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.

**John Brady (61)**

Non-executive director

Appointed in 2005

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.

N

R

A

**Mike Coupe (52)**

Non-executive director

Appointed in 2011

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.

N

A

**Ian Durant (54)**

Senior independent non-executive director

Appointed in 2007

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

N

R

A

**Lynne Weedall (46)**

Non-executive director

Appointed in October 2012

Lynne Weedall is currently group HR and strategy director for The Carphone Warehouse Group plc and brings to the board a wealth of experience of HR and organisational development gained from a variety of roles in the retail sector.

N

R

**Key of committees**

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

Senior management

Jonathan Webster (51)

Managing director
Destination Pubs
In role since 2007

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 (42)

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 15 years' experience in the sector.



Richard Lewis (42)

Managing director
Local Pubs
In role since 2011

Richard Lewis joined Greene King from The Warehouse, as COO 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.



Chris Houlton (50)

Managing director
Brewing & Brands
In role since January 2013

Chris Houlton joined Greene King from Carlsberg UK where he had spent 14 years, most recently as sales and distribution director. Chris brings with him extensive experience in both on and off trade sales, retail and logistics.



Corporate governance statement

Statement of compliance with the UK Corporate Governance Code

The company is subject to the UK Corporate Governance Code which is issued by the Financial Reporting Council and which is available at www.frc.org.uk. 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. Companies listed in the UK are required 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 area.

B.7.1

B.7.1 requires that all directors of FTSE 350 companies should be subject to annual election by shareholders. At the last AGM three directors submitted themselves for re-election as the other directors had submitted themselves for re-election the previous year. This year the company will ask all of its directors to submit themselves for re-election.

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 Rooney Anand, and the senior independent director Ian Durant.

The directors' biographies are on page 38. 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

CHAIRMAN'S INTRODUCTION

"As chairman, with responsibility for ensuring that high standards of corporate governance are maintained, I am pleased to introduce the corporate governance report for 2012/13.

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. We also note the emphasis within the UK Corporate Governance Code (the code) on well balanced, effective boards, strong oversight of risk management, alignment of remuneration policies with shareholder interests and sound shareholder relations.

This year's corporate governance report, and the sections therein from each of the board committees, describes the operation of the board and explains how we applied the principles of good governance set out in the code during the year. This was a year when we saw the retirement of Norman Murray as senior independent director and chairman of the remuneration committee. Ian Durant, who has been on the board since 2007, has taken over as senior independent director, whilst Lynne Weedall was appointed to the board in October 2012 and took over as chairman of the remuneration committee at the beginning of this calendar year.

The directors' remuneration report sets out details of the remuneration review we have been conducting during the course of the last year, which incorporates a number of additional disclosures consistent with the government's proposed new regulations on remuneration reporting which will apply to the company next year."

Tim Bridge
Chairman



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.

Prior to his retirement at the end of December 2012 Norman Murray was the senior independent non-executive director and thereafter Ian Durant took over that role. Ian Durant has never been employed by the company and has diverse business interests. The board considers that he remained independent in both character and judgment, that his performance has been effective and that he has demonstrated commitment to the role. The same was also applicable to Norman Murray whilst he was the senior independent director. As well as supporting the chairman, a key responsibility for the senior independent director is to be available for direct contact from shareholders should they require.

Diversity

The board approves of the principle of trying to recruit more women into senior management and director roles. When making

new appointments, the policy of the company is to recruit on merit 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.

During the year Lynne Weedall was appointed to the board as a new non-executive director and became chairman of the remuneration committee at the beginning of January 2013. We thus currently have one female director on the board. Notwithstanding Lord Davies' desire 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 female directors 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 and where the issue of gender and diversity will be just one consideration taken into account when filling board vacancies.

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 and for ensuring that each non-executive director is able to make an effective contribution to the board through debate and discussion with the executive directors. He is also responsible for setting the style and tone of board discussions.

The chief executive's role is to develop the company's strategic direction and to lead senior management in executing the company's strategy and 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, that the performance of the company is monitored and challenged and that the financial information provided is comprehensive and accurate. They are also responsible for ensuring, through the relevant committees, that appropriate remuneration arrangements are in place for the executive directors.

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.

Operation of the board

The board has a formal schedule of matters which is 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.

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.

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. Regular agenda items include an overview of the market and current trading as well as a detailed review of financial performance against agreed targets.

There is a two-day off-site meeting for the board in February each year focusing on strategy, with the business unit managing directors attending for part thereof. The strategy sessions include an in-depth review of relevant economic factors, management's projections for the medium term and provide the board with an opportunity to agree the strategic plans for the short and medium term. Following approval of the company's strategy, budgets are prepared for the next financial year to be approved by the board in April. The board reviews each business unit and main functional area (including property and commercial) in detail at least once each year, with particular focus on the achievement of strategic objectives, with the relevant managing director and functional head 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. 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.

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.

Committee

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 relationship; oversees risk management.

Members

Tim Bridge (Chairman),
John Brady, Mike Coupe,
Ian Durant, Lynne Weedall

Lynne Weedall (Chairman),
John Brady, Ian Durant

Ian Durant (Chairman),
John Brady, Mike Coupe

Corporate governance statement continued

Leadership continued

Operation of the board continued

Attendance at scheduled meetings held during the year is set out below:

	Board	Audit committee	Remuneration committee	Nomination committee***
Executive directors				
Rooney Anand	8/8	—	—	—
Matthew Fearn	8/8	—	—	—
Non-executive directors				
Tim Bridge	8/8	—	—	2/2
John Brady	8/8	3/3	4/4	2/2
Ian Durant	8/8	3/3	4/4	1/1
Norman Murray*	5/5	—	2/2	1/1
Mike Coupe	7/8	3/3	—	1/1
Lynne Weedall**	5/5	—	3/3	1/1

* Norman Murray retired from the board on 31 December 2012.

** Lynne Weedall was appointed to the board on 11 October 2012.

*** Membership of the nomination committee was extended to all non-executive directors with effect from 1 January 2013.

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 management accounts, reports on current trading, reports from each business unit and main functional area 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 and the non-executives also meet with the chairman and the chief executive on an informal basis twice each year.

Board effectiveness

Board performance and evaluation

There is an on-going dialogue within the board to ensure that it operates effectively. As a result of points raised during the year an additional session on strategy planning was held prior to the two-day off-site strategy meeting. Non-executive directors also requested and have been given more access to senior management other than the business unit managing directors.

Given that an external evaluation exercise was undertaken during the 2011/12 financial year, it was agreed that the evaluation this year would be undertaken internally. It took the form of a detailed questionnaire that all directors were asked to complete and return to the chairman. The questionnaires covered a range of areas including questions on board structure and composition, strategy and financials, board processes, risks, the board's committees and on corporate governance generally. The responses by the directors

were discussed at the nomination committee and the board.

An externally facilitated evaluation will need to be performed again in two years' time, in accordance with the requirements of the code.

An appraisal of the chairman's performance was initiated prior to the year end and completed recently. 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. 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. Lynne Weedall was provided with specific training on the obligations of directors of listed companies

shortly after her appointment and also met with remuneration advisers prior to taking over as chairman of the remuneration committee.

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 has 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

Communication with shareholders continued

Institutional shareholders and analysts continued

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 copies of analyst's reports on the company.

Recently a consultation exercise has been held with a number of the company's major shareholders in relation to the company's executive remuneration and the proposed introduction of a new LTIP. The senior independent non-executive director, Ian Durant, is available to shareholders if they have concerns about governance issues which the normal channels of contact fail to resolve.

Annual general meeting

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 during the meeting 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).

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. The other members of the committee were Norman Murray and John Brady until 31 December 2012. With effect from 1 January 2013 and after discussion with the non-executive directors, it was determined that all the non-executive directors should be appointed as members of the committee. Apart from the chairman, all members were considered by the board to be independent.

The role of the nomination committee

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 twice during the year. Attendance at these meetings by the committee members is shown in the table on page 42.

Matters considered by the committee during the year included the proposed appointment of Lynne Weedall, board succession planning, committee composition, the board evaluation exercise and the re-election of directors.

With regard to the appointment of Lynne Weedall, the focus was on finding someone who could take over the role of chairman of the remuneration committee. The Zygos Partnership, which provides no other services

to the group, was appointed to assist and was asked to produce a short list of about six candidates, which included both men and women. At the end of the process Lynne Weedall was selected as the best candidate. Arrangements were made for her to meet all of the other non-executive directors prior to her appointment being recommended to the board.

That appointment was also part of the succession planning activities of the committee. It was made in a timely manner prior to Norman Murray's retirement, to enable a few months' smooth handover between them. Succession planning will continue to be a focus for the committee's activities during next year.

Having considered what has now become standard market practice in this area, and on the recommendation of the nomination committee, the board has decided this year to ask all directors to stand for re-election at the forthcoming AGM.

Remuneration committee report

The remuneration committee was chaired during the year by Norman Murray until his retirement from the board on 31 December 2012. Lynne Weedall joined the committee on her appointment to the board in October 2012, and then took over as chairman from 1 January 2013. The other members of the committee were Ian Durant and John Brady. All the members are considered by the board to be independent.

The role of the remuneration committee

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 38 and 39. It agrees the total individual remuneration package of each of the executive directors and 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.

The remuneration committee held four scheduled meetings 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.

Corporate governance statement continued

Remuneration committee report continued

The committee's external adviser, NewBridgeStreet Consultants, attended three of the meetings in connection with the 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 46 to 50.

Audit committee report

The audit committee was chaired during the year by Ian Durant. The other members of the committee were John Brady and 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 Intu Properties PLC.

The role of the audit committee

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 the 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. 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 the audit cycle, the committee reviewed the audit plan presented by the auditor and agreed the scope of the audit work. The committee then discussed a range of issues arising from the audit and reviewed 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. During the year particular attention was paid to the accounting changes necessitated by the closure of the group's final salary pension schemes to future accrual. The committee reviewed management's attestation paper setting out the information that had been provided to the auditor to enable them to form their opinion on the group's financial statements and demonstrating that it was appropriate for the directors to make the representations set out in the letter of representation. The financial statements and interim results themselves were also reviewed in detail prior to their submission to the board.

After the audit was completed a review of the effectiveness of the auditor and of the audit service was undertaken by means of a questionnaire completed by the audit committee chairman, the group finance director, and a number of key members of the finance team involved in the preparation of the statutory accounts. The review covered the overall quality of the service, the audit partner and the audit team, and considered matters such as the management of the audit team, the quality of their insight and communications and the cost-effectiveness of the audit. The committee reviewed the feedback provided and satisfied itself as to the quality of the audit service. The feedback was also provided to Ernst & Young.

External auditor

Ernst & Young have been the company's auditor since 1997. They are required to rotate the audit partner responsible for the group and subsidiary audits every five years and the current audit partner was appointed in the autumn of 2011. The board is aware of the new requirements of the UK Corporate Governance Code with regard to audit tendering and is currently proposing to put the audit of the group and subsidiary accounts out to tender no later than 2016, with a view to any change, if agreed, taking effect for the 2016/17 statutory accounts, at the end of the current audit partner's term. In addition to the assessment of the effectiveness of the audit outlined above, the committee also assessed and found itself satisfied with the objectivity and independence of Ernst & Young, on the basis set out below, and, accordingly, agreed to recommend Ernst & Young's re-appointment as auditor to the board.

This resolution will be put to shareholders at the AGM.

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 level of fees relative to 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 is 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 (in aggregate up to £100,000 pa), and the chairman of the audit committee may approve engagements up to £100,000 (in aggregate up to £200,000 pa), 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 certain tax matters on which Ernst & Young LLP specialists had originally advised. The committee was satisfied that the use of separate teams, and in particular the use of a separate team to audit the tax disclosures in the report and accounts, ensured that auditor independence and objectivity was safeguarded. The total fees paid to Ernst & Young LLP amounted to £382,000, of which £56,000 related to non-audit work.

The committee also reviewed and debated a report from Ernst & Young LLP in which it confirmed compliance with its own policies, procedures and ethical standards, including those of the Auditing Practices Board, in relation to auditor objectivity and independence, and, after due consideration, satisfied itself that the safeguards put in place to protect the independence and objectivity of the service provided by the external auditor were appropriate.

The committee also approved a policy in relation to the appointment of former employees of the auditor by the group. The policy provides that audit partners will not be offered employment by Greene King or any of its subsidiary undertakings within two years of undertaking any role on the audit. Other key team members will not be offered employment by Greene King within six months of undertaking any role on the audit. Other audit team members who accept employment by Greene King must cease activity on the audit immediately when they tender their resignation to the audit firm.

Audit committee report continued

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

The committee reviewed, as it does on an annual basis, the group's whistle blowing policy and its application across the business.

A review of the group's tax risk policy was undertaken during the year to ensure that clear guidance was available to management in relation to future tax arrangements.

The terms of reference of the committee were also reviewed and updated during the year and an exercise was undertaken to assess the effectiveness of the audit committee itself.

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, whilst the audit committee monitors and reviews those internal controls and risks on a regular basis, and reports to the board on its findings. During the course of the year the committee reviewed in detail reports from each business unit and functional area on their respective risk management processes and key risks, so that each area was reviewed at least once. Representatives of the relevant business unit or functional area attended those meetings to present the reports and answer questions from the committee.

A summary of the risk management framework is set out on page 28. 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;
- on-going monitoring by both the board and senior management of performance against budgets, through the periodic reporting of detailed management accounts and key performance indicators;
- on-going monitoring by the board of compliance with financial covenants;
- a centralised financial reporting system and close process, with controls and reconciliation procedures designed to facilitate 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;
- review of retail operational compliance by the retail internal audit team responsible and other analytical and control procedures facilitated by 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

LETTER FROM THE CHAIRMAN OF THE COMMITTEE

"As the new chairman of the committee, I am pleased to introduce our directors' remuneration report for the 2012/13 financial year. I would like first to express my thanks to Norman Murray for his work as chairman in the first half of the year."

Lynne Weedall
Chairman



As you may be aware, the government has reformed the way directors' remuneration is reported and voted upon. The new legislation will apply for our next annual report but the committee has decided to adopt some of the changes early, including separate sections on our remuneration policy going forwards and on implementation of our policy during the last year.

During the past year we have made good progress on our strategic priorities, increasing the size of our retail estate and reducing that of our tenanted and leased estate. At the same time, profit before tax and exceptional items has increased by 6.6%, the dividend has increased by 7.3% and our share price by 39% year-on-year. Our strong performance has helped ensure that the awards made under the long-term incentive plan (LTIP) three years ago will vest in full on the third anniversary of their grant. The bonus outturn this year is 83% of salary for the CEO and 72% of salary for the group FD, which is lower than last year's, reflecting the very stretching targets set at the beginning of the year. We continue to exercise restraint in executive pay levels and salary increases for executives will be a maximum of 2% for the forthcoming year, which is lower than the average of the workforce generally.

The company's LTIP is due for renewal this year and we have taken the opportunity to undertake a full review of the company's incentive arrangements. Following this review, the committee has made some amendments to the remuneration policy to ensure it both supports and motivates our senior team whilst at the same time continues to align them to the company's strategic objectives and to achieving long-term growth for shareholders. We have consulted with a number of our major shareholders in relation to these proposals and have been pleased with the generally positive responses received.

The key changes are as follows:

- it was determined that the balance between short term (annual bonus) and longer term (LTIP) should be re-weighted in favour of long-term performance and that the performance conditions in the annual bonus and new LTIP should have a slightly different emphasis;
- the annual bonus potential for executive directors will be reduced from 150% of salary to 100% of salary through the removal of the deferred share bonus scheme;
- the LTIP grant level will be increased from 133% to 200% of base salary;

- LTIP awards will be subject to stretching EPS and ROCE targets, measured over three financial years; and
- executive share ownership guidelines and clawback provisions – applicable to both the annual bonus and LTIP – are being introduced, in line with best practice.

The committee is conscious of the current climate on executive pay and is comfortable that this modest increase in the executive directors' incentive opportunity does not raise total remuneration above mid-market levels, particularly given the longer-term focus of the package and the challenging targets that will apply to the enhanced LTIP awards.

For this year, shareholders will be asked to vote on this remuneration report, as an ordinary resolution, at the company's AGM, where we hope once again to receive your support. In addition, the new LTIP will also be subject to the approval of shareholders at the AGM, in the form of an ordinary resolution, and we very much hope you will vote in favour thereof.

Lynne Weedall
Chairman of the remuneration committee
26 June 2013

INTRODUCTION AND DIRECTORS' REMUNERATION POLICY – 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 until his retirement from the board on 31 December 2012), John Brady, Ian Durant and Lynne Weedall (from October 2012, and chairman from 1 January 2013). All of the committee members were regarded by the board as independent non-executive directors.

The role of the committee, as set out in its terms of reference (which are available on the company's website), includes determining the remuneration policy for the executive directors, the chairman and those members of senior management whose details appear on pages 38 and 39. It agrees total individual remuneration packages, 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 service contracts of the executive directors and those senior managers 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.

During the year there were four scheduled meetings of the committee. A further telephone conference call was also held specifically to consider the results of the shareholder consultation. All members of the committee attended each meeting.

Advisers to the remuneration committee

The committee seeks advice on general remuneration matters and comparator information from New Bridge Street, a subsidiary 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.

The committee has also sought legal advice from Eversheds on the terms of the new long-term incentive plan and related matters.

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.

Consultation

The company engages regularly with shareholders on matters relating to its strategy and business operations. Where necessary, we also engage with shareholders and their representative bodies on matters relating to executive remuneration.

During the year we consulted with our major shareholders, the Association of British Insurers (ABI) and Institutional Shareholder Services (ISS), in relation to our proposals following our remuneration review. The committee received support from the majority of shareholders consulted and the full range of views were carefully considered before finalising the arrangements, with changes to the policy being made as a result thereof.

The committee does not consult with employees when deciding remuneration policy, although it does receive information on salary increases for and other benefits, including bonuses, available to employees across the group. These matters were taken into account when conducting the review of executive remuneration.

Remuneration policy

Introduction

As explained above, the committee conducted a review of the company's policy and practices during the year to ensure that they continue to be appropriately aligned with company

strategy and shareholder interests. The committee concluded that the remuneration policy, which is designed to ensure that the group offers a competitive, and not excessive, remuneration package so 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, remains broadly appropriate.

General considerations

In designing this policy the committee has considered whether there are any aspects thereof which could inadvertently encourage executives to take inappropriate risk and is satisfied that this is not the case. The committee has also ensured that the incentive structure for executive directors and senior management does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Directors' remuneration report continued

INTRODUCTION AND DIRECTORS' REMUNERATION POLICY – UNAUDITED INFORMATION continued

Components of directors' remuneration

The key elements of the remuneration package of each executive director during the 2013/14 financial year are as follows:

PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE METRICS	CHANGES FOR 2013/14
Base salary				
To recruit, reward and retain high calibre executives.	<p>Reviewed annually or when a change in responsibility occurs, to reflect the executive's responsibilities, market value and sustained performance level.</p> <p>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. Account is also taken of the level of pay awards across the rest of the business.</p> <p>When reviewing base salaries, the committee is mindful of the gearing effect that increases in base salary will have on the potential total remuneration of the executive directors.</p>	<p>2012/13: CEO – £530,000 Group FD – £335,000</p> <p>2013/14: CEO – £540,600 Group FD – £341,000</p>	–	Increases of 2% and 1.8% for the CEO and group FD respectively. These increases compare with average pay rises across the group of 2.5%.
Annual performance bonus				
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.	<p>Bonuses are paid entirely in cash, subject to the achievement of stretching performance targets set at the beginning of each financial year.</p> <p>Clawback may apply in circumstances of a material misstatement of the company's accounts, gross misconduct, negligence, fraud or error.</p>	A maximum of 100% of salary can be earned by the executive directors during the year.	<p>The CEO's performance is measured against the following targets: PBTE (75%), free cash flow (15%) and personal targets (10%).</p> <p>The Group FD's performance is measured against the following targets: PBTE (52.5%), free cash flow (10%), ROI (10%) and personal targets (27.5%).</p>	Reduction in maximum opportunity from 150% to 100%. Use of free cash flow as a performance measure for 2013/14. Introduction of clawback mechanism.
Long-term incentive plan (LTIP)				
<p>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.</p> <p>The EPS targets support the strategy to maintain a sustainable but stretching level of earnings growth whilst maintaining dividend growth and reducing net debt.</p> <p>The ROCE targets focus on generating the necessary returns as capital needs to be re-deployed in order to focus on Retail, growth of which forms a significant part of the company's strategy.</p>	<p>Core and growth awards will be granted annually under the LTIP, in the form of nil-cost options.</p> <p>Awards vest on the third anniversary of grant, subject to performance, and will be exercisable until the tenth anniversary of grant.</p> <p>Clawback may apply in circumstances of a material misstatement of the company's accounts, gross misconduct, negligence, fraud or error.</p>	A maximum of 200% of salary can be awarded each year, 100% as a core LTIP and 100% as a growth LTIP. Dividend equivalents will be paid on any shares that vest.	<p>The core LTIP will be subject to suitably stretching EPS targets and the growth LTIP will be subject to ROCE targets, both measured over a period of three financial years.</p> <p>For 2013 awards:</p> <p>There will be no vesting under the core LTIP for EPS growth of 12% or less, increasing on a straight-line basis to fully vesting for growth of 24%.</p> <p>There will be no vesting for ROCE of 9.1% or less, increasing on a straight-line basis to full vesting for ROCE of 9.8%.</p> <p>The committee retains the discretion to scale back the vesting levels of the growth awards in appropriate circumstances.</p> <p>For future awards EPS and ROCE targets will be set which will be no less challenging in the circumstances.</p>	Increase of total long-term incentive opportunity from 133% to 200%. Introduction of two separate parts – core and growth awards. Use of ROCE as a performance measure for the growth award.

PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE METRICS	CHANGES FOR 2013/14
Pension				
To offer market competitive levels of benefit.	The company contributes to defined contribution pension arrangements for the executive directors or provides cash in lieu where appropriate.	Current contribution levels are 25% of basic salary for the CEO and 20% for the group FD.	—	—
Benefits				
To help recruit and retain executives by being appropriately competitive with those offered at comparator companies.	Benefits principally include the provision of company cars (or cash allowances in lieu thereof), fuel for company cars, life assurance and private medical insurance.	Benefits may vary by role and are reviewed periodically.	—	—
All-employee share schemes				
All employees, including executive directors, have the opportunity to build their shareholding in a tax-efficient manner and further align their interests with those of shareholders.	Employees are invited to participate in the sharesave in January each year provided that they have the requisite service.	The maximum saving under the sharesave scheme is £3,000 per annum, allowing employees to buy company shares at a 20% discount at the end of a three or five-year savings period.	—	—
Shareholding guidelines				
To further align the interests of executive directors with those of shareholders.	Executive directors are required to build and retain a shareholding of at least 100% of salary. To the extent the shareholding requirement has not been met, executives will be expected to retain at least 50% of the net exercised LTIP awards – applicable to any awards exercised after the 2013 AGM – until the requirement is met.	—	—	Introduced in 2013.
Non-executive directors' fees				
	The fees paid to the chairman and the other non-executive directors are determined by the board. It is the board's policy to take into account the median level of fees for similar positions in the market and the time commitment each non-executive director makes to the group. The fees are agreed after taking external advice from New Bridge Street. The non-executive directors do not have service agreements and cannot participate in the pension scheme, the bonus scheme or the share option schemes.	2013/14 fees: Chairman – £174,250 NEDs – Basic fee – £44,100 Additional fees for chairing the audit or remuneration committee – £7,150	—	—

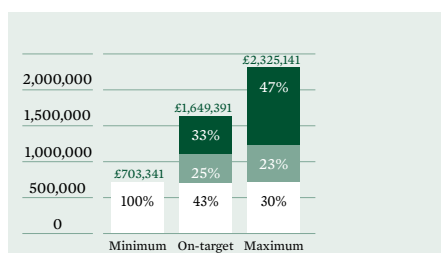
Directors' remuneration report continued

INTRODUCTION AND DIRECTORS' REMUNERATION POLICY – UNAUDITED INFORMATION continued

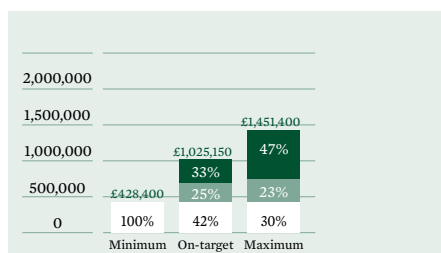
Indicative total remuneration levels

The graphs below provide scenarios for the potential future reward opportunity for each executive director, and the potential split between the different elements of remuneration, under three different performance scenarios – minimum, on-target and maximum.

CHIEF EXECUTIVE OFFICER



GROUP FINANCE DIRECTOR



■ Core and growth LTIP ■ Annual bonus
□ Salary, pension and benefits

Notes:

1. Minimum relates to the value of the package assuming that salary, benefits and pension alone are paid.

2. The on-target annual bonus opportunity, based on stretching performance targets, is 75% of salary for the chief executive and 75% for the group finance director.
3. The on-target vesting level under the core LTIP and the growth LTIP is assumed to be 50% and 50% respectively.
4. The maximum scenario assumes full bonus payout and full vesting of LTIP awards.
5. No assumption as to share price growth is made in either the on-target or the maximum scenarios.

Service agreements

Newly appointed executive directors are offered a service agreement with a notice period of one 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.

The payment of any annual bonus in respect of the year of termination is subject to the discretion of the committee. The vesting of any LTIP awards will be governed by the rules of the LTIP. Awards will normally lapse unless the individual is considered a 'good leaver'. An individual would generally be considered a 'good leaver' if they left the group's employment by reason of injury, ill-health, disability approved by the committee, redundancy or retirement, although the committee has the absolute discretion to treat any individual as a 'good leaver' for any other reason. In the case of a 'good leaver', payments would normally be scaled back to recognise the shorter period of service than the award was intended to cover and remain subject to outstanding performance conditions.

Rooney Anand, whose employment with the company commenced on 6 August 2001, is subject to a one-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 one 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 June 05	23 Jun 14
Mike Coupe	26 July 11	25 Jul 14
Ian Durant	16 Mar 07	15 Mar 16
Lynne Weedall	11 Oct 12	10 Oct 15

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.

ANNUAL REPORT ON REMUNERATION – AUDITED INFORMATION

Directors' emoluments

	Annual pay 2013 £'000	Annual fees 2013 £'000	Annual bonus 2013 £'000	Non-cash benefits 2013 £'000	Other cash benefits 2013 £'000	Cash in lieu of pension contribution 2013 £'000	Total 2013 £'000	Total 2012 £'000
Tim Bridge*	—	170	—	32	—	—	202	196
Rooney Anand	530	—	442	4	23	133	1,132	1,121
John Brady*	—	43	—	—	—	—	43	43
Mike Coupe*	—	43	—	—	—	—	43	33
Ian Durant*	—	50	—	—	—	—	50	49
Matthew Fearn	335	—	240	14	5	36	630	424
Norman Murray* ¹	—	33	—	—	—	—	33	49
Lynne Weedall* ²	—	29	—	—	—	—	29	—
	865	368	682	50	28	169	2,162	1,915

* Non-executive.

1 Norman Murray retired from the board on 31 December 2012.

2 Lynne Weedall was appointed to the board on 11 October 2012.

ANNUAL REPORT ON REMUNERATION – AUDITED INFORMATION continued

Annual bonus payment

The tables below outline the key annual financial and individual performance measures that applied to the main part of the 2012/13 annual bonus payment, where directors were entitled to receive a bonus up to a maximum of 100% of salary:

	Below	Threshold	Target	Stretch
Chief executive – Rooney Anand				
Corporate financial targets (90%)				
PBTE			*	
ROCE				*
In addition, a further 10% of salary was awarded for the achievement of two personal targets, at the discretion of the committee.				
Finance director – Matthew Fearn				
Corporate financial targets (70%)				
PBTE			*	
ROCE				*
Personal targets (30%)				
		*		

The resulting bonus payments were therefore £442k for Rooney Anand, equivalent to 83% of salary, and £240k for Matthew Fearn, equivalent to 72% of salary.

Deferred share bonus scheme

In addition to the annual bonus figures above, £130k (2012: £110k) of bonus will be payable to Rooney Anand and £82k (2012: £46k) to Matthew Fearn under the terms of the economic profit deferred share bonus scheme introduced in 2010. Additional economic profit of £3.7m in excess of the strategic plan was achieved against a maximum target of £7.5m. This resulted in a payout of 49% of the economic profit element of the bonus scheme, equating to 24.5% of each of Rooney Anand's and Matthew Fearn's salaries, compared with a maximum payout of 50% of salary. 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 one year from the date that the shares are acquired.

The table below sets out the directors' interests in the deferred share bonus scheme.

	Outstanding as at 29 April 2012	Acquired during the period	Released during the period	Lapsed during the period	Outstanding as at 28 April 2013	Release date
Rooney Anand	23,647	9,334	23,647	—	9,334	5 Jul 13
Matthew Fearn	—	3,922	—	—	3,922	5 Jul 13

The deferred share bonus scheme will not be operated in future years, as explained in the chairman's letter.

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:

	2013 £'000	2012 £'000
Rooney Anand	—	20
Matthew Fearn	31	33

During the course of 2012 Rooney Anand reached the lifetime allowance for contributions to his pension fund and accordingly no further contributions will be made to his pension. Contributions to Matthew Fearn's pension are limited by the yearly allowance. Cash payments in lieu of pension contributions for both Rooney Anand and Matthew Fearn are set out in the emoluments table above.

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.

During the year two former directors received additional pension income from the company. John Bridge, who retired as a director on 31 December 1989, received a pension of £35k pa in excess of his scheme entitlements and Bernard Tickner, who retired as a director on 27 August 1992, received a pension of £28k 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

ANNUAL REPORT ON REMUNERATION – AUDITED INFORMATION continued

Long-term incentive plan

A summary of the directors' interests under the long-term incentive plan (LTIP) is shown below:

	Date of grant	Type of award	Outstanding as at 29 April 2012	Granted during the period	Vested during the period	Lapsed during the period	Outstanding as at 28 April 2013	Performance period
Rooney Anand	9 Dec 09	restricted forfeitable shares	153,000	–	153,000	–	–	May 09 – Apr 12
	12 Aug 10	restricted forfeitable shares	160,000	–	–	–	160,000	May 10 – Apr 13
	4 Aug 11	restricted forfeitable shares	147,000	–	–	–	147,000	May 11 – Apr 14
	6 Aug 12	restricted forfeitable shares	–	117,000	–	–	117,000	May 12 – Apr 15
Matthew Fearn	6 Aug 12	restricted forfeitable shares	–	74,000	–	–	74,000	May 12 – Apr 15

The market price of the shares on 6 August 2012, when the last awards were made, was 596.0p, although the number of shares comprising the award was determined by reference to the closing market price on 3 August 2012, namely 598.5p.

Outstanding LTIP awards

The 2010 LTIP awards will vest at a rate of 100% on the third anniversary of their grant in August 2013 provided that the recipients remain employed by the group. The performance targets and vesting levels are set out below:

Vesting condition

EPS (represented 40% of the award)

Threshold vesting (0% vesting)	47.0p
Target for 100% vesting	51.0p
Figure achieved	57.0p

Free cash flow (represented 60% of the award)

Threshold vesting (0% vesting)	£230.4m
Target for 100% vesting	£270.4m
Figure achieved	£305.0m

The 2011 and the 2012 LTIP awards will only vest to the extent that the relevant performance targets are met over the three financial years ending in April 2014 and April 2015 respectively. In each case, 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 for the relevant three financial years, which is calculated on a straight-line basis from 0% to 100%, is set out below:

Target level	2011 award 3 years to May 2014	2012 award 3 years to May 2015
Nil vesting	£250.0m	£262.0m
50% vesting	£270.0m	£282.0m
100% vesting	£290.0m	£302.0m

The earnings per share performance conditions set a range for the EPS for the financial year ending in May 2014 (for the 2011 LTIP) or May 2015 (for the 2012 LTIP) which the remuneration committee considered to be sufficiently challenging in the market conditions, but which is not disclosed due to its commercial sensitivity.

The remuneration committee is advised on a regular basis as to how actual performance is tracking against the relevant targets. In relation to the 2011 and 2012 LTIP awards, based on the recent performance of the business and assuming that the business units continue to meet their stretching strategic plan targets, it is anticipated that the payout will reflect achievement of the maximum free cash flow and earnings per share targets.

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.

During the year the 2009 LTIP awards vested 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 been met. Details of the awards that vested during the year, the notional gain before tax achieved by the directors and the number of shares retained on vesting, are set out below. Total gains made by directors under the LTIP in the period ended 28 April 2013 therefore amounted to £948,707 (2012: £nil).

ANNUAL REPORT ON REMUNERATION – AUDITED INFORMATION continued

Long-term incentive plan continued

	Date of vesting	No. of shares which vested	Award price	Market value at date of vesting(p)	Notional gain before tax (£)	No. of shares retained
Rooney Anand	9 Dec 12	153,000	nil	620.07	948,707	73,041
					948,707	

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	Outstanding as at 29 April 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 28 April 2013	Exercise period
Tim Bridge	1 Aug 03	332p	112,127	—	112,117	—	—	1 Aug 06 – 31 Jul 13
	6 Aug 04	408p	99,669	—	—	—	99,669	6 Aug 07 – 5 Aug 14
Rooney Anand	6 Aug 04	408p	54,817	—	—	—	54,817	6 Aug 07 – 5 Aug 14
	4 Aug 05	528p	74,751	—	—	—	74,751	4 Aug 08 – 3 Aug 15

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

Details of the options exercised during the year, the notional gain before tax achieved by the directors and the number of shares retained on exercise are set out below. Total gains made by directors under the executive share option scheme in the period ended 28 April 2013 therefore amounted to £224,531 (2012: £nil).

	Date of exercise	No. of options exercised	Option exercise price (p)	Market value at date of exercise (p)	Notional gain before tax (£)	No. of shares retained
Tim Bridge	28 Jun 12	112,127	332	532.25	224,531	21,769
					224,531	

No changes were made during the year to the terms and conditions of any options then outstanding (2012: 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 a 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 29 April 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 28 April 2013	Option price (p)	Exercise period
Matthew Fearn	2,325	—	—	—	2,325	387	1 Apr – 30 Sep 15

All options outstanding as at 28 April 2013 were granted at an option price below the year-end closing price.

Remuneration from other company directorships

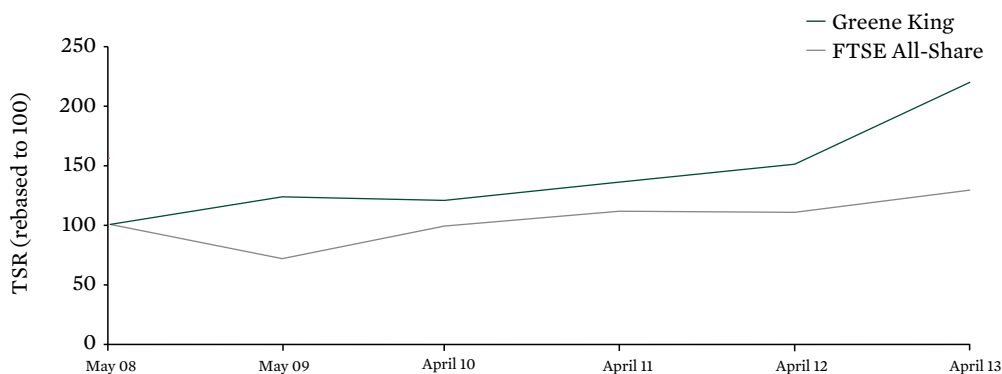
Until December 2012 Rooney Anand served as a non-executive director of DriveAssist Holdings Limited, a company unconnected with the group. He received and retained for his personal benefit £23,000 from that company by way of director's fees during the year. In July 2012 he became non-executive chairman of JB Drinks Holdings Limited, which is also unconnected with the group, and received and retained £22,500 from that company by way of fees.

Directors' remuneration report continued

OTHER INFORMATION

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.



Directors' shareholdings

Director	At 28 April 2013							Total	Shareholding as % of salary as at 28 April 2013
	At 29 April 2012 Legally owned	Legally owned	Subject to deferral under the deferred share bonus scheme	Subject to the sharesave scheme	Unexercised share options	Subject to performance under the LTIP			
Rooney Anand	199,753	272,794	9,334	—	129,568	424,000	835,696	361%	
Matthew Fearn	6,162	9,654	3,922	2,325	—	74,000	89,901	20%	
Tim Bridge	1,340,991	1,362,760	—	—	99,669	—	1,462,429	n/a	
John Brady	10,000	10,000	—	—	—	—	10,000	n/a	
Mike Coupe	2,000	2,000	—	—	—	—	2,000	n/a	
Ian Durant	22,320	22,320	—	—	—	—	22,320	n/a	
Lynne Weedall	—	2,000	—	—	—	—	2,000	n/a	

Share price during the period

The closing price of the company's shares on 26 April 2013 (being the last business day before the financial period end) was 714.5p (2012: 512.5p). The closing price of the company's shares during the period ranged between 474.3p and 723.5p.

Approved by the board of directors on 26 June 2013.

Lynne Weedall

Chairman of the remuneration committee
26 June 2013

Directors' report

The directors present their annual report together with the audited financial statements of the company and the group for the 52 weeks ended 28 April 2013.

Profits and dividends

The group's profit before taxation and exceptional items for the period amounted to £162.0m (2012: £152.0m). An interim dividend of 7.15p per share (2012: 6.7p) was paid on 25 January 2013. The directors recommend a final dividend of 19.45p per ordinary share (2012: 18.1p), making a total dividend for the year of 26.6p per share (2012: 24.8p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 9 September 2013 to shareholders on the register at the close of business on 9 August 2013.

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 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 38. All of the directors held office throughout the period apart from Lynne Weedall, who was appointed on 11 October 2012, and Norman Murray, who held office until his retirement on 31 December 2012.

In accordance with article 90 of the company's articles of association, Lynne Weedall is offering herself for election at the forthcoming AGM. The board has recommended that all of the other directors offer themselves for re-election at the forthcoming AGM.

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 28 April 2013 and the date of this report.

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:

	29 April 2012 (or date of appointment if later)	28 April 2013
Rooney Anand	199,753	272,794
John Brady	10,000	10,000
Tim Bridge	1,340,991	1,362,760
Mike Coupe	2,000	2,000
Ian Durant	22,320	22,320
Matthew Fearn	6,162	9,654
Lynne Weedall	—	2,000

At 28 April 2013, Tim Bridge had a non-beneficial interest in 87,900 (2012: 88,700) shares, in addition to the holding shown above.

There have been no changes in the interests of the directors between 28 April 2013 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:

	28 April 2013	25 June 2013
Standard Life Investments Ltd	8.98%	8.98%
Capital Research & Management Company	8.01%	7.97%
AXA S.A.	4.99%	4.99%

Share capital

Details of the authorised and issued share capital of the company, which comprises a single class of shares, ordinary shares of 12½p, 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 765k ordinary shares, with an aggregate nominal value of £96k, were allotted, for cash, during the period in connection with the company's sharesave and executive option schemes. In addition a further 44k shares were acquired by the company to satisfy awards under the company's deferred share option scheme.

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.

During March 2013, the employee benefit trust made ten market purchases of a total of 450,000 shares at a total price of £3,168,778. The share price was between 701.1p per share and 708.0p per share with an average price of 704.2p per share.

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.

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.

Directors' report continued

Change of control continued

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 12. 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 £17,305 (2012: £29,021). 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 59 days' average purchases from trade creditors of the group was outstanding at the end of the period (2012: 62 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

The directors who were members of the board at the time of approving the directors' report are listed on page 38. 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 is 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 is 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 12 noon on Tuesday 3 September 2013 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
26 June 2013

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 pic are listed on page 38.

T J W Bridge
Director
26 June 2013

R Anand
Director

Independent auditor's report (group)

To the members of Greene King plc

We have audited the group financial statements of Greene King plc for the 52 weeks ended 28 April 2013 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 (IFRS) 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 57, 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 28 April 2013 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRS 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 40 to 45 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 56, 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 28 April 2013 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
26 June 2013

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors 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.

FINANCIAL STATEMENTS

Group income statement

For the 52 weeks ended 28 April 2013

	Note	2013			2012		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2,3	1,194.7	—	1,194.7	1,140.4	—	1,140.4
Operating costs	4	(946.5)	(19.0)	(965.5)	(904.2)	(24.9)	(929.1)
Operating profit	2,4	248.2	(19.0)	229.2	236.2	(24.9)	211.3
Finance income	7	0.4	—	0.4	1.0	—	1.0
Finance costs	7	(87.2)	(28.2)	(115.4)	(87.1)	(2.0)	(89.1)
Other net finance income	7	0.6	—	0.6	1.9	—	1.9
Profit before tax		162.0	(47.2)	114.8	152.0	(26.9)	125.1
Tax	10	(38.9)	22.4	(16.5)	(38.0)	15.3	(22.7)
Profit attributable to equity holders of parent		123.1	(24.8)	98.3	114.0	(11.6)	102.4

		2013		2012	
		Before exceptional items	Total	Before exceptional items	Total
Earnings per share					
– basic	12		45.5p		47.6p
– adjusted basic	12	57.0p		53.0p	
– diluted	12		45.2p		47.5p
– adjusted diluted	12	56.6p		52.9p	
Dividends per share (paid and proposed in respect of the period)	11		26.6p	24.8p	

Group statement of comprehensive income

For the 52 weeks ended 28 April 2013

	Note	2013 £m	2012 £m
Profit for the period		98.3	102.4
Other comprehensive income			
Cash flow hedges:			
- Losses taken to equity	24	(38.4)	(84.5)
- Ineffective portion transferred to income statement	24	28.2	—
Tax on cash flow hedges	10	0.4	18.1
		(9.8)	(66.4)
Actuarial losses on defined benefit pension schemes	9	(16.1)	(33.1)
Tax on actuarial losses	10	3.0	6.9
		(13.1)	(26.2)
Other comprehensive expense for the period, net of tax		(22.9)	(92.6)
Total comprehensive income for the period, net of tax		75.4	9.8

FINANCIAL STATEMENTS

Group balance sheet

As at 28 April 2013

	Note	As at 28 April 2013 £m	As at 29 April 2012 £m
Non-current assets			
Property, plant and equipment	14	2,211.1	2,191.3
Goodwill	13	724.8	729.3
Financial assets	15	26.0	32.8
Deferred tax assets	10	76.4	70.6
Prepayments		0.9	7.3
Trade and other receivables	19	0.1	0.1
		3,039.3	3,031.4
Current assets			
Inventories	18	27.0	29.4
Financial assets	15	8.1	6.2
Trade and other receivables	19	73.9	68.6
Prepayments		14.9	9.4
Cash and cash equivalents	20	31.0	36.8
		154.9	150.4
Property, plant and equipment held for sale	21	8.4	6.2
		163.3	156.6
Current liabilities			
Borrowings	23	(39.8)	(30.7)
Derivative financial instruments	24	(12.8)	(9.7)
Trade and other payables	22	(249.9)	(230.2)
Income tax payable		(41.1)	(53.2)
Provisions	25	(0.5)	(1.2)
		(344.1)	(325.0)
Non-current liabilities			
Borrowings	23	(1,441.6)	(1,499.3)
Derivative financial instruments	24	(226.4)	(191.1)
Deferred tax liabilities	10	(146.5)	(150.7)
Post-employment liabilities	9	(65.3)	(68.8)
Provisions	25	(7.2)	(7.8)
		(1,887.0)	(1,917.7)
Total net assets		971.5	945.3
Issued capital and reserves			
Share capital	26	27.3	27.2
Share premium		253.8	251.3
Capital redemption reserve		3.3	3.3
Hedging reserve		(160.2)	(150.4)
Own shares		(9.1)	(9.6)
Retained earnings		856.4	823.5
Total equity		971.5	945.3
Net debt	29	1,450.4	1,493.2

Signed on behalf of the board on 26 June 2013

T J W Bridge
Director

R Anand
Director

Group cash flow statement

For the 52 weeks ended 28 April 2013

	Note	2013 £m	2012 £m
Operating activities			
Operating profit		229.2	211.3
Operating exceptional items		19.0	24.9
Depreciation		58.3	55.8
EBITDA*	2	306.5	292.0
Working capital and non-cash movements	28	6.0	(10.0)
Interest received		0.4	1.0
Interest paid		(83.7)	(86.4)
Tax paid		(32.9)	(31.1)
Net cash flow from operating activities		196.3	165.5
Investing activities			
Purchase of property, plant and equipment		(123.6)	(126.8)
Business combinations (net of cash acquired)	17	(0.9)	(70.8)
Advances of trade loans		(4.1)	(4.4)
Repayment of trade loans		7.1	6.6
Sales of property, plant and equipment		28.0	29.9
Net cash flow from investing activities		(93.5)	(165.5)
Financing activities			
Equity dividends paid	11	(54.5)	(50.6)
Issue of shares		2.6	1.6
Purchase of own shares		(3.5)	(0.6)
Financing costs		—	(4.1)
Repayment of acquired debt	17	(1.2)	(27.3)
Repayment of borrowings	29	(57.8)	(30.2)
Advance of borrowings	29	—	96.6
Net cash flow from financing activities		(114.4)	(14.6)
Net decrease in cash and cash equivalents		(11.6)	(14.6)
Opening cash and cash equivalents	20	31.8	46.4
Closing cash and cash equivalents	20	20.2	31.8

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

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Group statement of changes in equity

For the 52 weeks ended 28 April 2013

	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 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 gains on defined benefit pension schemes (net of tax)		—	—	—	—	—	(26.2)	(26.2)
Net loss on cash flow 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
Profit for the period		—	—	—	—	—	98.3	98.3
Other comprehensive income:								
Actuarial losses on defined benefit pension schemes (net of tax)		—	—	—	—	—	(13.1)	(13.1)
Net loss on cash flow hedges (net of tax)		—	—	—	(9.8)	—	—	(9.8)
Total comprehensive income		—	—	—	(9.8)	—	85.2	75.4
Issue of ordinary share capital	26	0.1	2.5	—	—	—	—	2.6
Release of shares		—	—	—	—	4.0	(4.0)	—
Repurchase of shares		—	—	—	—	(3.5)	—	(3.5)
Share-based payments	8	—	—	—	—	—	3.9	3.9
Tax on share-based payments	10	—	—	—	—	—	2.3	2.3
Equity dividends paid	11	—	—	—	—	—	(54.5)	(54.5)
At 28 April 2013		27.3	253.8	3.3	(160.2)	(9.1)	856.4	971.5

Notes to the accounts

For the 52 weeks ended 28 April 2013

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 28 April 2013 were authorised for issue by the board of directors on 26 June 2013. 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 28 April 2013 (prior year 52 weeks ended 29 April 2012) 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 amendments to standards are effective for this financial year but have not had a significant impact on the reported financial performance or position of the group.

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.

IAS 12 Income Taxes – Recovery of underlying assets

The amendment, effective for financial years beginning on or after 1 January 2012, clarified the determination of deferred tax on investment property measured at fair value.

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.

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 re-measured until it is finally settled within equity.

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

1 Accounting policies continued

Significant accounting policies continued

Business combinations and goodwill continued

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

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.

I Accounting policies continued

Significant accounting policies continued

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.

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 remeasured and the resulting gain or loss is recognised in the income statement in the same period.

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

1 Accounting policies continued

Significant accounting policies continued

Pensions and other post-employment benefits continued

Defined benefit pension schemes continued

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 benefits

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.

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.

1 Accounting policies continued

Significant accounting policies continued

Taxes continued

Deferred tax continued

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 28 April 2013 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:

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. If the revised standard had been adopted at 28 April 2013 the group would have reported net pension finance costs of £2.5m rather than net finance income of £1.1m.

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. The Board's work on other phases is on-going, and includes impairment of financial instruments and hedge accounting. 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 relates 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 12 Disclosure of Interests in Other Entities

The new standard, which is effective for accounting periods beginning on or after 1 January 2014, sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 that were previously included in IAS 27, IAS 28 and IAS 31. The standard includes disclosure requirements for all forms of interest in other legal entities, including subsidiaries joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The impact on the group is on disclosure in the consolidated financial statements only, where summarised information may need to be provided.

The following standards and interpretations are relevant to the group though they have been assessed as having no financial impact or additional disclosure requirements at this time:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 13 Fair Value Measurement;
- IAS 27 Separate Financial Statements (Revised);
- IAS 28 Associates and Joint Ventures (Amendment);
- IFRS 10, IFRS 12 and IAS 27 Investment Entities; and
- Improvements to International Financial Reporting Standards (2009–2011 Cycle):
 - IAS 1 Presentation of Financial Statements;
 - IAS 16 Property, Plant and Equipment; and
 - IAS 32 Financial Instruments: Presentation.

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

1 Accounting policies continued

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. Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is possible that a liability will arise. The final resolution of these transactions may give rise to material adjustments to the income statement and/or cash flow in future periods. The group reviews each significant tax liability or benefit each period 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.

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 pubs and restaurants

Pub Partners: Tenanted and leased pubs

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.

2013	Retail £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	863.6	153.7	177.4	—	1,194.7
Operating costs	(695.9)	(85.6)	(147.4)	(17.6)	(946.5)
Segment operating profit	167.7	68.1	30.0	(17.6)	248.2
Exceptional items					(19.0)
Net finance costs					(114.4)
Income tax expense					(16.5)
					98.3
Balance sheet					
Segment assets	1,885.6	794.2	370.6	44.8	3,095.2
Unallocated assets*					107.4
	1,885.6	794.2	370.6	44.8	3,202.6
Segment liabilities	(91.2)	(12.2)	(66.2)	(88.0)	(257.6)
Unallocated liabilities*					(1,973.5)
	(91.2)	(12.2)	(66.2)	(88.0)	(2,231.1)
Net assets	1,794.4	782.0	304.4	(43.2)	971.5
Other segment information					
Capital expenditure – tangible assets	105.2	16.5	2.7	1.1	125.5
Capital expenditure – business combinations	3.0	—	—	—	3.0
Goodwill disposed	(0.2)	(4.3)	—	—	(4.5)
Depreciation	44.6	8.2	5.4	0.1	58.3
EBITDA**	212.3	76.3	35.4	(17.5)	306.5

* 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.

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2 Segment information continued

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.

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:

	2013 £m	2012 £m
Goods	1,100.1	1,044.7
Services	94.6	95.7
	1,194.7	1,140.4

4 Other income and expenses

Operating profit is stated after charging/(crediting):

	2013			2012		
	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	71.1	—	71.1	65.8	—	65.8
Cost of products sold recognised as an expense	401.4	—	401.4	385.7	—	385.7
Employment costs (note 6)	291.7	—	291.7	281.5	—	281.5
Depreciation of property, plant and equipment	58.3	—	58.3	55.8	—	55.8
Operating lease rentals						
– minimum lease rentals	16.9	—	16.9	15.6	—	15.6
Other operating charges	107.1	12.3	119.4	99.8	25.1	124.9
Net loss/(profit) on disposal	—	6.7	6.7	—	(0.2)	(0.2)
	946.5	19.0	965.5	904.2	24.9	929.1

Fees paid to the auditors during the period consisted of:

	2013 £m	2012 £m
Audit of the consolidated financial statements	0.2	0.2
Audit of subsidiaries	0.1	0.1
Included in other operating charges	0.3	0.3

5 Exceptional items

	2013 £m	2012 £m
Included in operating profit		
Financial systems integration and divisional restructuring	—	1.6
Acquisition and other related costs	2.2	5.8
Pension and post-employment liabilities credit	(8.4)	(4.4)
Impairment of property, plant and equipment (note 14)	17.7	22.1
Impairment of property, plant and equipment resulting from fire damage (note 14)	1.6	—
Insurance proceeds (note 14)	(0.8)	—
Net loss/(profit) on disposal of property, plant and equipment	5.4	(0.2)
Other loss on disposal	1.3	—
	19.0	24.9
Included in financing costs		
Interest on tax adjustment in respect of prior periods	—	2.0
Ineffective cash flow hedges – transfer from equity (notes 24 and 32)	28.2	—
Total exceptional items before tax	47.2	26.9
Tax impact of exceptional items	(9.0)	(5.1)
Tax credit in respect of the licensed estate	(7.5)	(4.3)
Tax credit in respect of rate change	(6.1)	(12.2)
Adjustment in respect of prior periods – income tax	(20.8)	(0.5)
Adjustment in respect of prior periods – deferred tax	21.0	6.8
Total exceptional tax	(22.4)	(15.3)
Total exceptional items after tax	24.8	11.6

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

5 Exceptional items continued**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 £nil (2012: £3.3m). In addition acquisition costs include a charge of £2.2m (2012: £2.5m) 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 remained employees of the group.

Following the closure of the group's defined benefit pension schemes to future accrual an exceptional credit of £8.4m has been recognised. This comprises a gain of £10.1m in respect of past service accruals no longer being linked to future salary growth less £1.7m of implementation costs and fees. The credit of £4.4m in the prior year is as a result of the curtailment of discretionary benefits provided to retired members of the main defined benefit pension scheme.

The net loss on disposal of property plant and equipment of £5.4m (2012: £0.2m profit) comprises a total profit on disposal of £6.9m (2012: £7.6m) and a total loss on disposal of £12.3m (2011: £7.4m). The loss on disposal includes £4.5m in respect of goodwill allocated to parts of operating segments disposed of in the year. The other loss on disposal of £1.3m relates to the loss on disposal of an investment in the year.

Exceptional tax

The tax credit in respect of the licensed estate arises from movements in their base cost, including the impact of indexation.

The Finance Act 2012 reduced the rate of corporate tax from 24% to 23% from 1 April 2013. The effect of the change in tax rate is to reduce the deferred tax provision by a net £3.3m, comprising a credit to the group income statement of £6.1m and a debit to the group statement of comprehensive income of £2.8m.

The adjustment in respect of prior periods' income tax arises from finalising the tax returns for earlier periods including tax relief for capital expenditure and repairs.

The adjustment in respect of prior periods' deferred tax arises from finalising the tax returns and also deferred tax on revaluation and rolled over gains on the licensed estate.

6 Employment costs

	2013 £m	2012 £m
Wages and salaries	265.1	254.1
Other share-based payments (note 8)	3.9	3.9
Total wages and salaries	269.0	258.0
Social security costs	18.8	17.4
Other pension costs (note 9)		
– defined benefit	1.7	4.2
– defined contribution	2.2	1.9
	291.7	281.5

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

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

	2013	2012
Retail	21,127	20,704
Pub Partners	61	153
Brewing & Brands	832	829
Corporate	412	398
	22,432	22,084

The figures above include 9,819 (2012: 8,281) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 50 to 53.

7 Finance (costs)/income

	2013			2012		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Bank loans and overdrafts	(9.3)	—	(9.3)	(8.4)	—	(8.4)
Other loans	(77.9)	—	(77.9)	(78.7)	—	(78.7)
Ineffective cash flow hedges – transfer from equity (note 24)	—	(28.2)	(28.2)	—	—	—
Interest on tax adjustment in respect of prior period	—	—	—	—	(2.0)	(2.0)
Total finance costs	(87.2)	(28.2)	(115.4)	(87.1)	(2.0)	(89.1)
Unwinding of discount element of provisions	(0.5)	—	(0.5)	(0.4)	—	(0.4)
Net finance income from pensions	1.1	—	1.1	2.3	—	2.3
Other net finance income	0.6	—	0.6	1.9	—	1.9
Bank interest receivable	0.4	—	0.4	1.0	—	1.0
Total finance income	0.4	—	0.4	1.0	—	1.0
Net finance costs	(86.2)	(28.2)	(114.4)	(84.2)	(2.0)	(86.2)

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).

The general terms of each plan are detailed in the directors' remuneration report on pages 46 to 54. All are equity-settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £5.0m (2012: £4.4m). A corresponding credit of £3.9m (2012: £3.9m) has been recognised in equity.

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:

	LTIP	SAYE
2013		
Weighted average share price	596p	708p
Exercise price	—	505p
Expected dividend yield	4.5%	3.8%
Risk-free rate of return	0.2%	0.6%
Volatility	23.8%	22.0%
Expected life (years)	3.0	3.3
Weighted average fair value of grants in the year	521p	168p
2012		
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

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.

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8 Share-based payment plans continued

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

	Number of options		Weighted average exercise price	
	2013 m	2012 m	2013 p	2012 p
ESOS				
Outstanding at the beginning of the period	1.0	2.6	451	451
Forfeited	—	(1.5)	528	452
Exercised	(0.4)	(0.1)	412	381
Outstanding at the end of the period	0.6	1.0	472	451
Exercisable at the end of the period	0.6	1.0	472	451

	Number of options		Weighted average exercise price	
	2013 m	2012 m	2013 p	2012 p
SAYE				
Outstanding at the beginning of the period	2.0	2.0	363	335
Granted	0.6	0.8	507	387
Forfeited	(0.3)	(0.3)	407	375
Exercised	(0.5)	(0.5)	336	282
Outstanding at the end of the period	1.8	2.0	400	363
Exercisable at the end of the period	0.4	0.4	308	324

	Number of shares	
	2013 m	2012 m
LTIP		
Outstanding at the beginning of the period	2.9	2.3
Granted	0.9	1.1
Forfeited	(0.3)	(0.5)
Vested	(0.8)	—
Outstanding at the end of the period	2.7	2.9
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 (2012: £nil).

ESOS, SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 607p in 2013 and 483p in 2012.

The rights outstanding at 28 April 2013 under the LTIP had an exercise price of £nil (2012: £nil) and a weighted average remaining contractual life of 1.3 years (2012: 1.4 years).

The outstanding options for the ESOS scheme had an exercise price between 332p and 528p (2012: 296p – 528p) and for the SAYE scheme between 274p and 505p (2012: 274p and 694p).

The weighted average remaining contractual life was 1.8 years for the ESOS (2012: 2.6 years) and 2.8 years for the SAYE scheme (2012: 3.0 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 0.05m (2012: 0.12m) shares were purchased to fulfil awards made in 2011/12 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 £2.2m (2012: £1.9m).

Defined benefit pension schemes and post-employment benefits

The group maintains the following defined benefit schemes which are all closed to new entrants and were closed to future accrual during the year. All schemes have had full actuarial valuations in the last three years: Greene King Pension Scheme (last valued as at 5 April 2012), Belhaven Pension Scheme (last valued as at 4 May 2011), and the Hardys & Hansons Pension Scheme (last valued as at 30 April 2012).

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Current service cost	(1.7)	(4.2)	—	—
Curtailments	10.1	—	—	4.4
Total recognised in operating profit	8.4	(4.2)	—	4.4
Expected return on pension scheme assets	14.8	17.6	—	—
Interest on scheme liabilities	(13.7)	(15.0)	—	(0.3)
Total finance income/(cost) recognised	1.1	2.6	—	(0.3)

During the year the group defined benefit schemes were closed to future accrual with a credit of £10.1m being recognised as a consequence of past service accruals no longer being linked to future salary growth. The credit in the prior year relates to a curtailment of discretionary post-employment benefits provided to retired members of the main defined benefit pension scheme.

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

	Pension schemes		Post-employment benefits	
	2013 £m	2012 £m	2013 £m	2012 £m
Actual return on scheme assets	42.5	(1.9)	—	—
Less: expected return on scheme assets	(14.8)	(17.6)	—	—
Experience gains and losses on scheme assets	27.7	(19.5)	—	—
Experience gains arising on scheme liabilities	5.4	2.4	—	—
Losses arising on scheme liabilities due to changes in actuarial assumptions	(49.2)	(16.0)	—	—
Actuarial loss recognised through equity	(16.1)	(33.1)	—	—

The total contributions to the defined benefit pension schemes in the following period are expected to be £7.3m (2012: £12.9m) 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 28 April 2013 using the following principal actuarial assumptions:

	2013	2012
Discount rate	3.9%	4.7%
Expected rates of salary increases	—	4.0%
Expected pension payment increases	3.1%	2.9%
Rate of inflation (RPI)	3.2%	3.0%
Rate of inflation (CPI)	2.5%	2.3%
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	24.0	23.6
Woman currently aged 40	26.4	26.2
Man currently aged 65	22.3	21.2
Woman currently aged 65	24.5	24.0

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.

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For the 52 weeks ended 28 April 2013

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

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		2013 £m	2012 £m
	2013 %	2012 %	2013 £m	2012 £m		
Equities	6.7	7.1	207.6	176.6	—	—
With profits	3.9	4.6	2.7	2.3	—	—
Bonds	3.6	4.2	64.5	53.9	—	—
Property	6.7	7.1	—	0.3	—	—
Cash	0.5	0.5	5.5	4.2	—	—
Fair value of assets			280.3	237.3	—	—
Present value of scheme liabilities						
Funded plans			(344.1)	(304.6)	—	—
Unfunded plans			—	—	(1.5)	(1.5)
Non-current liability recognised			(63.8)	(67.3)	(1.5)	(1.5)

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	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
At beginning of period	237.3	234.8	(304.6)	(280.5)	(67.3)	(45.7)
Current service cost	—	—	(1.7)	(4.2)	(1.7)	(4.2)
Interest cost on benefit obligations	—	—	(13.7)	(15.0)	(13.7)	(15.0)
Expected return on plan assets	14.8	17.6	—	—	14.8	17.6
Contributions paid – employers	10.1	13.1	—	—	10.1	13.1
Contributions paid – employees	0.4	0.8	(0.4)	(0.8)	—	—
Settlements and curtailments (note 5)	—	—	10.1	—	10.1	—
Benefits paid	(10.0)	(9.5)	10.0	9.5	—	—
Actuarial gain/(loss)	27.7	(19.5)	(43.8)	(13.6)	(16.1)	(33.1)
At end of period	280.3	237.3	(344.1)	(304.6)	(63.8)	(67.3)

	Post-employment benefits liability	
	2013 £m	2012 £m
At beginning of period	(1.5)	(5.7)
Interest cost on benefit obligations	—	(0.3)
Settlements and curtailments (note 5)	—	4.4
Benefits paid	—	0.1
At end of period	(1.5)	(1.5)

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

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

Pension schemes	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation	(344.1)	(304.6)	(280.5)	(284.3)	(251.3)
Plan assets	280.3	237.3	234.8	205.6	159.7
Deficit	(63.8)	(67.3)	(45.7)	(78.7)	(91.6)
Experience adjustments on scheme liabilities	5.4	2.4	0.7	4.1	2.6
Percentage of scheme liabilities	(1.6%)	(0.8%)	(0.2%)	(1.4%)	(1.0%)
Experience adjustments on scheme assets	27.7	(19.5)	10.4	37.9	(53.3)
Percentage of scheme assets	9.9%	(8.2%)	4.4%	18.4%	(33.4%)

Post-employment benefits	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Benefit obligation	(1.5)	(1.5)	(5.7)	(5.6)	(5.5)
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 £43.2m loss (2012: £27.1m). 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	
	2013 £m	2012 £m
0.25% points increase in discount rate	15.8	13.1
0.25% points increase in inflation assumption	(13.9)	(13.1)
Additional one-year increase to life expectancy	(10.1)	(8.4)

10 Taxation

Consolidated income statement	2013			2012		
	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	42.5	—	42.5	38.1	—	38.1
Recoverable on exceptional items	—	(0.4)	(0.4)	—	(0.9)	(0.9)
Current income tax	42.5	(0.4)	42.1	38.1	(0.9)	37.2
Adjustment in respect of prior periods	—	(20.8)	(20.8)	(1.8)	(0.5)	(2.3)
	42.5	(21.2)	21.3	36.3	(1.4)	34.9
Deferred tax						
Origination and reversal of temporary differences	(3.6)	(16.1)	(19.7)	1.7	(8.5)	(6.8)
Adjustment in respect of prior periods	—	21.0	21.0	—	6.8	6.8
Tax credit in respect of rate change	—	(6.1)	(6.1)	—	(12.2)	(12.2)
	(3.6)	(1.2)	(4.8)	1.7	(13.9)	(12.2)
Tax charge in the income statement	38.9	(22.4)	16.5	38.0	(15.3)	22.7

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10 Taxation continued

Group statement of comprehensive income	2013 £m	2012 £m
Deferred tax		
Loss on actuarial valuation of pension liability	(3.7)	(7.9)
Net loss on revaluation on cash flow hedges	(2.4)	(20.3)
Tax charge in respect of rate change	2.7	3.2
	(3.4)	(25.0)
<hr/>		
Group statement of changes in equity	2013 £m	2013 £m
Deferred tax		
Share-based payment – future taxable benefit	(1.9)	(0.3)
Tax charge in respect of rate change	0.1	0.2
Deferred tax reported in equity	(1.8)	(0.1)
Income tax		
Share-based payments – current taxable benefit	(0.5)	(0.2)
Total tax reported in equity	(2.3)	(0.3)

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:

	2013 £m	2012 £m
Profit before tax	114.8	125.1
Profit before tax multiplied by standard rate corporation tax 23.9% (2012: 25.8%)	27.4	32.3
Effects of:		
Expenses not deductible for tax purposes	2.5	2.4
Exceptional tax credit in respect of the licensed estate	(7.5)	(4.3)
Exceptional tax credit in respect of rate change	(6.1)	(12.2)
Adjustment in respect of prior periods – income tax	(20.8)	(2.3)
Adjustment in respect of prior periods – deferred tax charge	21.0	6.8
Income tax expense reported in the income statement	16.5	22.7

Deferred tax

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

	2013 £m	2012 £m
Deferred tax liability		
Accelerated capital allowances	49.7	47.1
Rolled over gains and property revaluation	96.8	103.6
	146.5	150.7
Deferred tax asset		
Pensions and post-employment medical benefits	(14.9)	(16.4)
Other accruals and deferred income	(2.4)	(2.7)
Derivatives	(54.0)	(47.1)
Share-based payment	(5.0)	(2.4)
Tax losses carried forward	(0.1)	(2.0)
	(76.4)	(70.6)
Net deferred tax liability	70.1	80.1

10 Taxation continued

Deferred tax continued

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

	2013			2012		
	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	(5.0)	7.6	2.6	(1.1)	(3.9)	(5.0)
Rolled over gains and property revaluations	—	(6.8)	(6.8)	—	(11.4)	(11.4)
Pensions and post-employment medical benefit	2.2	2.3	4.5	2.7	1.1	3.8
Other accruals and deferred income	—	0.3	0.3	—	0.2	0.2
Derivatives	—	(6.5)	(6.5)	—	—	—
Share-based payments	(0.8)	—	(0.8)	(0.4)	—	(0.4)
Tax losses carried forward	—	1.9	1.9	0.5	0.1	0.6
Deferred tax expense	(3.6)	(1.2)	(4.8)	1.7	(13.9)	(12.2)

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 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
Credit to the income statement	2.6	(6.8)	(4.2)
At 28 April 2013	49.7	96.8	146.5

	Pensions and post- employment medical benefits £m	Other accruals and deferred income £m	Derivatives £m	Share- based payments £m	Taxes losses carried forward £m	Total £m
Deferred tax assets						
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)
Credit to equity/comprehensive income	(3.0)	—	(0.4)	(1.8)	—	(5.2)
Charge/(credit) to the income statement	4.5	0.3	(6.5)	(0.8)	1.9	(0.6)
At 28 April 2013	(14.9)	(2.4)	(54.0)	(5.0)	(0.1)	(76.4)

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 24% to 23% during the period it is proposed to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. 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 £9.1m.

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11 Dividends paid and proposed

	2013 £m	2012 £m
Declared and paid in the period		
Interim dividend for 2013 – 7.15p (2012: 6.7p)	15.5	14.4
Final dividend for 2012 – 18.1p (2011: 16.8p)	39.0	36.2
	54.5	50.6
Proposed for approval at AGM		
Final dividend for 2013 – 19.45p (2012: 18.1p)	42.4	39.0
Total proposed dividend for 2013 – 26.6p (2012: 24.8p)	57.9	53.4

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 £98.3m (2012: £102.4m) by the weighted average number of shares in issue during the period (excluding own shares held) of 216.1m (2012: 215.0m).

Diluted earnings per share has been calculated on a similar basis taking account of 1.3m (2012: 0.6m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 217.4m (2012: 215.6m). Share options granted over 0.0m shares (2012: 0.5m) 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 2.8m (2012: 2.9m) 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.

	Earnings		Basic earnings per share		Diluted earnings per share	
	2013 £m	2012 £m	2013 p	2012 p	2013 p	2012 p
Adjusted earnings per share						
Profit attributable to equity holders	98.3	102.4	45.5	47.6	45.2	47.5
Exceptional items	24.8	11.6	11.5	5.4	11.4	5.4
Profit attributable to equity holders before exceptional items	123.1	114.0	57.0	53.0	56.6	52.9

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

13 Goodwill

Cost	£m
At 1 May 2011	705.8
Acquired through business combinations (note 17)	23.5
At 29 April 2012	729.3
Disposal	(4.5)
At 28 April 2013	724.8

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.

Goodwill disposed of in the year is the amount of goodwill allocated to parts of operating segments disposed of during the year. The amount disposed is calculated based on the relative value of the operation disposed and the portion of the operating segment retained.

The carrying amount of goodwill has been allocated £353.8m (2012: £354.0m) to Retail, £156.5m (2012: £160.8m) to Pub Partners, and £214.5m (2012: £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 budgeted EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Budgeted EBITDA is based on past experience adjusted to take account of the impact of expected changes to each cash-generating unit's pub estate or operations, sales prices and volumes, capital expenditure, business mix and margin.

Cash flows are discounted at 9.0% (2012: 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% (2012: 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.

13 Goodwill continued

Sensitivity to changes in assumptions

The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management consider that reasonable possible changes in assumptions would be an increase in 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 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
Additions during period	75.3	46.4	2.2	1.6	125.5
Acquisitions (note 17)	2.9	0.1	—	—	3.0
Transfer to property, plant and equipment held for sale	(8.3)	(1.2)	—	—	(9.5)
Disposals during period	(34.6)	(5.3)	(0.6)	—	(40.5)
Balances at 28 April 2013	2,094.0	597.1	61.8	119.1	2,872.0
Depreciation and impairment					
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
Written back on disposals	(14.9)	(2.8)	(0.1)	—	(17.8)
Transfer to property, plant and equipment held for sale	(0.3)	(0.8)	—	—	(1.1)
Provided during the year	7.0	45.8	2.2	3.3	58.3
Impairment (see below)	19.3	—	—	—	19.3
Balances at 28 April 2013	145.3	429.6	10.8	75.2	660.9
Net book value					
At 28 April 2013	1,948.7	167.5	51.0	43.9	2,211.1
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

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:

	2013 £m	2012 £m
Freehold properties	1,906.0	1,880.8
Leasehold properties >50 years unexpired term	58.3	59.5
Leasehold properties <50 years unexpired term	35.4	35.7
	1,999.7	1,976.0

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For the 52 weeks ended 28 April 2013

14 Property, plant and equipment continued

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.

Charges over assets

Included in land and buildings are properties with a net book value of £1,437.7m (2012: £1,433.9m) over which there is a first charge in favour of the securitised debt holders as detailed in note 23.

Future capital expenditure

	2013 £m	2012 £m
Contracted for	7.7	9.9

Impairment of property, plant and equipment

During the year £19.3m of impairment losses (2012: £22.1m) were recognised in the income statement as exceptional costs.

These are analysed between the group's principal reporting segments as shown below.

£1.6m of the impairment recognised in the year for within the Retail estate is in respect of licensed properties damaged by fire.

In the period the group has received £0.8m of insurance compensation to meet the costs incurred to date of restoring these properties; further compensation is expected to be received as the restoration projects progress.

	2013 £m	2012 £m
Retail	3.8	2.5
Pub Partners	15.5	19.6
	19.3	22.1

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% (2012: 9%) and the projected cash flows extrapolated using an average growth rate of 2% (2012: 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.

Estimates of fair value less costs to sell are based on valuations undertaken by in-house property experts.

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 fair values, 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:

	2013 £m	2012 £m
Retail	0.6	0.4
Pub Partners	3.8	3.6
	4.4	4.0

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

	2013 £m	2012 £m
Retail	0.4	0.8
Pub Partners	3.2	3.3
	3.6	4.1

14 Property, plant and equipment continued

Sensitivity to changes in assumptions continued

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

	2013 £m	2012 £m
Retail	0.4	0.8
Pub Partners	3.2	3.3
	3.6	4.1

15 Financial assets

	2013 £m	2012 £m
Trade loans (net of provision)	8.1	6.2
Total current	8.1	6.2
Trade loans (net of provision)	25.5	30.4
Investments	0.5	2.4
Total non-current	26.0	32.8

Trade loans are net of provisions of £4.1m (2012: £4.1m). During the year £0.3m (2012: £0.1m) of the provision was utilised and £0.3m (2012: £0.1m) 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 £21.4m (2012: £23.9m) and variable rate trade loans amounted to £16.3m (2012: £16.8m). Included in fixed rate loans are £9.4m of loans with settlement related to purchase levels (2012: £6.4m). 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 1.93% (2012: 2.70%) and a weighted average period of 6.81 years (2012: 6.73 years). Interest rates on variable rate trade loans are linked to base rate.

	2013 £m	2012 £m
Trade loans		
Balance at beginning of period	36.6	38.8
Advances	4.1	4.4
Repayments	(7.1)	(6.6)
Provisions	—	—
Balance at end of period	33.6	36.6

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	Parent	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%
Premium Dining Restaurants and Pubs 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%

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17 Business combinations

At the start of the year the group had a 40% interest in Ensco 600 Limited, a company operating a single pub. During the year the group acquired the remaining 60% of the business for consideration of £0.9m and also repaid the company's bank borrowings totalling £1.2m. The fair value of the tangible fixed assets acquired was £3.0m.

On 19 July 2011 an agreement was reached on the terms of a recommended offer for the entire issued share capital of Capital Pub Company. The offer was declared unconditional on 22 August 2011 with the group assuming control of Capital Pub Company from 3 September 2011. On 5 September 2011 the group announced its intention to compulsorily acquire all outstanding shares in Capital Pub Company, with all purchases completed by 24 October 2011.

	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:

	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.

18 Inventories

	2013 £m	2012 £m
Raw materials and work in progress	4.2	4.2
Finished goods and goods for resale	21.3	22.9
Consumable stores	1.5	2.3
	27.0	29.4

19 Trade and other receivables

	2013 £m	2012 £m
Other receivables	0.1	0.1
Total non-current	0.1	0.1
Trade receivables	66.1	57.8
Other receivables	7.8	10.8
Total current	73.9	68.6

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2013 £m	2012 £m
Neither past due nor impaired	59.7	52.9
Past due but not impaired		
– Less than 30 days	3.3	3.1
– 30–60 days	0.8	0.5
– Greater than 60 days	2.3	1.3
	66.1	57.8

Trade receivables are shown net of a provision of £5.2m (2012: £4.9m).

20 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	31.0	33.5
Short-term deposits	—	3.3
Cash and cash equivalents for balance sheet	31.0	36.8
Bank overdrafts	(10.8)	(5.0)
Cash and cash equivalents for cash flow	20.2	31.8

Included in the balances above is £12.2m (2012: £16.0m) 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

	2013 £m	2012 £m
Property, plant and equipment held for sale	8.4	6.2

At the current period end, property, plant and equipment held for sale represents £8.4m (2012: £6.2m) 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 £0.7m (2012: £1.3m) included as an exceptional item.

22 Trade and other payables: current

	2013 £m	2012 £m
Trade payables	96.1	93.5
Other payables		
– Other taxation and social security costs	58.7	47.0
– Accruals and deferred income	82.2	76.9
– Interest payable	12.9	12.8
	249.9	230.2

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.

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23 Borrowings

	Repayment date	2013			2012		
		Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	10.8	—	10.8	5.0	—	5.0
Bank loans – floating rate	2016	—	177.9	177.9	—	206.6	206.6
Securitised debt	2005 to 2036	29.0	1,263.7	1,292.7	25.7	1,292.7	1,318.4
		39.8	1,441.6	1,481.4	30.7	1,499.3	1,530.0

Bank overdrafts

Overdrafts are utilised for the day-to-day management of cash. The group has facilities of £25.0m (2012: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

On 1 April 2011 the group agreed a five-year revolving credit facility, of £400m, of which £177.9m (2012: £206.6m) 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 12 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 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	Average life*
		2013	2012				
A1	141.3	140.0	148.5	Floating	6.11%	2031	7.8 years
A2	250.4	247.6	250.5	Fixed	5.32%	2031	12.5 years
A3	106.1	105.1	114.9	Floating	6.09%	2021	4.6 years
A4	258.9	257.3	257.3	Fixed	5.11%	2034	15.4 years
A5	263.7	263.7	268.6	Floating	7.76%	2033	12.6 years
B1	120.9	119.8	119.7	Fixed/floating	6.54%	2034	20.2 years
B2	99.9	99.2	99.2	Floating	6.92%	2036	22.3 years
AB1 [^]	60.0	60.0	59.7	Floating	10.51%	2036	22.0 years
	1,301.2	1,292.7	1,318.4		6.54%		13.9 years

* This assumes notes are held until final maturity.

** Includes the effect of interest rate swaps and future rate step-ups.

*** Carrying value is net of related deferred finance fees.

[^] Since the year end the group has repurchased the AB1 floating rate band at par. See notes 24 and 32.

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.

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, 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 below.

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 28 April 2013 and 29 April 2012. 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 £0.2m (2012: £0.1m) and the group's equity by £106.1m (2012: £101.9m).

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 (2012: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than 1 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 28 April 2013 and 29 April 2012 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 28 April 2013					
Interest-bearing loans and borrowings:					
– Capital	41.3	32.2	282.2	1,136.4	1,492.1
– Interest	80.9	79.2	213.5	709.0	1,082.6
	122.2	111.4	495.7	1,845.4	2,574.7
Derivative financial instruments	12.8	13.2	32.5	180.7	239.2
Trade payables and accruals	178.3	–	–	–	178.3
Provisions in respect of financial liabilities	0.5	0.5	1.6	8.3	10.9
	313.8	125.1	529.8	2,034.4	3,003.1

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

24 Financial instruments continued

Liquidity risk continued

Period ended 29 April 2012	Within 1 year £m	1–2 years £m	2–5 years £m	> 5 years £m	Total £m
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	566.0	2,113.5	3,100.8

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 on-going 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.

Cash flow hedging

At 28 April 2013 the group held 4 (2012: 4) interest rate swap contracts for a nominal value of £140m (2012: £140m), designated as a hedge of the cash flow interest rate risk of the £177.9m (2012: £206.6m) 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 £4.0m (2012: £2.4m). The cash flows occurred semi-annually based on a variable rate of interest based on LIBOR.

At 28 April 2013 the group held 5 (2012: 5) interest rate swap contracts for a nominal value of £667.9m (2012: £695.7m), entered into as part of the securitisation and subsequent securitisation taps. A fair value liability of £235.2m (2012: £198.4m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £667.9m (2012: £695.7m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 5.1% (2012: 5.1%). 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. In anticipation of the repurchase of the £60.0m AB1 bond post-year end the cash flow hedge in respect of this bond has ceased to be effective and hedge accounting has been discontinued. Accordingly an exceptional cost of £28.2m has been recognised in respect of the fair value of the interest rate swap no longer qualifying for hedge accounting which has been recycled from equity to the income statement. The remaining interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives.

The percentage of debt that was fixed as at the year end was 98.6% (2012: 97.4%) 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:

28 April 2013	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	3.3	3.8	4.4	5.1	6.1	602.0	624.7
Financial asset	(5.6)	(3.8)	(3.2)	(2.7)	(2.0)	(4.1)	(21.4)
Variable rate							
Securitised debt	25.7	26.8	28.0	29.2	30.5	527.8	668.0
Bank loans	–	–	177.8	–	–	–	177.8
Overdraft	10.8	–	–	–	–	–	10.8
Financial asset	(2.5)	(2.3)	(2.3)	(2.1)	(2.0)	(5.1)	(16.3)
Cash and short-term deposits	(31.0)	–	–	–	–	–	(31.0)
Interest rate swap liabilities	12.8	13.2	12.0	10.9	9.6	180.7	239.2

24 Financial instruments continued

Interest rate risk continued

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
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

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.

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 2013 £m	Carrying value 2013 £m	Fair value 2012 £m	Carrying value 2012 £m
Financial liabilities				
Overdraft	10.8	10.8	5.0	5.0
Interest-bearing loans and borrowings				
– securitised debt	1,259.9	1,292.7	1,116.5	1,318.4
– floating rate bank loans	177.8	177.8	206.6	206.6
– other variable rate borrowings	—	—	—	—
Interest rate swaps	239.2	239.2	200.8	200.8
Financial assets				
Cash	(31.0)	(31.0)	(36.8)	(36.8)
Financial assets	(33.6)	(33.6)	(39.0)	(39.0)

Carrying values are stated net of any deferred finance fees which amounted to £10.7m (2012: £14.0m).

Notes to the accounts continued

For the 52 weeks ended 28 April 2013

24 Financial instruments continued**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.

Fair value measurement at the end of the reporting period using:

At 28 April 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Interest rate swaps	239.2	—	239.2	—

At 29 April 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Interest rate swaps	200.8	—	200.8	—

During the periods ending 28 April 2013 and 29 April 2012 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 charge 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 28 April 2013 interest cover was 2.9x (2012: 2.7x). The board's dividend policy is to maintain a minimum dividend cover of two times adjusted basic earnings per share.

25 Provisions

	Property leases £m
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
Unwinding of discount element of provisions	0.5
Utilised during the period	(1.8)
At 28 April 2013	7.7

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

	28 April 2013 £m	29 April 2012 £m
Current	0.5	1.2
Non-current	7.2	7.8
	7.7	9.0

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 on-going on these properties for an average of 15 years.

26 Share capital

	2013		2012	
	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	217.5	27.2	217.0	27.1
Issue of share capital – share options exercised	0.8	0.1	0.5	0.1
At end of period	218.3	27.3	217.5	27.2

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.

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 28 April 2013 0.69m shares (2012: 0.97m) were held in treasury, 1.06m shares (2012: 1.09m) were held by the employee benefit trust and 0.05m (2012: 0.12m) were held to fulfil awards under the deferred share bonus scheme. The market value at 28 April 2013 of the treasury shares was £4.9m (2012: £5.0m), of the shares held by the employee benefit trust was £7.5m (2012: £5.6m) and of the shares held for the deferred share bonus scheme was £0.3m (2012: £0.6m).

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 0.55m (2012: 0.84m) treasury shares and 0.44m (2012: 0.23m) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £4.0m (2012: £nil) 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 0.05m (2012: 0.12m) shares were repurchased at a cost of £0.3m (2012: £0.6m) to fulfil awards made under the deferred share bonus scheme with 0.11m shares transferred to individuals to satisfy awards. The employee benefit trust purchased 0.45m shares (2012: nil) at a cost of £3.2m and 0.79m (2012: nil) shares were transferred to satisfy awards under the long-term incentive plan.

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

	2013 £m	2012 £m
Decrease/(increase) in inventories	2.4	(4.3)
(Increase)/decrease in trade and other receivables	(6.4)	6.4
Increase/(decrease) in trade and other payables	17.3	(3.8)
Reclassification of provisions	—	1.2
(Decrease)/increase in provisions	(1.7)	0.3
Share-based payment expense	3.9	3.9
Difference between defined benefit pension contributions paid and amounts charged	(8.4)	(9.0)
Exceptional items	(1.1)	(4.7)
Working capital and non-cash movements	6.0	(10.0)

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29 Analysis of and movements in net debt

	2013 £m	2012 £m
Cash in hand, at bank	31.0	33.5
Short-term deposits*	—	3.3
Overdrafts	(10.8)	(5.0)
Current portion of borrowings	(29.0)	(25.7)
Non-current portion of borrowings	(1,441.6)	(1,499.3)
Closing net debt	(1,450.4)	(1,493.2)

* Included in cash on the balance sheet.

	2013 £m	2012 £m
Movement in net debt		
Net decrease in cash and cash equivalents	(11.6)	(14.6)
Proceeds – advances of loans	—	(96.6)
Repayment of principal – securitised debt	27.8	26.3
Repayment of principal – loans and loan notes	30.0	3.9
Decrease/(increase) in net debt arising from cash flows	46.2	(81.0)
Other non-cash movements	(3.4)	(2.0)
Decrease/(increase) in net debt	42.8	(83.0)
Opening net debt	(1,493.2)	(1,410.2)
Closing net debt	(1,450.4)	(1,493.2)

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 5 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:

	2013 £m	2012 £m
Within one year	13.9	13.5
Between one and five years	47.4	46.1
After five years	138.5	148.5
	199.8	208.1

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 3 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:

	2013 £m	2012 £m
Within one year	34.7	39.3
Between one and five years	76.4	73.7
After five years	71.8	72.3
	182.9	185.3

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

	2013 £m	2012 £m
Short-term employee benefits (including national insurance contributions)	3.8	4.1
Post-employment pension and medical benefits	0.5	0.5
Share-based payments	1.3	1.2
	5.6	5.8

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 19.45p per share (2012: 18.1p) amounting to a dividend of £42.4m (2012: £39.0m) was proposed by the directors at their meeting on 26 June 2013. These financial statements do not reflect the dividend payable.

Financing

Since the year end, the group has re-purchased the £60m AB1 floating rate bond at par. This has been financed from bank loan facilities, which have been increased to £460m and extended to June 2018.

The interest rate swap which was designated as a hedge against the AB1 bond will be retained though the existing hedge arrangement has ceased to be effective and as a result the group has recognised an exceptional cost of £28.2m (note 24).

33 Contingent liabilities

The group has provided guarantees totalling £1.9m at 28 April 2013 (2012: £4.0m) in respect of free trade customers' bank borrowings.

In a previous period the group received a refund of £7.0m 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 have appealed against the ruling and last year the case was referred from the European Court of Justice back to UK courts. We are awaiting their final decision. If HMRC's appeal is upheld the refund of £7.0m and associated interest of £1.0m would become repayable.

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 28 April 2013 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 57, 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 28 April 2013;
- 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 28 April 2013.

Bob Forsyth (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
26 June 2013

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors 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 28 April 2013

Registered number: 24511

	Note	As at 28 April 2013 £m	As at 29 April 2012 £m
Fixed assets			
Investments	38	2,553.6	2,549.0
Current assets			
Debtors		—	—
Deferred tax	39	—	—
Cash		2.4	2.8
Creditors: due within one year			
Derivative financial instruments	41	(0.9)	(0.9)
Income tax payable		(1.2)	(1.0)
Other creditors	40	(1,791.1)	(1,716.8)
Net current liabilities		(1,790.8)	(1,715.9)
Total assets less current liabilities		762.8	833.1
Creditors: due after more than one year			
Medium and long-term debt	41	(177.8)	(206.6)
Derivative financial instruments	41	(3.1)	(1.5)
Net assets		581.9	625.0
Capital and reserves			
Called-up share capital	42	27.3	27.2
Share premium account	43	253.8	251.3
Revaluation reserve	43	2.5	2.5
Hedging reserve	43	(4.0)	(2.4)
Other reserve	43	93.9	93.9
Own shares	43	(9.1)	(9.6)
Profit and loss account	43	217.5	262.1
Shareholders' funds		581.9	625.0

Signed on behalf of the board on 26 June 2013

T J W Bridge **R Anand**
Director Director

Notes to the company accounts

For the 52 weeks ended 28 April 2013

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.

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.

34 Accounting policies continued

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 £10.0m (2012: £9.1m profit).

36 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £16,300 (2012: £15,760).

37 Directors' remuneration and employee costs

Details of directors' remuneration is contained in the directors' remuneration report on pages 46 to 54. 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 29 April 2012	1,570.8	978.2	2,549.0
Share-based payment awards to employees of subsidiaries	3.9	—	3.9
Investment in subsidiaries	0.7	—	0.7
Cost and net book value at 28 April 2013	1,575.4	978.2	2,553.6

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	Parent	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%
Premium Dining Restaurants and Pubs 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.

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Notes to the company accounts continued

For the 52 weeks ended 28 April 2013

39 Deferred tax

	2013 £m	2012 £m
Deferred tax asset at 29 April 2012	—	0.1
Tax on net loss on revaluation of cash flow hedges charged through equity	—	(0.1)
Deferred tax asset at 28 April 2013	—	—

40 Other creditors

	2013 £m	2012 £m
Accruals and deferred income	2.1	2.0
Amounts owed to subsidiaries	1,789.0	1,714.8
	1,791.1	1,716.8

41 Borrowings

	2013			2012		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Bank loans – floating rate	—	177.8	177.8	—	206.6	206.6

At 28 April 2013, the company held 4 (2012: 4) interest rate swap contracts to hedge cash flow interest rate risk related to floating rate debt. The swaps had nominal value of £140m (2012: £140m) and are held on the balance sheet as a net fair value liability of £4.0m (2012: £2.4m). The details of terms and interest rates are included as part of the group's portfolio in note 24.

Bank loans due after one year are repayable as follows:

	2013 £m	2012 £m
Due between one and two years	—	—
Due between two and five years	177.8	206.6
Due after more than five years	—	—
	177.8	206.6

Although the draw-down is repayable within twelve months of the balance sheet date, immediate renewal is available until April 2016 (2012: April 2016) for the facility.

42 Allotted and issued share capital

	2013 £m	2012 £m
Allotted, called-up and fully paid		
Ordinary shares of 12.5p each		
218.3m shares (2012: 217.5m)	27.3	27.2

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 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
Release of shares (note 27)	–	–	–	–	–	–	–	–
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
Cash flow hedges – loss taken to equity	–	–	–	(1.6)	–	–	–	(1.6)
Issue of share capital	0.1	2.5	–	–	–	–	–	2.6
Release of shares (note 27)	–	–	–	–	–	4.0	(4.0)	–
Repurchase of shares	–	–	–	–	–	(3.5)	–	(3.5)
Share-based payment credit in respect of subsidiaries	–	–	–	–	–	–	3.9	3.9
Profit for the period	–	–	–	–	–	–	10.0	10.0
Dividends	–	–	–	–	–	–	(54.5)	(54.5)
At 28 April 2013	27.3	253.8	2.5	(4.0)	93.9	(9.1)	217.5	581.9

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 (2012: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2012: £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 have appealed against the ruling and last year the case was referred from the European Court of Justice back to UK courts. We are awaiting their final decision. If HMRC's appeal is upheld the refund of £6.1m and associated interest of £0.9m would become repayable.

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Group financial record

Income statement	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Revenue	1,194.7	1,140.4	1,042.7	984.1	954.6
Operating profit before exceptionals	248.2	236.2	222.0	211.3	216.2
Profit before taxation and exceptionals	162.0	152.0	140.0	123.0	118.5
Profit before taxation	114.8	125.1	116.8	101.9	54.3
Basic earnings per share ⁽¹⁾	45.5p	47.6p	49.7p	37.8p	29.5p
Adjusted basic earnings per share ⁽¹⁾	57.0p	53.0p	48.2p	43.4p	53.4p
Adjusted dividend per share ⁽¹⁾	26.6p	24.8p	23.1p	21.5p	21.0p
Adjusted operating profit/revenue	20.8%	20.7%	21.3%	21.5%	22.6%
Adjusted tax expense/profit before tax	24.0%	25.0%	26.0%	25.5%	25.0%
Adjusted interest cover (times)	2.9	2.7	2.7	2.4	2.2
Adjusted dividend cover (times)	2.1	2.1	2.1	2.0	2.5

(1) All relevant years adjusted for the bonus element of the 2009 rights issue.

Balance sheet	£m	£m	£m	£m	£m
Property, plant and equipment	2,211.1	2,191.3	2,094.9	2,012.7	1,997.3
Goodwill	724.8	729.3	705.8	679.7	673.8
Financial assets	34.1	39.0	40.4	41.8	40.3
Property, plant and equipment held for sale	8.4	6.2	3.7	—	—
Working capital	(174.2)	(168.6)	(164.5)	(152.5)	(143.5)
Derivatives	(239.2)	(200.8)	(116.3)	(108.8)	(144.5)
Provisions	(143.1)	(157.9)	(172.9)	(211.9)	(221.4)
Net debt	(1,450.4)	(1,493.2)	(1,410.2)	(1,348.1)	(1,558.6)
Net assets	971.5	945.3	980.9	912.9	643.4
Gearing	149%	158%	144%	148%	242%

Cash flow and investment	£m	£m	£m	£m	£m
EBITDA before exceptionals	306.5	292.0	276.6	264.4	267.3
Cash inflow from operations	312.5	282.0	279.2	276.3	260.9
Interest, tax and dividends	(170.7)	(167.1)	(163.5)	(157.6)	(154.3)
Capital expenditure	(123.6)	(126.8)	(96.2)	(76.0)	(95.5)
Proceeds from sales of property, plant and equipment	28.0	29.9	27.8	27.2	44.2
Trade loans and investments	3.0	2.2	1.5	(1.2)	(6.0)
Acquisitions	(0.9)	(70.8)	(60.5)	(61.6)	—
Other	(5.5)	(32.4)	(50.4)	203.4	(2.4)
Decrease/(increase) in debt	42.8	(83.0)	(62.1)	210.5	46.9

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	7 August 2013
Record date for final dividend	9 August 2013
Annual general meeting	3 September 2013
Payment of final dividend	9 September 2013
Announcement of interim results	3 December 2013
Payment of interim dividend	24 January 2014
Preliminary announcement of the 2013/14 results	July 2014

Registrars

Capita Registrars

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E-mail: shareholder.services@capitaregistrars.com
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* Calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday.

E-communications

To register to receive shareholder communications from the company electronically, 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.

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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 72.5625p. After take-up of the rights issue in July 1996, the March 1982 value becomes 129.6875p. With the take-up of the rights issue in May 2009, the March 1982 value becomes 182.3046875p.

Unsolicited calls

Please note that we will never contact our shareholders by telephone. If you receive an unsolicited call from anyone purporting to be from or calling on behalf of Greene King, please do not disclose any of your personal details to the caller. You can find out more information about investment scams, how to protect yourself and report any suspicious telephone calls from the Financial Conduct Authority ("FCA") by visiting their website (www.fca.org.uk) or contacting them on 0800 111 6768. The FCA advise that if it sounds too good to be true, it probably is.

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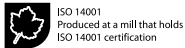
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Greene King's commitment to environmental issues is reflected in this annual report which has been printed on Revive 100 Silk, a recycled paper containing 100% post-consumer waste. This document was printed by Pureprint Group using *pureprint*, their 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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